



# PROSPECTOR

RESOURCE INVESTMENT NEWS

September 2014

## **THE MINING FOOTPRINT: A BULLISH GOLD AND SILVER PRICE DRIVER**

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# THE MINING FOOTPRINT: A BULLISH GOLD AND SILVER PRICE DRIVER

by David H. Smith

In print and during speeches to large audiences, David Morgan states the truism that “everything we use in our modern-day lives is either grown or mined”. These two pursuits pretty much define what it takes to survive and thrive in the modern world. And how we go about conducting these activities has a direct bearing, not only on us today, but for future generations as well.

The production of precious and base metals presents a certain amount of environmental risk between the time they are dug out of the ground, to when they are sent to industrial applications or end up in the palm of your hand. Seldom found near the surface, gold and silver ore must be blasted, dug, and transferred out of narrow passageways, often hundreds, if not thousands of feet below the surface - then processed by one of two primary methods.

Transported to a mill, the ore undergoes a crushing – flotation circuit process whereby the majority of the metals’ containing deposit is separated from the remaining rock, usually by chemical and aeration operations, yielding concentrate or “con”. This relatively dry, high-value powdery residue is trucked to a smelter and refined into “dore” bars of 60 – 80% purity. Finally, it undergoes specialized processing to achieve the .999 fine level associated with the bullion/legal tender coins, bars or medallions of which the public is familiar.

Another process – heap leaching - harvests metal from low-grade deposits, involving the processing of a lot of rock. A ton of crushed ore may yield only a fraction of an ounce of gold or a hundred grams of silver! The ore is stacked on lined pads and sprayed with chemicals, in order to “leach” metal from the surrounding waste material. Ore thus obtained comes either from open pit excavation, or the previously-described underground mine source.

The thick liquid tailings left after processing – with various levels of toxicity - are stored in “tailings ponds”, which over time may become solid earth. In some

***The production of precious and base metals presents a certain amount of environmental risk***

hilly parts of Mexico having little flat ground, a hardened tailings pond may be covered over with earth and used as a soccer field! But in larger operations, these ponds can take many years – if ever – to fully dry out, since a large operation continually adds liquid residue. If the pond walls are not built properly – or even if they are, and if they become subject to shifting ground, a flash flood, or some other destabilizing event, they may leak – or collapse.

This is what happened recently in British Columbia, with a variation on the theme a short time later in Mexico. In the B.C. case, reportedly several billion gallons of treated water of questionable toxicity flooded into a nearby lake and surrounding streams. While it will take some time to measure the full effects, the negative impact on the public’s perception of mining and the risks it entails was immediate and likely will be long-lasting.

In Sonora State, Mexico, 1.4 million cubic feet of leached copper wastewater spilled into a nearby river, leading to local drinking water restrictions. Local reporting states that Sonora State accounts for fully 27% of the country’s metals’ production. In both cases, it remains to be seen whether or not “best practices” were followed. Even if they were, the truth of the matter is that perfection does not exist in any human



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endeavor. No matter how carefully a mining operation is conducted, accident risk cannot be removed from the equation. In other words, operational reality can only address threat-management and reduction, not threat elimination. The mining operations our analysts follow at themorganreport.com have shown themselves to be conscientious environmental stewards, as well as good, tax-paying citizens to the areas in which they operate. We have visited sites in Mexico where the water returned to nearby streams had pH and purity levels equal to or better than was the case before its initial use in the milling process.

Impact Silver is a mining operation that we have visited and profiled in the past. Via a subsidiary company, it builds, leases, and also uses on its own properties, man-portable drilling platforms that create almost no



Historic UKHM milling/tailings operations

disturbance to the ground cover – i.e. cutting down trees, building roads, digging ditches, etc.,. When their work is finished, the crews restore the ground to its previous state. Soap-like lubricants used with the drills are bio-gradable, leaving no toxins behind.

Alexco Resource Corp, operating Canada’s only primary silver mine, was initially formed as an environmental rehab operation, only later getting into the business of producing silver from some of the highest grades/ton ore to be found just about anywhere. Their wholly-owned subsidiary, Alexco Environmental Group, removes and processes large quantities of toxic zinc residue in the Keno Hill Silver District, Yukon left over from previous decades of silver mining when regulations were much less strict – in some cases nonexistent – compared to what they are today. Territorial and local authorities share cleanup costs with Alexco, creating a virtuous circle of cooperation, compromise and environmental restoration.

Writing in Sprott’s Thoughts, Steve Todoruk observes that mining companies, the same as airlines, cannot give guarantees. Being a realist, he notes: It’s likely that accidents like this will happen again. Despite the risk, the mining industry will continue, because people need metals like copper in order to enjoy access to electricity for their homes and offices, to computers, cars, air conditioners, and other modern comforts.

It’s almost assured going forward that mining operators will be held to even more stringent operational standards than the current ones. These requirements will entail additional expense, take longer to implement, and



Modern Alexco milling/tailings operations  
(photos courtesy Alexco Environmental Group)

greatly raise the financial bar for both producers and exploration companies hoping to find new, increasingly-elusive deposits. You can bet your bottom (paper) dollar that all the metals – especially gold and silver, are going to be much more costly and harder to come by as demand for them ratchets in an upward spiral from all directions.

**Disclaimer:** This writer holds shares of Alexco Resources and Impact Silver. Portions of this text have appeared previously in a column written for Money Metals Exchange. David H. Smith is Senior Analyst for <http://www.Silver-Investor.com> and is a regular contributor to David Morgan’s The Morgan Report, with postings on YouTube at SilverGuru. For the last 15 years, he has investigated precious metals mines and exploration sites in Argentina, Chile, Mexico, China, Canada, and the U.S.

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# HOUSTON LAKE – WE ARE GOOD FOR LIFT OFF

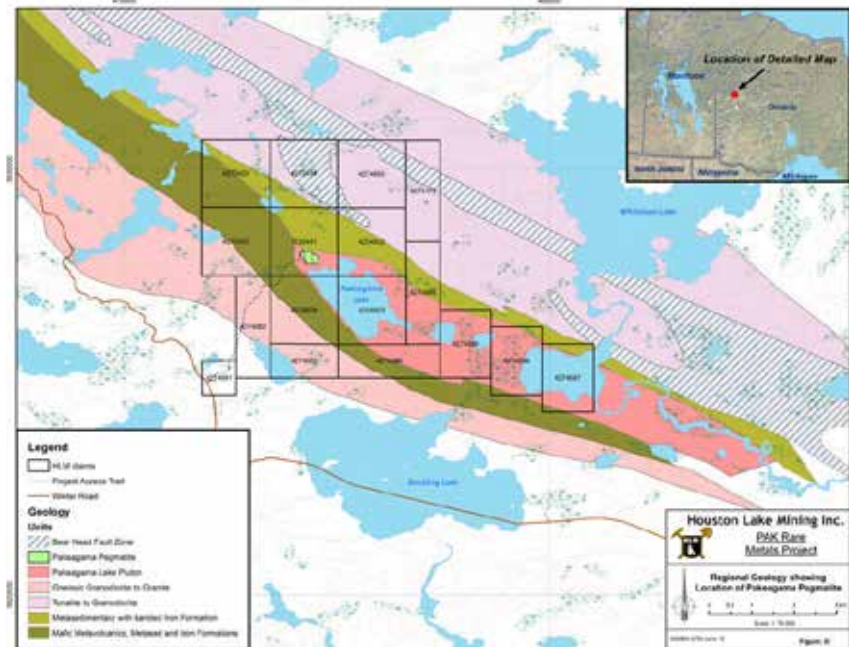
By Chris Temple

Several years ago when—at the encouragement of my old friend Rich Radez, who with his son Eric is the host of the annual Chicago Resource Expo—I first took a half serious look at Houston Lake, the company had a couple smaller but interesting prospects involving gold and PGM's (platinum group metals.) In the interim, management decided to change its focus, especially after current President Trevor Walker began to devote his full time efforts to HLM. When he and I spoke again just the other day (I had already had a chance to get a more comprehensive, updated look at today's Houston Lake Mining Co. at this past April's Chicago expo) Trevor quipped that he agreed with one of my own occasional one-liners when it comes to the gold market. Especially in attempting to get dyed in the wool gold bugs to realize that they should look at other areas as well, I often state that, "Maybe in heaven the streets are paved with gold...but here on earth we use asphalt."

According to Trevor, his company's philosophy likewise is that there are opportunities as well in other commodities. This is especially the case where the so-called rare earth elements are concerned.

When the opportunity came for Houston Lake to acquire a land package in northern Ontario that now seems to have the highest grade occurrence of lithium in North America, the company seized the opportunity.

The company's major asset is the PAK Rare Metals Project. It is located just northwest of North Spirit Lake, Ontario; roughly 100 miles North of Red Lake. Last month the company increased the overall size of its holdings to over 4,000 hectares of prospective ground.



Houston Lake Mining (TSXV:HLM; OTC:HLKMF)

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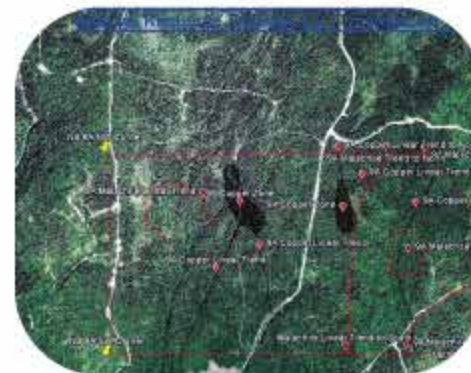


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But the main attraction so far is the small area you see colored in chartreuse in the accompanying map. It is the Pakeagama Lake pegmatite, where extensive trenching and other exploration work has revealed the presence of potentially economic zones of lithium. Also present are varying grades of tantalum (a substitute in some applications for platinum, and used in a variety of electronic equipment), cesium (also used in some electronics, as well as a part of certain chemical/industrial compounds) and, Trevor has seen, potentially high grades of rubidium (which also is used as an industrial compound ingredient, among other things.) But lithium is by far and away the chief focus here. The market for this element has been strong, particularly as battery technology has improved for everything from the smallest items

to, now, your new Tesla. Indeed, as that electric car manufacturer really started to garner attention in the recent past, so to have the markets and potential manufacturers looked to potential future sources for the element. As you may have read elsewhere in the past, China directly or indirectly has been able to tie up a substantial portion of the global supply of certain rare earth elements.

With a heightened demand for lithium--not only for batteries of various kinds, but also for things such as higher-tech glass products (think of the new generations of Gorilla Glass and similar items) ceramics, and the like--it seems to me that any company that can find a decent, mineable and economic deposit on this continent will be sought after

eventually. Last December, Houston Lake released its maiden resource estimate for the Pakeagama Lake pegmatite, of 6.8 million metric tons of lithium oxide grading at 1.86% in the inferred category, with 1.17 million metric tons grading 3.44% of lithium oxide characterized as being in a “technical/ceramic grade” zone with a low inherent iron spodumene. (NOTE: Spodumene is the material which typically hosts lithium and certain related elements, but can also come with prohibitive amounts of iron.) According to Trevor, it could be a game maker for Houston Lake that the iron content of at least some of the lithium-bearing material is so low. In trying to develop most any kind of a metalbased resource, in fact, it’s always a potential killer if one or more contrary elements is present

that will make recovering what you’re after prohibitively difficult or too expensive. Hard rock miners looking for things like gold and silver, for instance, typically don’t want to see a lot of lead; and especially arsenic in pretty much any amount. Likewise, a high presence of iron

time comes up in that area. The PAK is only 4 km from one of them; the company has already constructed its own road from that point into the Project. Drilling costs are typically half at that time of year, due to less demand elsewhere.

of the Board of Houston Lake mining--is also the owner and operator of his own separate company, Consbec Mining, since 1975.

Consbec is the largest privately owned drilling and blasting contractor in North America; and the Walker family is the only family in all of Canada licensed to manufacture explosives. Included in Rick’s resume has been work for the old Hemlo Mine, North American Palladium and a variety of pipeline and civil engineering projects.

With Houston Lake, the Walker family has a lot of skin in the game. Collectively, the family owns more

**Consbec is the largest privately owned drilling and blasting contractor in North America; and the Walker family is the only family in all of Canada licensed to manufacture explosives.**

can mess things up where lithium is concerned. So--and as some preliminary metallurgical tests so far support--Houston Lake’s material should not have that problem.



Further, the nature of the lithium being of a “technical grade” for this and other reasons is important. Without trying to be a chemist or metallurgist, what the company seems to have to some extent are lithium bearing ores that will take relatively little to turn into a salable product for a manufacturer. And this--though nothing is guaranteed at this still-formative stage--is the goal. One of the next steps will be an anticipated 500 to 1,000-ton bulk sample that the company will mine this coming winter. If the results from it keep the numbers and the resource going in the right direction, it may not be terribly much longer before somebody will want to tie up this lithium.

Speaking of drilling, one of the strengths when it comes to this specifically and to the mining industry generally is that Trevor’s Dad, Rick Walker--who is the Chairman

than 20% of the outstanding shares. To date, as it has furthered the project, it has judiciously raised just a few hundred thousand dollars or so at a time as the money is needed;

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not only to avoid any more dilution than necessary but to make sure the Walker family maintains something close to its proportional interest. Following a C\$500,000 financing that's about to close, the company will have roughly C\$1 million of cash on hand, which should get it through the bulk sample and its costs.

Though I don't know nearly as much about a few others as I do Houston Lake, I have seen that a number of explorers focusing on lithium particularly have popped higher in the recent past. So too has HLM, as you see here. But I do not see yet where the market understands the potential here of an economic deposit which--though it would at least start out as a smaller operation--is of such grade and quality that it could well move to the front of

the line as larger miners or a big manufacturer look for sources of material.

Within the next few weeks, I expect the company to be releasing assay results from last winter's drilling program. The hope, of course, is that it materially adds to last December's initial resource and continues the process--to include this coming winter's bulk sample--toward the day when the company can attract a manufacturer willing to enter into an offtake agreement.

By its nature, purchasing shares of Houston Lake Mining should be deemed speculative. There are other, larger and more advanced projects (though not all that many out of China's grasp, especially after some recent consolidation in the space.)

The particular interest here is of a project with lithium oxide of a better quality and grade, and which should thus take a fraction of the capital costs to bring to market in a usable form than most others. So that is especially why HLM merits a small place in your portfolio, together with the rest of the above reasons.

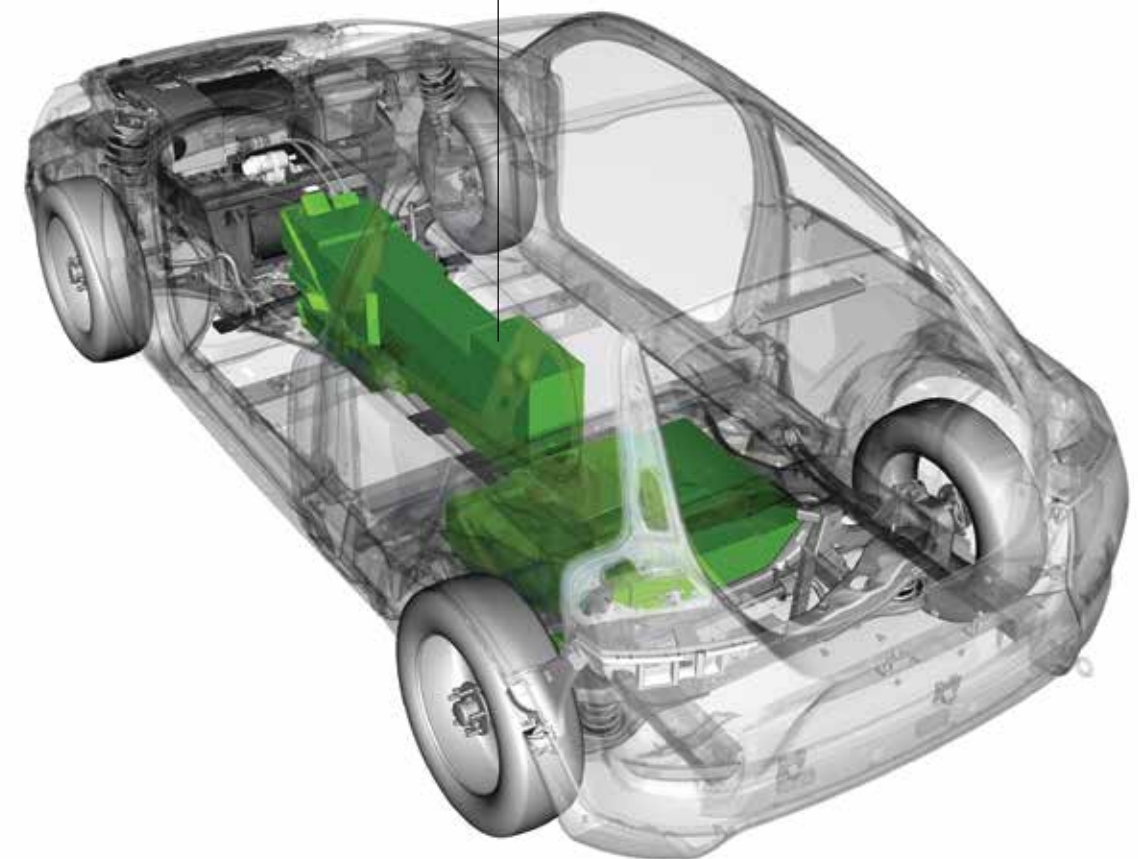
To learn more about Houston Lake Mining--and where, among other things, you will also get concise, understandable "primers" of all these rare metals and their use--you can visit the company's web site at <http://www.houstonlakemining.com/>

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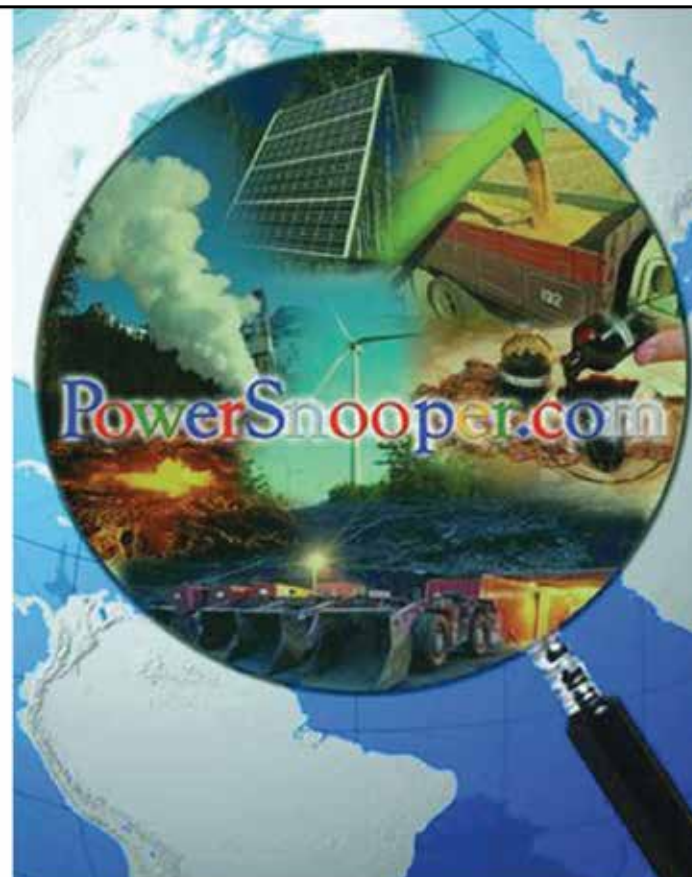
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# NEW NICKEL DISCOVERY ADDS TO BALMORAL WARCHEST

**“Dramatically Higher Nickel Prices  
Coming in 2015”  
says Scotia Bank**

By Christian Vakenti

**“Nickel likely to top out  
in neighbourhood of \$12  
pound (US) by 2106” –  
analyst Patricia Mohr**

“The team that you see before you is an exploration team and we make no apologies about that. Our job is to go out and find things,” said Darin Wagner at the recent Precious Metals Summit.

“You won’t find a bunch of mine builders here, you won’t see a bunch of engineers on the team... we go out and find things and then either flip the team, like we’ve done previously with Mag Silver, or flip the asset.”

Darin’s carefully assembled exploration team has apparently dug up another win with results from this summer’s drill program pouring in now. At the time of this writing, one drill is currently active with a second drill to be added for the remainder of the fall drill season following completion of the initial phase of testing of the Lac Hugo exploration target. The Company has completed 26 holes through Horizon 3 of the Grasset zone, which hosts high-grade nickel-copper PGE mineralization, with results from 17 holes currently pending.

“We’ve got a brand new nickel discovery at a time when the nickel market is heading into a structural

deficit situation, which is always a good thing,” says Darin. “In particular when you’ve got one in a great jurisdiction – and it’s got good thickness and great grade.” For those of us who are watching the nickel market, this is exciting news. Analyst Patricia Mohr notes in the Scotia Bank Commodity Price Index (released in late August) that nickel is bound to “move dramatically higher in 2015”, likely driven by Indonesia’s mineral export ban and exacerbated by the growing global stainless steel market. Patricia points to a US \$8.64 per pound price for nickel in July, up from \$6.31 a pound last year and she predicts that it will hit \$10.75 in 2015, likely topping out in the neighbourhood of 12 bucks a pound by 2016.

All of this is very good news for Darin and his team, whose warchest continues to grow, in part funded by previous good strikes, such as their Martiniere gold property located just 40km from the Grasset asset.

“We have a high grade gold asset as well,” explains Darin, “which almost regardless of the gold price, grade overcomes a lot of wobbles in the market.” The summer 2014 diamond drill program at Martiniere has now been completed. In total 20 holes, totaling just under 6,500 metres, were completed along the Bug Lake Gold Zone. Drilling targeted an interpreted “steep” along the

southern portion, a previously sparsely tested portion of the Zone proximal to the fault which offsets the northern and southern segments and, on a visual basis, appears to have successfully extended the Bug Lake Zone to the north by 240 metres, bringing the total strike length of the system to over 1,280 metres. Final results from the summer program are anticipated in October.



Balmoral has other projects being developed as well, and Darin ensures us that they are more than capable of funding and seeing them through to fruition.

“We do always spend 10 to 15 percent of the budget on project generation, that’s what produced the Grasset discovery...” says Darin.

“Structure wise the company is very well financed – we’re sitting with basically ten million dollars cash in the treasury at the moment, with another million dollars in warrants that will come in between now and the end of October. And that will basically replace the million dollars we’ll spend on the drill program between now and the middle of October as well, so that leaves us in very strong financial shape. Most of that is hard dollars.”

For the investor, Balmoral precisely the kind of company which bears notice: a capably managed, proven winner that is well-placed for at least the next three years whose assets are located in an ideal location.

“Our projects are in Quebec, which does give us the huge advantage of being able to access the Quebec flow-through system which is much more lucrative than any system in the country.”

Darin adds, “If we’re using hard dollars however the Quebec government gives us a bonus back – we get 28% of our hard dollar expenditures back, so that stretches your investment bottom line as investors in the story about 28% further than just about anywhere else on the planet.”

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## STEVE WILLIAMS ON PASINEX'S TURKISH ZINC OPERATION

By Christian Vakenti

**"Zinc is a great space to be."** -Steve Williams, CEO, Pasinex

"I wanted something with longevity and traction," explains CEO Steve Williams.

"I'd been thinking about the matter for some time. It had to be simple, to the point, yet definitive of what I was trying to represent," says Steve.

Speaking with The Prospector by phone from Toronto, Steve is a veteran of both Australian and Canadian mining, working in the industry since 1976.

"I was at the PDAC, and it just hit me. I have a passion for exploration. That's what I'm here for, it's what I'm best suited to do," says Steve. "So Pas-in-ex: passion for exploration – it just made sense.

"And it's easy to spell," laughs the good-natured business man. Steve is easy to talk to, and two things are immediately apparent. One, that he is truly passionate about mining, and two, that he knows what he's about.

"Pinargozu. It's our zinc operation in Turkey. Well located. I laugh when people ask me that question about how close it is to road and rail. Turkey has very good infrastructure. We're right by a major road, leading into a city of 17 million people, Turkey's 4th largest, called Adana. And just two and a half hours down that road is

Mersin, a major port. That's how we will get the ore out."

"Also it doesn't snow much or at all in southern Turkey. Weather doesn't impede our operation – we can operate, we can drill, year round."

Steve's plans for the tail end of this year and the beginning of the next are ambitious, but well within the scope of a junior which has posted promising results.



*Steve Williams CEO Pasinex Resources explaining to investors about the high grade zinc material that had been mined from Pinargozu (in the background)*

"We're raising about \$2.5 million by the end of this year. That funds 30 to 35 holes. We have some adits that we're refurbishing."

As reported in September of this year, assays obtained from about 570 tonnes of zinc ore mined from the Pinargozu project report results of 34.0% Zn, 50 g/tonne Ag.

"We're currently extracting about 25 tonnes a day. We have around 2,500 tonnes of this material, which we believe to be direct shipping ore and together with our joint venture partners, Akmetal AS, we've begun to seek commercial offers for the sale of this material."

The next three years prove crucial to Steve and Pasinex's eventual success. With proper funding and careful



*Pasinex Geologist Ismail Samsa shows mineralised material to a market analyst underground at the Pinargozu mine*

management, Steve's company is looking to ramp up production severalfold over current operations.

"Our target is about 300 tonnes per day. We believe there's about a million tonnes to be extracted, giving us about a ten year mine life."

This timeline dovetails nicely with a coming rise in zinc prices, due in part to

two major zinc operations which will be shutting down shortly. "We've got two big global zinc operations shutting down in the next two to three years," says Steve.

### Pasinex is proudly listed on the Canadian Stock exchange

"We're already seeing zinc prices rising, up from .85 cents to a dollar now, with much steeper rises in the forecast. It is going to go higher, without a doubt."

"Also, look at gold for instance, and there's hundreds, just hundreds of companies out there. But look at zinc – there's maybe, maybe at most 15 juniors working in zinc. The world market for zinc, supply and demand and the companies which are filling that need are so much tighter than most people understand."

"Zinc is a great space to be," says Steve.

As for the country of origin, Steve is realistic about the challenges he faces, but optimistic.

"Any time you step out of that mining wonderland, Canada, and venture out onto the world stage, you have to

change gears," says Steve. "There's a lot of considerations, a lot of tricks to the trade."

"Fortunately, Turkey is in wonderful

shape. They're very mining friendly, very pro-business. We have a right wing, pro-business government in power. Which is actively and aggressively trying to grow their economy. They are well aware of the economic benefits of mining and are actively pursuing it."

"This all bodes well for our Turkey interests," says Steve.

Pasinex is seemingly so confident in the Turkish operations that they are pursuing other projects in the area.

"We have two properties; we're looking to acquire more. We have a small starter mine currently and we're expanding that, plus we've got good things coming. It's hard work, wait and see, and proven results. We're moving forward."

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