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THE TRUTH ABOUT GOLD

There has not been a disconnect between the paper market and the physical market. People keep saying that the paper market was selling while the physical market was buying, but that is wrong. The reality is that in the period up to 11 April no one was buying gold, physical or paper. North Korea was threatening to start a nuclear war, the Bank of Japan said it was going to double money supply in three years, the ECB said that Ireland and Portugal could take 7 years, or however long they needed, to pay it back... and gold prices were not rising. Prices were hovering around $1,550, down from around $1,688 at the start of the year, all this was happening, and no one was buying physical or paper gold. People willing to go short gold saw the lack of upward price movement, and the lack of investment demand for physical gold behind the lack of rise in prices, and concluded that if bulls were not going to buy given all that was happening, they should short the gold market. And, indeed, they had been selling short in much greater volumes for nearly three months already at that time. When they started to sell, they triggered more short selling and long liquidation. Prices fell to around $1,320 in two days, and then, buying began. The buying was occurring in both the paper and physical markets, contrary to what superficial analyses and gold hypesters were saying. In the physical market, those investors who were not interested in buying gold at $1,550 decided that prices $200 lower made sense. No surprise there. Smart investors buy gold when prices fall, and don't chase the price higher.

U.S. Mint gold coin sales to dealers, which provide some insight into demand for physical gold products, were at 230,000 ounces from the beginning of April 2013 to 24 April 2013. This was the highest level of sales since the full month of May 2010. Final sales figures for April 2013 would be higher than the 230,000 ounces sold during the first three and a half weeks of the month. Premiums on these coins have also risen, following the sharp decline in gold prices in the middle of April, which tells us that there is not only strong demand from dealers but also from final consumers of these coins. There also has been an increase in physical demand for gold in Asian countries following the decline in gold prices. In India, which has an upcoming wedding season and other auspicious days in May when large volumes of gold are purchased, consumers have been buying gold

hand over fist. For the week ending 19 April, demand in India is estimated to have averaged between 113,500 ounces to 129,000 ounces per day. This was almost 32,000 ounces to 48,000 ounces higher than levels typical of this time of the year.
Demand has been strong similarly in China, the Middle East and other Asian countries. The increase in demand on bargain buying is not limited to Asia or the United States but is expected to have risen around the world following a decline in gold prices. to two-year lows.

In the paper market, there was fresh long position taking and, surprise to the superficial observers and hucksters on the internet, the shorts were liquidating their positions, locking in profits and, in many cases, going long. The most recent Commitment of Traders report released by the Commodity Futures Trading Commission on Friday 19 April for market activity on 16 April, shows gross short positions held by large non-commercial market participants declined 5.6% on 16 April from the previous week. Open interest in the nearby active June Comex contract and total open interest have both been declining since 16 April. Prices rose during this period, which further suggests that investors are liquidating their short positions.

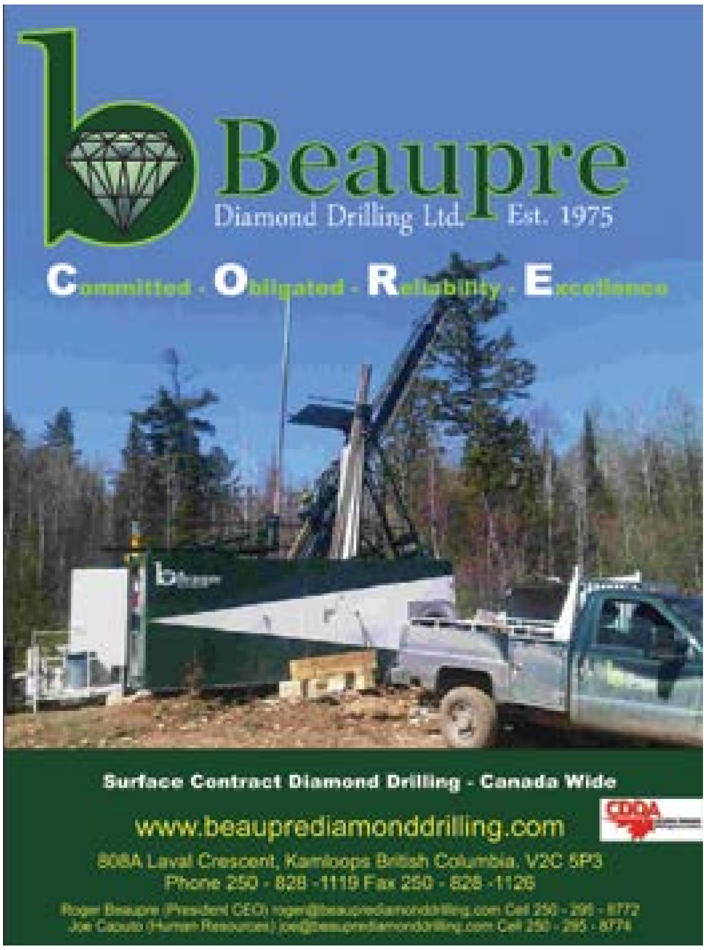
Investors in gold exchange traded products (ETPs) have been selling into the rise in gold prices that followed the sharp declines on 12 and 15 April 2013. Investors in gold ETPs had reduced their holdings by 2.47 million ounces between 16 April and 24 April. These declines are in line with a trend that has been in place since the beginning of this year. There were 75.8 million ounces of gold backing ETPs on 24 April, down from 10.7 million ounces at the end of 2012.

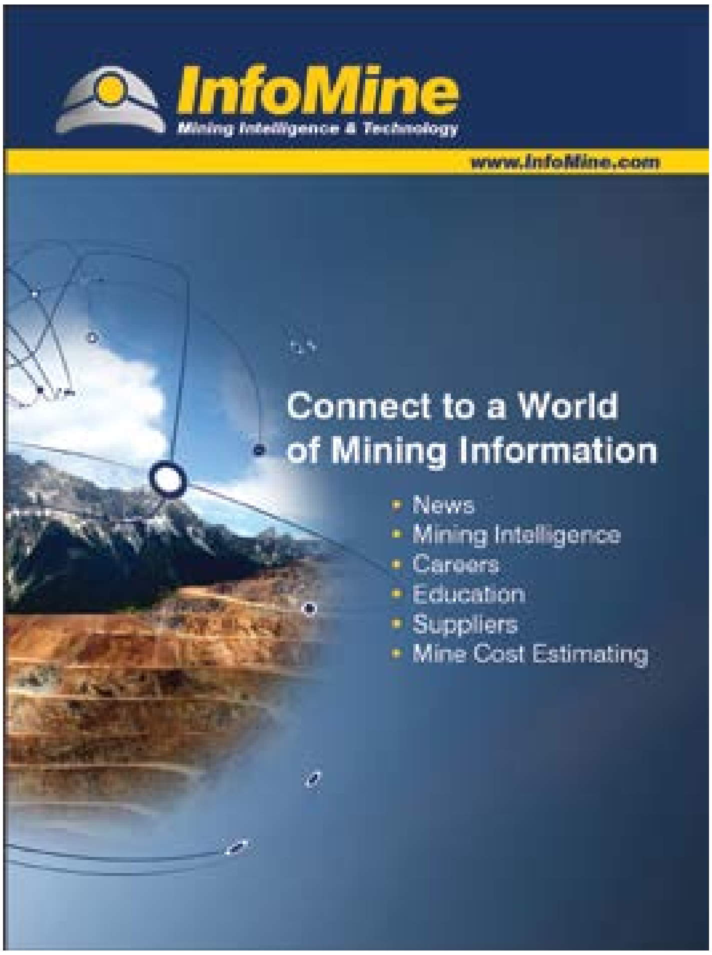
Shorter term investors have been selling gold into price rallies. There is reduced concern among most investors about a collapse in the global financial markets or risks of hyperinflation. This is resulting in shorter term investors taking profits, when possible, and exiting the market. Longer term investors meanwhile are using the decline in gold prices as a buying opportunity. There are structural issues with the global financial markets, not ones that would create a collapse in the financial system but those that would take long to be resolved and weigh on global economic growth. Longer term investors trying to protect themselves against these longer term problems are expected to continue buying gold, providing support to the metal's price on the downside.

CPM Group expects gold prices to trade between $1,300 and $1,650 this year, with the potential of somewhat higher prices if a major financial or economic crisis emerges. CPM Group does not expect that to happen, however, and expects gold prices to spend most of the rest of 2013 between $1,350 and $1,500.

In addition to the shifts in investment demand, other major developments are that gold production continues to rise in the long run, fabrication demand is stabilizing after falling for several years, and central banks continue to buy substantial amounts of gold.

CPM Group is an independent commodities research and consulting firm headquartered in New York. For information on CPM Group's services and research, contact info@cpmgroup.com or Matt Taub +1 212 785 8320.





MINE GLIDERS

ATICO'S PERU TEAM POLISHES GOLD-COPPER MINE IN COLOMBIA

By Thom Calandra
www.thomcalandra.com

CARMEN DE ATRATO, COLOMBIA :

The tale of a tidy mine called El Roble starts in the 1950s and early '60s, with copper occurrences within a stone's throw of the old Santa Anita Mine here.

Road builders on the 6,600-hectare property accelerated landslides. Some of the eroded rock tumbled into one of two rivers, Rio Habita and Rio Atrato, which slice across the property.

Here we see steely signs of copper, pyrite stringers, basalt, blackchert on imprinted on these boulders. The basalt outcrops were dead ringers for host rock, linked atom-by-atom with volcanic massive sulfide deposits in Latin America and elsewhere.

Japan, ravenous for copper, landed at El Roble in 1985. By 1990, Nittetsu Mining and partner C. Itoh had built a 400-tonne-per-day mill and trained workers in the town to assemble it and take it apart blindfolded.

"The Japanese taught local workers how to mine underground and how we operate the mill," mill manager Nestor Moncalves says. Nittetsu and partners shipped tens of millions of pounds of copper back home.

This being Colombia, there is murder in the story, too. Terrorists in the country murdered a Toyota Motor Co. executive in 1997. Guerrillas moved within three hours' rough road drive to the west of the mine in **Choco Department.**

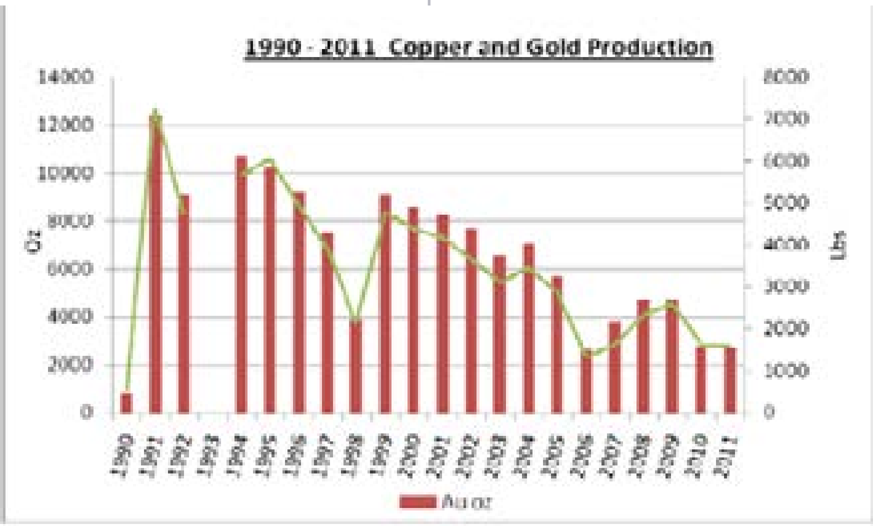
The Japanese pulled out in protest … and they never returned. Their paperwork, plotting 7,730.55 meters across 66 diamond drill holes, is kept in an office sanctuary, Japanese characters as illustration. Nittetsu's drill program pegged the pastoral property at 1.2 million metric tons. Grades: 4.8 percent copper, with 3-plus grams gold and 12 grams silver. (*Source: 2012 technical report | Greg Smith on behalf of Atico Mining*).

"It is a huge potential at El Roble, one of the best mines we have in the country," says German Guerrero, a geologist and former project manager at El Cisneros, a thin-vein gold project in neighbouring Antioquia.
Bob Allen, an inconic Colombia property owner and mineral rights vendor, says he kicks himself about not taking over the country's sole producing copper-gold mine splayed across a volcanic massive sulfide formation.

the site full time, even ahead of a planned and promised $14 million payment to the Gaviria family for the 90 percent ownership.

Atico will employ a blueprint for the lightly used mill,underground mine and about a dozen outdoor exploration targets.

The upside looks good. El Roble's 12 million pounds of copper yearly from 1991 is now less than 3 million pounds (2011).
Forfull-year2014, with the Ganoza team supervising a well trained Miner SA team that already is in place and well paid, the copper figures to double to 6 million pounds.



Fact: El Roble in 22 years has produced 1.5 million metric tons of pyrite chalcopyrite ore with an average grade of 2.53 percent copper and an estimated gold grade of 2.54 g/t Au.

"Wish I had, but I didn't think the family would be interested," said Robert W. Allen, the Arkansas investor whose Medellin-based Grupo de Bullet began collecting mineral rights and mines in Colombia as long ago as the 1983.

El Roble's family ownership, led by local resident, 88-year-old Guillermo Gaviria, has seen his family branch out: banana plantations, a leading Colombia newspaper, a son who is current mayor of 4.5 million-population Medellin.

"He is still quite active, especially at the mill," says Fernando Ganoza, whose own Peru family, via publicly traded Atico Mining (ATY in Canada) is taking 90 percent ownership of El Roble and its Miner SA operation later this year.

"SeñorGaviria and family keep the rest," says Mr. Ganoza, a mining engineer who at 42 also has a hand in his family's Fortuna Silver Mines (FSM on NYSE).

The entire technical portfolio of profitable El Roble mine includes a three-cycle mill, VMS geology, mapping, sturdy underground, soil anomalies andgeochemical/geophysical data.

The Atico team, led by Mr. Ganoza and Peruvian geologist Joseph Salas, are on

Gold will show yet more bang for the Ganoza buck. Fresh metallurgical methods, a new mine development plan and a turbo-boost of the existing mill and its operating days, along with extreme improvements in recoveries, likely will take the 2011 gold production to about 3,000 ounces in 2014 from the 2011level of 1,200 ounces.

"Look right here," says Mr. Salas, Atico's exploration manager and Barrick's Colombia exploration manager for three years. He is pointing to the copper-gold concentrate that is shipped three or more times a week to offshore buyers via a port in Buenaventura. "About 90 percent recovery of copper but at best, about 60 percent for the gold."
Even at the anemic goldrecovery level, and operating just 220 days per year because of mine interruptions, holidays and hiccups, the mill's 21 percent concentrate (no buyer penalties) reaps a safe profit. About half of the profit comes from the gold barreling its way on 22,000-ton truckloads toward the sea. "There is so much room for improvement," says SeñorMoncalves, the mid-40s mill manager and lifelong resident of the town. (See embedded chart on declining output: 7,000 gold ounces in 1990, for example, to fewer than 2,000 ounces in 2011).

There is some risk here.

Even at the easy pace of current production, those massive sulfide bodies getting hauled into the mill "are projected to be exhausted" in thenext 18 months to two years, according to independent geologist Greg Smith's technical report.

Mr. Salas gets the nod on that front. Having worked in Peru, Ecuador and Colombia, Fernando Salas is willing to state for the record that he and his team

Continued...

Fact: About half El Roble's profit comes just from the gold credits. Moving the schedule of workable plant hours to 330 calendar days a year from 230 is an early 2014 goal of the Atico team.

Fact: Atico shares number about 64 million fully diluted. The treasury holds about $8 million.

will locate new and considerable lenses of massive sufides in the existing underground.

In an underground tour, 41-year-old Mr. Salas shows offuntouched rock face, even after 22 years of mining. He exposed several welts of thick mineralization in minutes.

As for the outside exploration drilling already under way, Mr. Salas is on a hunt for hisblack chert (geologist term --microcrystalline, cryptocrystalline and microfibrous quartz) that qualifies as that host rock. It is visible nearly everywhere along a 10-kilometer north-south swatch of the property.

See Canada-compliant filing, all 86 pages. http://www.aticomining.com/i/pdf/reports/technical-report-2.pdf

"It is rare in any country to find just one VMS deposit," he says. Some 7,000 meters of surface drilling began in the early part of this year. Another 5,000 meters will poke around the existing mine as part of a fresh development blueprint for high-grade ore.

The Ganoza family has Atico backing from funds in Russia, California, Vancouver and Denver. Some of the investor names, Sprott Global'sRick Rule, for example, and Connecticut's Wexford Capital, are familiar. A late 2012 IPO by Canaccord Genuityin Vancouver, Canada, was seen as successful.Atico sold 20 million shares at a price of 50 cents Canadian.

January 2013 assays from inside El Roble Mine, some of them lengthy intercepts showing 10 percent-plus copper and considerable gold, propelled the new company´s shares to $1.13.

This author bought in at 98 cents or so Canadian.

At present, the Ganoza team is ensuring that 120 Miner SA workers at

the mine/mill and 5,000 residents of this government-secured mining hamlet are comfortable with the shift of ownership.

It takes about 4 hours' drive time to get to the Department of Choco from the Antioquia city of Medellín.

Mr.Salas has three rigs running, two underground and one at surface. Each of them is "signed" for safety reasons, like a graphic novel and something new in the drilling biz.

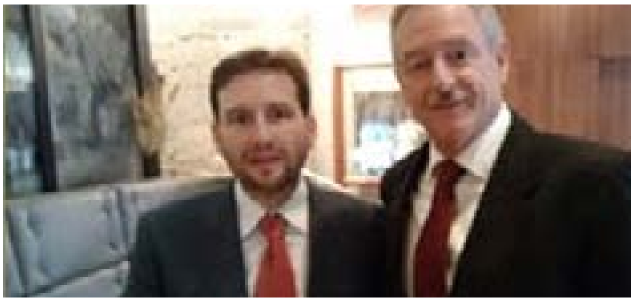
This kind of exploratory drilling – the surface exploration in particular – has not happened since the Japanese were here.

I spent time with Fernando Ganoza and his father, 65-year-old Jorge R. Ganoza. The senior Ganoza has his money and lineage on the line as president of Atico. He was until early 2011 vice president of operations for Fortuna Silver, whose $600 million market worth is 10 times that of baby Atico.

SeñorGanoza, looking fit and vigorous, left Fortuna after refining methodologies at high-altitude Caylloma in Peru and San Jose in southern Mexico. Devoting full time to Atico, he says he is confident that estimated cash flow in the first year after mill and mine improvements, even with no further discoveries, will amount to $10 million. (Photo: father and son in Toronto)

Most of El Roble's mill and mine permits are in place. If Atico succeeds one day in hyper-ramping El Roble'sdaily production to 2,000-plus tons per day, amended environmental studies are required, Jorge Ganoza points out.

"We know how to move around," he says, as we sip coffee during a quiet moment in Toronto. "We see similar issues, social issues,



electricity and this and that, in Peru, in Chile, in Mexico. Just please don't ask me about the challenges in B.C. (British Columbia) because I have no idea."

Gabriel Bayona, a young Colombian geologist and former mining analyst for InterBolsa brokerage, tells us, "Atico's El Roble project shows brownfield resources (underground) at the mine that could conservatively add up to 70 percent of historical production or some 60 million pounds of copper plus credits."

This author believes El Roble's structure has a basalt basement that resembles Waymar Resources' Anza project in Antioquia. The VMS system looks open to depth, as all geophysical, geochemical and legacy data plus lithography appear to indicate.

The Gaviria family, in running this mine with little or no experience when it first became involved, has done the town of Carmen de Atrato an economic favor that will be passed to another Latin American family, this one Spanish speakers, but from Peru.

If the new Ganoza owners and their Atico-led team are correct, surrounding targets (called Archie, Otis and near the original mine, Santa Anita) demonstrate a VMS model that will provide a stream of rich assays this year and into 2014.

Extra Colombia reading: The Cold War That Didn't End
http://www.neiu.edu/~circill/bueno/hist451/coldwar.pdf
Technical report:
http://www.aticomining.com/i/pdf/reports/technical-report-2.pdf

Complete TCR photo file of El Roble:
https://plus.google.com/u/0/photos/101338642857105186354/albums/5853396689603056849
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No money changed hands for this site review. Thom Calandra at the time of this writing owns 4,000 Atico Mining shares. Contact the author at melt-ups@thomcalandra.com.

Photos: Thom Calandra and Atico Mining's Igor Dutina

METALFAB GRAD DADSPARKS

L to R: Proud father Bernie Nepinak with Brandon Patrick (Metal Fabricator grad) and Gary Herman, ITA COO

Dad stood with camera in hand, a wide spread grin covered his face. "I'm so proud," said Bernie Nepinak of the Saulteau Nation, a single-dad raising four sons. He then raised his camera and clicked and cheered as his son Brandon Patrick graduated from the Metal Fabrication Foundation program, delivered by Aboriginal Community Career Employment Services Society (ACCESS, www.accessfutures.com), at a ceremony at the Vancouver Aboriginal Friendship Centre.

In partnership with the BC Institute of Technology (BCIT), the Industry Training Authority Aboriginal Initiatives, and the Canada-British Columbia Labour Market Agreement, 14 students including six women, successfully completed the program and will now pursue their dream of launching a career in an apprenticeable trade.

Brandon discovered in high school a passion for metal work. After graduating with the regular reminders by his dad that you can do anything, and the knowledge that dad will do anything for my sons, Brandon found the ACCESS program with referrals from his brother and friends, along with encouragement from his dad. The words and confidence of his father who constantly reminded Brandon of the importance of education, skills development, and of valuing himself, Brandon developed a reputation at BCIT of being a 'rising star'. "He never missed a day, despite traveling two hours to and from school each day."

"People like Brandon are the people that clear the road for building a better province and future for Aboriginal people", said Gary McDermott, Industry Training Authority Director of Aboriginal Initiatives.

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ITA

Established in 2004, the Industry Training Authority (ITA) is charged with the responsibility of managing BC's industry training system to develop the province's skilled workforce. As a provincial Crown agency, ITA works collaboratively with Aboriginal communities and agencies, industry, training providers, labour, governments and other stakeholders with the advice of an Aboriginal Advisory Council. The ITA Aboriginal Initiatives are proudly supported by the Canada-British Columbia Labour Market Agreement

> ...the Cinco de Mayo property is not without its challenges; at what the Company asserts was an illegally constituted meeting, the Ejido administration voted to expel MAG from the property.

UPDATE ON MAG SILVER CORP.

CHALLENGES AND OPPORTUNITIES ABOUND

By David O'Brien

With a mission to become one of the premier companies in the silver mining industry, things are moving forward for MAG Silver Corp. (TSX: MAG; NYSE MKT: MVG). The company recently announced audited consolidated financial results for the year ended December 31, 2012 which are trending positively.

MAG reported a working capital of $40,492,095 (as compared to $25,779,667 at 2011 year end), including cash on hand of $40,621,158 (as compared to $26,217,409 at 2011 year end). The primary use of cash during 2012 was for exploration and evaluation expenditures in Mexico totaling $11,981,221 (as compared to $9,014,714 in 2011). The Company also advanced to Minera Juanicipio and expended on its own account a further $4,577,611 for work conducted on the Juanicipio property.
After the successful completion of an Economic Assessment for Juanicipio, MAG is continuing to advance the project and is working with an 18 month mine permitting and underground development budget of $25 million. A hydrogeology study has been started, a geotechnical study has been completed and metallurgical tests will begin shortly. Underground decline ground breaking is reported to commence in the second quarter of 2013. Currently, there are a total of 11 drills operating on the property in various work categories from exploration to water studies with two more coming in for infill drilling.

On its Cinco de Mayo property, the company incurred exploration and evaluation costs in 2012 of $8,329,879 and drilled approximately 33,067 metres. Overall, the 2012 drilling demonstrated that mineralization is continuous from the Jose Manto through the Bridge Zone to Cinco Ridge, which is now collectively referred to as the "Upper Manto". In October, MAG announced that inferred Mineral Resources are estimated to be 12.45 million tonnes at 132 g/t (3.9 opt) silver, 0.24 g/t gold, 2.86% lead, and 6.47% zinc (9.33% lead plus zinc).

However the Cinco de Mayo property is not without its challenges; at what the Company asserts was an illegally constituted meeting, the Ejido administration voted to expel MAG from the property. This is currently being refuted and the company remains highly confident that the meeting will be nullified. However, further exploration and drilling at Cinco de Mayo will resume only upon obtaining a Soil Use Change Permit, drill permits and a surface access agreement with the Ejido. Stay tuned.

View the Company's filings on SEDAR (*www.sedar.com*) or on EDGAR (*www.sec.gov*)

DAVID O'BRIEN

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GRAPHITEMARKET SET FOR CONTINUEDGROWTH

...and global players are taking note: increasing demand, prices on the rise and reduced production out of China present big opportunities for global graphite players.

By David O'Brien

Graphite prices have almost tripled over the last eight years due to the ongoing industrialization of China, India and other economies as well as steady demand from traditional steel and automotive markets. Further creating growth in the market is emerging demand for lithium-ion batteries, fuel cells, vanadium redox batteries and nuclear power. Li-ion batteries are now a staple of consumer electronics; plus, we should mention hybrid and electric car batteries as they require 30 to 40 times more graphite than lithium to manufacture.

One only needs to look to the U.S. for evidence of graphite's upswing. Despite a gloomy economic outlook that has characterized the last few years, graphite consumption continues to rise as the country imported 70,000 tonnes in 2011, up from 59,000 tonnes in 2007.

Traditionally, China has dominated both the steel and graphite markets, producing almost 50% of the world's steel and 80% of the world's graphite, (over 600,000 tonnes were produced in 2011). However, many graphite mines within the country are significantly depleting and concerns around environmental issues as well as over-mining are causing the Chinese government to shut down several mine sites. This presents a major opportunity for global graphite mines located outside of China.

Since 1953, there's been no active graphite mines in the U.S. but Alabama Graphite (ALP: CNSX) (1AG: FSE) is changing this. The company's Coosa Graphite Project located in Alabama's Graphite Belt is to host what President Danny Spine describes as a "pre-discovered" deposit. Grades from over 100 samples averaged 4.25% with a significant amount being large flake. The Project could potentially meet 40% of U.S. demand within the first year of production.

North of the border, Lomiko Metals (LMR: TSX-V) in Québec recently reported graphite characterization test results for their Quatre Milles Property. Spanning 3,780 hectares, drilling on the property has suggested a potential graphite deposit of 50 million to 100 million tonnes. This said, CEO Paul Gill has commented that Lomiko's future will be based mainly on the creation of end-user products, specifically graphene, a carbon allotrope. Lomiko will provide natural high-quality flake graphite to Graphene, which will attempt to develop the means to convert the mineral.

Also in Québec, Focus Graphite's (FMS: TSX-V) (FCSMF: OTCQX) (FKC: FSE) Lac Knife Project is considered unique because of its cost-mitigating, high concentration of large, medium and small flake graphite. Led by CEO Gary Economo, a 16% carbon content is said to position the organization as having the most competitively-priced technology graphite in the world.

Just outside of Ottawa, Northern Graphite (NGC: TSX-V) is led by CEO and Director Gregory Bowes. Its Bissett Creek Project is a large flake, high purity, scalable deposit that is located close to major roads and a natural gas pipeline. A completed drill program proved very successful with all 61 holes returning widths and grades as good as or better than had been previously reported in a bankable feasibility study.

Graphene

The world's next wonder material offers an exciting long-term investment opportunity...as new product development spurs future demand.

100 times stronger and more flexible than steel with the ability to carry electrical current faster than copper, graphene is the carbon allotrope on everybody's mind. The thinnest electronic material ever invented, it shares a similar structure to graphite but differs in that it is just one-atom thick.

Predictions suggest that graphene may become a key player in supporting green energy initiatives, used to form the basis of next-generation fuel cells, electrochemical super-capacitators and solar cells that are more flexible with lower costs. Consumer goods may also be revolutionized by this material. Early research predicts everything from flexible touch screens, superior earphones, antennas for interchip communication, foldable cell phones, a new way to rust-proof speakers and better-made bullet proof vests.

Currently, nearly 200 companies including Intel and IBM are actively involved in graphene research, looking for ways to make it more practical to work with at a manufacturing scale. Recent figures show a surge in graphene-related Patents since 2007, with a particularly notable spike last year. With current predictions that the market will continue to grow 40% annually to $126 million in 2020, "the world's thinnest electronic material" is one to keep an eye on for investors thinking long-term.

From Lomiko Metals Vine Lake property

In northern Ontario, **Galaxy Graphite** (GXY: TSX-V), led by Chris Healey, is focused on its Laurier Graphite Property which covers a total of approximately 2,300 hectares on 46 mining claims. Work performed on the Laurier property by the OGS described north-south-trending graphitic schist units varying from 25 to 250 metres in width with 1.0 millimetre (16 mesh) graphite flakes disseminated throughout. In addition, a one- to two-metre-wide vein of massive graphite was reported.

In Toronto today (April 21st) we were impressed enough by the presentation by Aubrey Eveleigh P. Geo, the President & CEO of Zenyatta Ventures Ltd. (ZEN: TSX-V), based in Thunder Bay in north western Ontario, to decide to insert the salient points about their very high quality Albany Graphite Deposit, discovered in 2011. It is unique in the world, being the only 'high purity' hydrothermal graphite deposit. Various slides of the core illustrated the darker graphite sections, and metallurgical testing by the world-renown SGS Lakefield yielded 99.96% Carbon Purity. This means they can target the $13 Bn Synthetic Graphite Market with their natural graphite, which no other natural graphite producer could do, based on the reduced purity of their resources.

Zenyatta anticipates producing a NI 43-101 Compliant Resource by mid-2013...and a PEA in the 3rd quarter. Go to *www.Zenyatta.ca* to see discussions about applications from Lithium-ion batteries which have 10-20 times the amount of graphite compared to lithium, to huge and various markets for fuel cells, also graphite-rich. And graphene can be produced from this high quality graphite, too. *(refer to block above).*

Also in Ontario, Pistol Bay's (PST: TSX-V) Portland Graphite Project covers 429 hectares of land and shows a historical probable reserve of 295,000 tonnes grading slightly above 6% graphite. Charles Desjardins, President and Director stated: "The property has excellent potential to host a large-flake graphite resource with low development costs. The Company's goal is to advance the project to a production decision as quickly as possible." A detailed helicopter EM/magnetic survey over the Property is planned in order to establish geologic controls on mineralization, to better define the known graphite zones, and to identify new drill targets outside of the main zones.

On the east coast, Atlantic Canada Graphite Inc., a 100%-owned subsidiary of Great Atlantic Resources Corp. (GR: TSX-V) has completed an exploration program on its Christmas Island Gold and Graphite Property, located in Nova Scotia. The program included compilation of current and historic data consisting of Airborne and Ground VLF along with Mag and IP surveys. Surface outcroppings corresponding with the VLF-EM surveys identified a sizeable graphite-bearing structure. Led by Christopher Anderson, the company's Golden Grove graphite deposit is also one to keep an eye on. The deposit has been known since the mid 1930s and has assayed up to 31.74% graphite.

On the west coast, Eagle Graphite Corporation, headed up by Jamie Deith, operates one of only two natural flake graphite mines in North America, with production facilities located in southeastern British Columbia. The Black Crystal graphite quarry and processing plant has a current production capacity of 4,000 metric tonnes per year of high-carbon natural flake graphite, with a projected capacity expansion in the near future.

Keep an eye on these significant projects as demand for graphite heats up...and lives up to last year's enthusiastic promotional foci.

If each item in the summary is analyzed with the awareness that IIROC may not be 100% represented by common sense individuals, then we are able to see a pattern. Imposing the same set of regulations used for managed, discretionary accounts on all accounts excluding discount houses is inappropriate. Was there a conscious agenda in mind?

The CRM requires an interview, preferably, in person that completes a *3 PAGE DOCUMENT THAT IS ACCOMPANIED BY ANOTHER 27 PAGES THAT ARE SUPPOSED TO BE READ AND UNDERSTOOD BY THE CLIENT.* These requirements went into effect on March 26, 2013 for new clients. Notes on the meeting are required to be maintained in a file and a summary of the meeting sent to the client. If Canadians live out of town then they are effectively excluded from the market? The days of an i nvestor wanting to take a shot on a venture stock look like they are dead.

My favorite in this section is the “Know Your Product” KYP requirement that requires an advisor to have more than a superficial knowledge of every single product either held by, purchased by, or recommended to clients. The compliance and costs in time needed to manage accounts under these regulations will require Investment Advisors to focus on a small number of clients and to sell only a small suite of products that they can claim to have a comprehensive knowledge of. In order to live within the parameters imposed on the Advisors and to be able to defend against potential liability, recommended products will likely be only proprietary products sold by large institutions with law firms on retainer. The Canadian Banks fronted only three IPO’s out of over 440 launched on the TSXV. They will not be selling Venture stocks and, under these regulations, the Independents will be forced to struggle unnecessarily Even if the commodities sector experiences shortages, these regulations will stand as a barrier to the Venture Exchange coming back. Markets go through cycles but this set of re gulations will have consequences that maybe irreversible.
Regulations are easy to write and put into force. The ramifications are difficult to predict but in this instance the potential negative impact is enormous.

RESOURCE SECTOR PARADIGM SHIFT: PART II

From the April 2013 HRA Journal
Eric Coffin

There was little reason for optimism and certainly no optimists that we could find in the junior space this month.

This month's editorial continues the discussion of what large companies seem to be looking for and what Juniors should be looking for too. This sort of shift is not a short term scenario. By definition it's going to take some time for companies to retool and approach projects from a different direction with different assumptions. Even then, this will only work for a sub set of companies.

Short term, I still think discoveries are the best path to salvation for individual companies and perhaps the broader sector. Maybe gold gets a big bounce in the next few weeks but with the drubbing everyone has taken I don't see traders heavily on the bid unless higher gold prices are already in the rear view mirror.

The "currency war" scenario remains in play and this is almost always going to favour the $US. War is too dramatic a term for it. Japan is pushing the Yen down but Euro weakness has more to do with political ineptitude than formal policy. Traders are having trouble buying into the idea of second half growth in Euroland. Gold is testing lows as this issue is released which may determine the length of the bottom.

In the last issue of the Journal I talked about the paradigm shift in the resource space that has been adding to the pain of Juniors and their shareholders.

Major companies seem to be out of the market for new deposits and there has been a shift in the type of deposit they are looking for. This has left many Juniors high and dry.

I am not assuming that the change that has taken place in the past two years is permanent. It probably isn't. Industries move in cycles and management practices are more subject to fads and herd behavior than most things.

I am not assuming that the change that has taken place in the past two years is permanent. It probably isn't. Industries move in cycles and management practices are more subject to fads and herd behavior than most things.

At some point in the future, and it may not be far off, many large low grade projects will be back in fashion.

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There are two reasons for this. One is that it's not going to get easier to find large deposits. While we might hit a rough patch as large mine startups lift the supply of metals like copper or iron ore but those changes are also cyclical. Metal prices aren't going back to pre-2000 norms and there are always mines getting depleted and closing.

Miners will not be able to rest on their laurels and prices should stay high enough that bulk tonnage will always have its place—if costs get under control. While miners will not prefer lower grade deposits and they may not be the first ones bought, at some point many of them will still get mined.

The second reason is the psychology of management in larger organizations. Many CEOs got chopped in the past year. That lesson is not lost on their peers but don't count on the lesson maintaining its power forever.

People who work their way to the top of large organizations tend to be empire builders. It's in their nature to want to maximize the size of the organization and the importance of their position.

We've seen this over and over again in other sectors. Every decade or so there is a rash of mergers. A lot of them end up being non-accretive at best or disastrous at worst. Shareholders and analysts decry them and CEOs promise to forget they ever heard the term "M&A". A few years later they are back at it again. I see no reason to think the mining sector will be any different.

That's light at the end of the tunnel, but it's a long tunnel. A few juniors could cycle through other projects or hunker down while maintaining interest in a large resource no one currently wants. I'm pretty sure that is exactly what will happen in many cases.

I also expect the creation of a number of mid-sized companies that will cast their nets more widely for projects and generate new takeover demand. In a normal bull cycle this sort of company gets created organically. Some companies go into production successfully and keep doing it until they control a number of mining operations and a substantial top line revenue stream.

This happened this cycle but it's not as evident because there was a rash of takeovers mid-decade that saw mid-sized producers either merging or being bought out by their larger brethren. The mid-cap space was hollowed out. That normally takes a long time to correct but there is a movement afoot that could accelerate it.

Many large companies are facing demands to "right-size", splitting into geographic and/or commodity sub-units. In theory at least this would make the growth path smoother for these newly minted companies.

If you are a company that produces two million ounces a year of gold it should, in theory at least, be much easier to deliver 10% production growth. That's 200,000 ounces a year which one moderate mining operation or two smaller ones can provide. This still isn't a piece of cake, but it's a lot easier than adding a million ounces a year.

The largest miners didn't seek projects with maximum scale out of some sort of perverse obstinacy. They had shareholders demanding revenue and profit growth at levels that demanded large project spending.

It is absolutely no coincidence that the largest mining houses in the world focused on iron ore and metallurgical coal for the past decade or more. If you are RTZ or Vale or BHP it's not just desirable to have projects in these commodities—its necessity. No other commodities have individual projects that generate revenues at a scale that delivers the percentage top line growth shareholders demanded. In order to continue to position themselves as growth stories, they had to bulk up on this stuff.

This meant plenty of competition not just for projects but for specialized large scale equipment and one-off engineering and design talent. It's tricky to build huge complexes capable of processing and shipping tens of millions of tonnes of material annually, not to mention rail and port facilities to go with them.

While the situation was less extreme in the precious and base metal space the large project bias helped magnify existing bottlenecks for things like heavy haul trucks and extra-large mills. Combine that with a stressed supply chain and exploding prices for major inputs like steel and you have a recipe for extreme cost inflation.

An added problem that I think exists but doesn't really get talked about much is lack of experience on the project management and engineering side. You can only train people so fast. The number of projects under development grew so rapidly that personnel were spread too thin. Its highly likely that some of the problems with cost overruns were exacerbated by poor project management and initial cost estimates by relatively untrained engineers that were just plain wrong.

It will be difficult for the really large mining houses to escape the vicious cycle of cost overruns unless they downshift growth plans for an extended period. The best managers need to be put on the most important projects. Prices for things like mills and trucks are sticky and it will take several quarters of relative inactivity before prices stabilize and, hopefully, fall.

I don't see the largest mining houses "rightsizing" unless they split into commodity groups but there is room for midsized and large precious and base metal miners to do it. There should be more spin out transactions as non-core assets are shed and business units are split off. This will give the new entities the ability to reset things starting with a sustainable revenue level that would be easier to grow from based on smaller more manageable operations.

This would give rise to a new group of small and mid-cap miners. It's been lonely in the mid-cap space for some years. We haven't seen the rise of many new multi mine producers of the type that were formed in earlier cycles. I think this growth at the small end of the mining production sector is coming anyway but it will happen much faster if some larger companies split themselves up.

The reemergence of the mid-cap space in the mining sector should generate new demand for projects in the 1-5 million gold ounce equivalent range. That gives some hope to juniors sitting on this type of project though I stress that buyers will be very picky and high margin projects will be the only ones getting bought any time soon.

What will they be looking for? Lowest quartile cash costs and, where possible, lowest quartile capital intensity too.

Capital Intensity is a measure of the initial capital required to generate an ounce of gold, pound of copper, etc. Lower capital intensity projects should be easier to finance and, other things equal, will have shorter payback periods. In some situations, capital intensity can be so low that it can help overcome even grade.

A good example of this is a number of new mines in Sonora, Mexico. These are all heap leach operations at present and most have low grade resources. Even so, many of them produce gold in the $400-600/oz cash cost range and generate impressive returns thanks to good infrastructure and low capex. I expect Mexico and other areas with infrastructure and cost structure advantages to come back to prominence in the next couple of years.

Another thing you will see majors going after again is underground resources. This will come as a surprise to many. It's been a mantra in the exploration and mining sector for years that open pit trumps underground. This viewpoint made my dear departed brother David crazy. Dave went to a mining school and thought investors vastly overestimated the cost advantage of open pits.

There is a cost advantage but it's smaller than most people think. A well run underground mine can have mining costs in the $50-75/tonne range. If the resource is shallow enough to be ramped to rather than requiring a hoist and head frame the capital cost can be greatly reduced and the construction period significantly shortened.

Underground operations often run at much lower daily production rates. This means a smaller mill (it's almost always a mill). Yes, milling has higher costs per tonne than heap leach but there are some significant consolations. The biggest one is recoveries.

While there are simple oxide resources with high gold heap leach recoveries you'll generally recover a lot more gold in a well-run mill. Gold recovery per tonne 20-40% higher than heap leach are not uncommon and for silver the amount recovered is often as much as 100% higher. That is the reason you'll see Silvercrest run a lot of its leached ore through a mill once it gets one up and running. There is still significant value in the ore when the leaching is finished—and Santa Elena has high leach recoveries compared to most.

Underground operations often have better survivability during bad times as well. It's common practice to run several stopes or working faces simultaneously, often producing from areas with different grades. The output from these different areas is mixed on its way to the mill to produce feed with an average grade approaching that of the entire orebody.

If metal prices drop the mine can focus on higher grade areas that produce at lower operating costs and keep the mine alive. This is not

Continued...

the preferred way to go as you're robbing grade from the later stage of the mine life but at least its keeps things going.
This sort of selective mining is generally not feasible in an open pit scenario. An old miner's saying is "you can't stope an open pit". By that they mean that it's difficult and perhaps impossible to adjust head grades by changing the mining plan in a bulk tonnage deposit. If the price of your commodity drops below production cost, you're done. This is one more reason why suddenly risk adverse management might learn to love underground deposits again.

While all mining operations have some similar clean up issues like tailings, underground operations often have much smaller environmental footprints. They are also just less visible, particularly when it's a ramp only situation. In many modern operations even the tailings and waste issue is alleviated though the use of backfill that returns mined rock to underground workings areas that are no longer active. Lighter environmental impact can simplify and speed up the permitting process.

I'm not assuming a wholesale change of direction by every major mining company but I do think the game has changed. It's now about high margin, low capital intensity projects. If a project can deliver that and it's a low environmental footprint situation so much the better. I think underground will be back in vogue.

That doesn't mean open pits go away. High grade heap leach operations can also be low cost low capex and some large operations have great returns. Investment returns will have to be high though, and long payback periods will be difficult to sell to bankers and investors. If you're looking at companies with advanced projects be sure that they fit these new parameters. I think it will be a long time before a project gets developed or sold if it does not.

On the investment side, there may be no cure but time and success for the sector. In addition to the mismatch between market value and project cost that you see in scores of development companies you have a big trust issue. So many companies have blown up projects with cost overruns and under performance that traders don't believe the study numbers any more.

In past years one might look at a company with a $20 million value and a project with a $500 million NPV and say "that looks cheap". These days we are much more likely to say "no way can they ever finance that (probably true, alas) and they'll probably just screw it up if they do".

I don't expect a sudden rise of "faith based investing" in the Junior space. Failing that the only way to close the gap between company value and apparent project value is successful developments. Traders need to see companies bring projects through development on time and on, or at least near, budget. Having managed that, the market will also want to see a few quarters of profit numbers reasonably close to expectations. If a bunch of development level companies can pull that off it will help not only their own shareholders but those of companies earlier in the development cycle.

It takes time to get even a small operation up and running. The timelines would be much more manageable than a megaproject though. Small (20-100k ounces/year) projects use off the shelf mining and recovery equipment. They also tend to have shorter permitting periods because the amount of disturbance is much smaller.
Getting from development to production takes money and it's a tough financing environment. It's much more possible with a small operation however, especially in a region with good infrastructure. Several companies have managed to get heap leach operations in NW Mexico going for tens rather than hundreds of millions.
The same thing should be possible in the SW US, especially in the post-housing bubble era where construction and earth moving costs have dropped substantially. It's not going to be easy but management that can convincingly show it has proven capability to go into production will find money, even in this sort of market.
I expected to start seeing retooled economic studies that favor small, low capital intensity projects. Some juniors will be able to graduate to production with these. One thing about small production scenarios is that they can't really support outrageously expensive feasibility work. This is another area that has seen huge cost inflation.

This will be tricky to manage because the regulators will not let companies talk about project economics in anything but very vague terms until a large third party engineering firm has sprinkled "bankable feasibility" holy water on it.

I understand that the regulators are trying to protect investors. Companies can't talk project economics unless a third party Qualified Person has vetted the estimates. That is fine as far as it goes but it imposes huge costs on even small projects unless the company can raise financing without a feasibility study. On really "capex lite" projects spending millions on feasibility rather than spending money just putting the dammed thing in production will not make any sense.

Will some of those low budget production startups blow up in everyone's face? Yep. Welcome to business start-ups 101. It will happen in some cases, with or without a feasibility study. You can't predict everything and failures happen across every sector and mining is no different. I'm not trying to dump on the engineering industry but it's worth remembering that many of the current projects with the worst cost overruns and initial production stats are also the most expensively over engineered ones. Giant, expensive studies have not guaranteed success.

When looking at potential production situation without lots of third party vetting, it will be imperative to get a feel for the competence of management. Resumes will have to be checked and should include supervisory experience in mine construction and operations. Exploration geologists with no minesite experience should not be trying to develop projects on their own. Thankfully, most of them have the sense to know that and will add relevant personnel.

Large engineering groups have been delivering “gold plated” project designs for years. Some of them were sued in the past when there were production startup issues. Their response has been to over engineer everything. This makes a failure in the production flow sheet less likely but it also makes the project significantly less economic overall and more susceptible to cost overrun.

The whole industry won’t move to seat of the pants mine building but some sort of happy medium has to be found. One of the most interesting recent news releases came from First Quantum Mining (FM-T). HRA followed FM from its inception until it reached $100/share several years later. It got there by developing or redeveloping several large copper projects, mainly in the Zambian copper belt.
First Quantum has always done most of its planning and project management internally. Because it’s been so successful it has a great deal of street cred. This means that when it lays out an economic model for a new operation the market takes it seriously.
FM recently acquired Inmet, and the main motivation for the takeover was to get control of the giant Panama Cobre deposit. Cobre was mainly designed and costed by large international engineering firms and has an estimated capex of $6.2 billion.

FM announced a few days ago that it was cancelling the contracts of all the outside engineering and construction firms. It plans to spend several months going through the existing feasibility study, tweaking the design and planning to try and cut costs.

FM’s management thinks it can take a billion dollars off the cost and I won’t be the least bit surprised if they do it. You’ll see a lot more of this in the future I think. It’s similar to the trend in other industries to hire in house legal counsel. A big part of the job of an inside counsel is policing the billing of external law firms. Expect mining companies to use a similar model with engineering and to get a lot more hard-nosed about the costs they will accept.

The sector is not disappearing but like any industry that has had a major growth spurt mining has excesses that need to be dealt with. The cost squeeze will go on for a while and so will the slow pace of takeovers. Takeovers will return however and this new paradigm will give select juniors a chance to move to production on a small scale themselves.

Creation of a new set of companies that can climb to the mid-tier space is overdue. The current bear should not stop that transition and may even accelerate it. I’m looking for contenders for the HRA list.

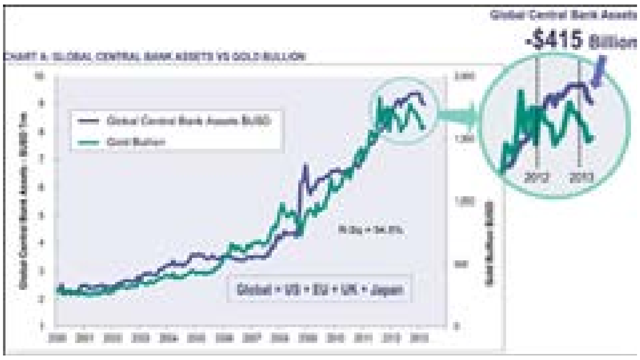
MARKETOVERVIEW

Metals and the junior markets continued their dive this month. There is some indication that we might be seeing a bottom in the gold price but that bottom is in the process of being tested.
It's too early to know if the test succeeds this time.

Gold was finding its feet when it was knocked back by release of the latest Fed meeting minutes and a report from Goldman Sachs calling for lower gold prices.

The Fed minutes showed that several Fed governors were calling for an end of QE3 this year. That is not too shocking. Several Fed board members have been opposed to the expansion of the Fed balance sheet from day one. Note also that this meeting took place before the release of the March employment report in the US.
When the Fed was meeting the consensus estimate was for 250,000 new jobs in March. The actual number was a very disappointing 88,000. At that rate of job growth it would take years to get to Bernanke's 6.5% unemployment target for ending QE3.

Goldman's report just came out but I don't expect it to say anything too compelling. Wall St is basing gold forecasts on QE3 and not much else. Gold went up for years without QE1-3. Buying was based on an easing US Dollar and also on increased wealth levels in developing countries, particularly India and China. Recent economic news out of China has been relatively good. India is a bit of a mess but soft commodity prices are high and the strength and price of harvests have as much impact on the appetite of Indians for gold as anything else.



The chart of the $US on this page is impressive in that it looks like the US Dollar wants to roll over. That is meaningful given how hard the Bank of Japan is working to weaken the Yen and the pandemic of foot in mouth disease in Europe. All the jawboning in Washington is just that—jawboning. Only a complete idiot would want a higher currency in this environment.

Note the chart on the previous page, which I stole from Dave Franklin at Sprott Asset Management. The chart shows the long term trend of gold prices versus global (US+ECB+UK+Japan) central bank assets. The long term correlation is impressively high with an R2 of 0.945. Correlation doesn't mean causation but when it's this high you have a relationship worth watching.

Central bank assets actually declined in Q1 as the ECB reeled in some of its 2 year refinance paper. That has all changed since the Bank of Japan opened the spigots. If Europe keeps dragging odds are the EBC grows its balance sheet again too.

With Japan's $75 billion added to the ongoing Fed $85 billion in balance sheet expansion, global central bank assets could grow by another $1.3 trillion by year end. That implies a $300/ounce increase in the gold price based on the relationship graphed above. No guarantee obviously, but a cheery thought to end with.

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SOUTH AMERICAN SILVER'S COPPER-GOLD PROJECT IN THE HEART OF CHILE

By Mike Niehuser

We recently visited South American Silver Corp.'s (TSX: SAC, OTCQX: SOHAF) massive Escalones copper-gold project near Santiago, Chile. In our opinion, Escalones may be the most well located undeveloped copper-gold project in the world. South American Silver has already established a large modest-grade copper-gold resource that is early in the definition process and certain to be enlarged while locating higher grade zones.

The proximity and access to the project from Santiago should accelerate exploration compared to competing deposits located in less favorable political jurisdictions or in distant locations. South American Silver is trading close to its cash value per share, which suggests little credit may be given for Escalones, optionality for resolving its dispute over its silver-indium Malku Khota project in Bolivia, or other assets.

The Escalones project is located only 97 kilometers to the south east of Santiago, the capital city of Chile. The project is situated near the head of the Maipo river valley, about six kilometers from Maipo volcano and the border with Argentina.

The Maipo river valley provides the access for a major natural gas pipeline from Argentina to the city of Santiago. A high quality gravel service road extends the length of the pipeline and proceeds directly through South American Silver's exploration camp at the foot of the Escalones project. The road is maintained by the gas company in partnership with South American Silver, providing an uncommonly high level of accessibility relative to other projects.

A two lane paved road extends up the Maipo river valley, past the small community of San José de Maipo, about halfway to the Escalones project exploration base camp at an elevation of about 2,800 meters. As the grade of the road up the river valley is very gradual, this provides the impression that the exploration camp is neither distant nor at a significantly different elevation than Santiago. While the road provides immediate access to the project from Santiago, we would anticipate that a potential mine at Escalones may take a route out of the Maipo river valley to an adjacent valley containing El Teniente, the world's largest underground copper mine, and only 35 kilometers from Escalones.

Exploration drilling at Escalones is conducted between 3,800 and 4,200 meters. The drilling at Escalones is accessed by a well developed network of roads, providing areas for drill pads leading to level terrain along the ridgeline. From the Summit, the nearby Maipo volcano, at an elevation of 5,264 meters, is clearly visible to the southeast. The drill season at Escalones extends from October to mid-April. An unusually warm late summer season has extended the drilling season at Escalones. Presently, there are three drills active at Escalones.

Chile is the world's leading producer of copper, producing about a third of the world's copper.

The Escalones project covers about 68.9 square kilometers. At present, exploration at Escalones has been concentrated at the top of the ridge and accessed by multiple roads. The Escalones mineral resource estimate is based on only 30 diamond drill holes totaling 12,666 meters and 43 channel samples from over 2,100 meters of road cuts. South American Silver has also completed 230 line-kilometer, ZTEM helicopter-borne geophysical surveys in 2011, producing anomalies to be tested by drilling. At the time of our visit, South American Silver was drilling hole ES-50.

The initial NI 43-101 compliant resource estimate at Escalones was released on December 19, 2011. At a 0.2% CuEq cut-off, the Escalones project had an Inferred resource of 420.6 million tonnes, containing 3,835,000 pounds of copper, 56,900 pounds of molybdenum, 610,000 ounces of gold, 16,800 ounces of silver, or a copper equivalent of 4,503,000 pounds. The resource at this cut-off had average grades of 0.41% copper, 61.39 ppm molybdenum, 0.05 g/t gold, 1.24 g/t silver, for a copper equivalent grade of 0.49% CuEq.*

South American reports copper mineralization in every hole, and while the initial resource estimate is large, we see an opportunity for increasing grades with additional drilling resource expansion, and increasing grades with improving definition of mineralized zones. The company is scheduled to compile drilling from its 2012 and 2013 drill seasons and provide an updated resource estimate by mid-2013.

The most interesting drill results since completing the resource estimate were in drill hole ES-43 which included a "gold only" zone above the copper skarn on the eastern slope of Escalones. The hole intersected 12.9 g/t gold over 3.7 meters within an 11.9 meter interval averaging 4.39 g/t gold. This was within a wider 73.9 meter interval, starting at only 23.77 meters from surface, grading 1.16 g/t gold. Also, immediately below the "gold only" skarn, mineralization continued over at least 5.1 meters, notably grading 1.87% copper and 0.32 g/t gold.

Drill hole ES-43 reveals what could be an extensive gold mineralized zone that would be a healthy addition to and an increase in the gold grade of the resource. The hole is located 250 meters from the nearest hole to the north and 200 meters from the nearest hole to the south. While at the project, South American Silver was drilling ES-50, which is about 150 meters to the north and up the switchback from ES-43. The skarn now traced 1.7 km horizontally and 1.1 km vertically. While still early, we see very good potential for additional infill drilling to identify a significant gold-rich mineralized zone that could provide for a robust starter area for a potential mine.

South American Silver released important drill results from ES-36 in porphyry-style mineralization in the western part of the Escalones Meseta, in which was discovered a higher grade zone of copper enrichment. Starting at 120.0 meters (below a partially leached bedrock at a depth of about 72.1 meters with a 47.9 meter intercept grading 0.259 g/t gold and only 0.07% copper), drilling intersected a 238.2 meter intercept grading 0.41% copper and 0.103 g/t gold, or a copper equivalent grade of 0.50%.

Most importantly, within this zone starting at 129.0 meters, there was a 27.0 meter intersection of secondary mineralization, enriched by leached copper from the zone above, grading 0.99% copper and 0.148 g/t gold, or a copper equivalent grade of 1.13%. The first six meters of this zone of secondary enrichment graded 2.23% copper and 0.137 g/t gold, or a copper equivalent of 2.35%.
Chile is the world's leading producer of copper, producing about a third of the world's copper.

Copper production in Chile makes up about 14% of the nation's GDP. The nation of Chile is about 4,270 kilometers in length from north to south, with most of the copper projects located in the far north, at high elevations in the arid Atacama. Within Chile, and the centrally located capital city of Santiago, the project has excellent access and availability to power, water, equipment, supplies and skilled labor. This provides more than sufficient evidence to our claim that South American Silver's Escalones project is the most well located undeveloped copper-gold project, not only within Chile, but the world.

*Copper Equivalent (CuEq %) calculations reflect gross metal content using approximate 3 year average metals prices as of December 2011 of $3.00/lb copper (cu), $1200/oz gold (Au), $22/oz silver (Ag), and $16/lb molybdenum (Mo) and have not been adjusted for metallurgical recoveries.

The author does not own shares of SAC

Mike Niehuser is the founder of Beacon Rock Research, LLC (*www.beaconrockresearch.com*), a provider of institutional quality research and commentary on the metals and mining industry. Mr. Niehuser has faculty status at the Pacific Coast Banking School and serves on the board of the Oregon International Air Show. Mr. Niehuser also founded the John Boyd Memorial Scholarship honoring the greatest unrecognized strategic thinker of the 20th Century. He is a graduate of the University of Oregon. He may be contacted by email at *mike@beaconrockresearch.com*
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SURINAME, A GOLD NUGGET IN THE ROUGH

By Nicole Engbert

Suriname is the smallest independent country in South America
Map source: <http://kids.britannica.com/comptons/art-55121/Suriname>

The Republic of Suriname is a small South American country sandwiched against the continents north coast between French Guiana and Guyana. It was colonized by the Dutch in 1667 following exploration and settlement by the Spanish and English. Suriname remained a Dutch colony until 1975, when it gained its independence. Shortly after, control of the country was seized by a socialist military regime. Political stability was questionable in Suriname until 1991 when a four party coalition government was elected. The country has experienced a relatively stable political situation since. Suriname's economy is largely driven by natural resources with alumina, gold and oil comprising approximately 85% of all exports and 25% of government revenues.

Historically Suriname has experienced great mining success from bauxite; however, over more recent history the country has gained international attention for its gold resources. The small scale mining boom started in the late 1980's (mostly from alluvial sources), which was later followed by interest from international parties. The main hard rock gold mining target is the Eastern Greenstone Belt, a stretch of rock similar to other significant gold mining regions around the world.

IAMGOLD (TSX: IMG) owns 95% of the Rosebel Gold Mine with the remaining 5% held by the Suriname government. Rosebel produced 382,000 ounces of gold in 2012 at average cash costs of $671 per ounce. As of December 31, 2012 the mine had proven and probable reserves totaling 5.445 million contained ounces of gold. The cash costs fall in the mid-range for IAMGOLD's mining operations, which were between $137 and $1,337 per ounce gold in 2012. The Rosebel mine was IAMGOLD's largest producer in 2012 and has the highest contained gold reserves out of IAMGOLD's operating mines.

IAMGOLD and the Suriname government recently signed an agreement that created a new joint venture ("JV") for any future expansion at the Rosebel mine. The Suriname government holds 30% interest in the JV and IAMGOLD receives lower power costs and expedited approval for expansion areas around the mine. This is a prime example of companies and governments working together to further each ones goals.

Newmont Mining Corporation (TSX: NMC) has the option to earn 80% equity ownership in Suriname Gold Company, LLC, the entity that holds the Merian Gold project in northeastern Suriname, the remaining 20% is owned by Alcoa (NYSE: AA). This project is in the development stage with a feasibility study expected soon. Although reserves have not yet been established, the project has a non-reserve estimate of 3.6 million ounces of gold.
Junior exploration companies with a presence in Suriname include Reunion Gold Corp. (TSXV: RGD) and Canasur Gold Ltd. Reunion holds the Lely Mountain project in the east of the country. However Reunion has not completed work on Lely since 2008, choosing instead to focus on its manganese property in neighboring Guyana.

Canasur is a private Canadian exploration company with concessions in east-central Surinam. Canasur's gold concessions are in the vicinity of IAMGOLD and Newmont projects. While Canasur is focusing on exploring and developing open pit-able targets on their Goliat-Tibiti concession, high grade vein systems with the potential for underground mining have also been identified. IAMGOLD's reserves of 5.445 million ounces gold and Newmount's estimated resource of 3.6 million ounces gold bode well for Canasur moving forwards as they are located within the same greenstone belt. Thus, it stands to reason that Canasur should be able to develop a resource on par with the other projects.

Although the interior of Suriname is plagued by illegal mining, the government recently evicted approximately 3,000 illegal miners. This is an ongoing theme throughout South America with concerns over negative environmental impacts, miner health and safety and loss of government revenue.

Overall, Suriname has an underdeveloped commercial scale gold mining industry. It is a politically stable country with a government that has shown its dedication to increasing foreign mining investment. FRC attended a talk at the 2013 PDAC convention in which Suriname officials outlined their desire and commitment to increasing foreign investment in the country. Based on this, I believe that there is a lower risk of resource nationalization then for some other South American countries, further increasing Suriname's appeal. The government earns revenue from gold mining through owning equity interest, collecting taxes and/or royalties.

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