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WHAT WAS IT LIKE, DAD?

It was tough kid. We were just coming out of the most perfect spring. The fruit trees were all in blossom, streams filled with fish, deer abounded, and we were all feeling pretty right with the world—we owned it and were the chosen ones.

CONTENTS

04 WHAT WAS IT LIKE, DAD?
[...]we were all feeling pretty right with the world—we owned it and were the chosen ones.

10 WHY BANKS ROB DEPOSITORS
"Because that's where the money is"

12 STEEL FRONTIER
Ferrosilicon producer poised to enter steel alloy market

12 EXPLORATION INSIGHTS
Turning rocks into money

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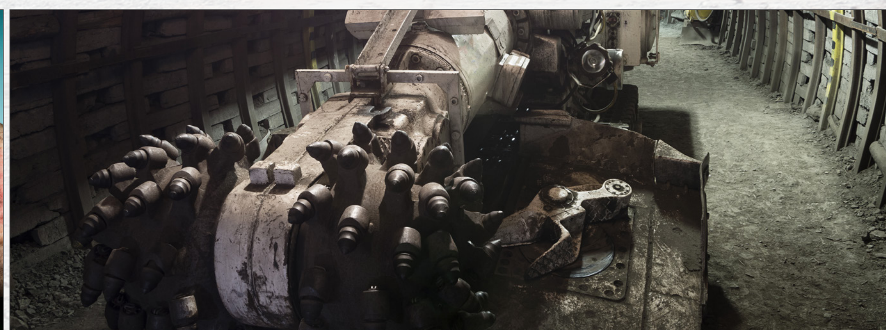

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WHAT WAS IT LIKE, DAD?

THE RANT

It was tough kid. We were just coming out of the most perfect spring. The fruit trees were all in blossom, streams filled with fish, deer abounded, and we were all feeling pretty right with the world—we owned it and were the chosen ones.

You see the world had suddenly been opened to modern exploration and all we had to do was Go There: we could do no wrong. Huge area plays developed around these discoveries, and the juniors with land on trend or close by doubled and tripled in a mat ter of months-- regardless of the geology or prospectivity

Then we headed out across the flats, believing the prophets that the next paradise, just over the horizon, was even better. But the horizon never came, the land turned to salt flats and dust; the temperature reached 110°, day after day after day. We burned and suffered. The roving bandits knew we were doomed and had no interest in what little we had left. Each promising oasis was a mirage and one by one we lost our way, numbed and staggering in all directions. We lost nearly everyone on that journey which began so optimistically—and naively.

It was brutal and devastating kid; I hope to never go through that again. But some of us did survive to carry on, and I'm here to tell you about it.

Yeah, right, I've heard that, but like, what about the 1997 to 2002 mining bust?

Well, that wasn't really much different kid. We had come off of a truly remarkable mineral discovery boom from 1992 to 1997. The diamond discoveries in the Northwest Territory were fabulous: Diamet went from $0.21 to $55. Aber Diamonds (now Dominion) had a 40% interest in the Diavik discovery and went from $0.50 to $50. In Labrador, another company looking for diamonds, Diamond Fields, stumbled across a nickel showing (Voisey's Bay) that was eventually acquired by Inco for $164/per share. It had been a $5 stock.

You see the world had suddenly been opened to modern exploration and all we had to do was Go There: we could do no wrong. Huge area plays developed around these discoveries, and the juniors with land on trend or close by doubled and tripled in a matter of months-- regardless of the geology or prospectivity.

Corriente Gold traded up to $18 on a project in Peru that it never had to drill. Arequipa Resources, a copper explorer, put a bunch of holes and a tunnel into the Pierina gold prospect in Peru and went from $0.60 to a buyout price of $30 in nine months. Francisco Gold's El Sauzal discovery in Mexico took the share price to $40. Queenstake went from $0.07 to $4.50, based on its Kilometer 88 projects in Venezuela.

What, you never heard of these companies? It figures.

I fondly recall my first trip to the Prospectors and Developers (PDAC) conference in March 1997: landing there after a field stint in Brazil (for which I was stiffed) with little more than a windbreaker and a couple of phone numbers. It was an amazing site to behold. Money was flowing everywhere and to everyone—even the strippers were getting rich on insider stock tips. I was literally stunned to see some geologist in khakis working a booth raise $2 million in a matter of minutes, based on a satellite color anomaly somewhere in Mongolia-- on a piece of ground I don't think he even controlled.

It was oysters and champagne at the Canoe Club, lavish parties thrown by all the brokerage firms; even the geologists were invited—engineers, not so much. Greed and speculation were rampant, risk unheard of, and failure? Virtually impossible.

It all seemed so irrational, yet real.

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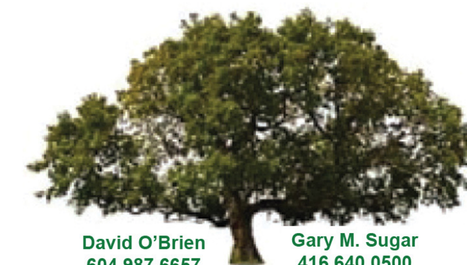
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That was the year John Felderhof received the Prospector of the Year award for the 70 million going-to-200 million ounces Bre-X had found in Borneo. Bre-X went from $2.60 to $275 within a three-year period. It was obvious that nearly every one of us was a genius and sitting on millions in profits. We knew it as just going to get better.

THEN THINGS BEGAN TO SOUR.

Metal prices started to drop; then some guy "falls" out of a helicopter in Indonesia. Bre-X is proven a massive scam and goes to zero. A company that used to be into the garbage container removal business, Cart-away, that had gone from $0.125 to $26 (based on reports of visible nickel and copper in drill core from a property near Voisey's Bay) went to zero, when assays revealed it was all fool's gold. Corriente, Francisco, Queenstake, and all the tag-along companies collapsed, folded, or changed their business plans.

I joined Rick Rule at Global Resource Investments just after the Bre-X bust. At that time brokers and clients were thrilled at how much cheaper these highflying stocks had become by mid to late 1997. Companies they had avoided because of the high prices were now affordable, and it was a good time to start picking them up before the boom re-asserted itself. The letter writers were all proclaiming we were getting a second chance—"Don't waste it".

WE DIDN'T.

The first stock I bought was Almaden Minerals (AMM) at about $1.25 in late 1997. It had been $3.60 a little over a year earlier. It had great properties, plenty of cash, and was run by a successful and honest geologist, Duane Poliquin. "Better than half off" was the sales pitch.

Well, it went down by more than half again over the following year (1998) and the refrain became "if you liked it at $1.25 you've gotta love it at $0.60". The share price continued to decline into 1999, 2000, and early 2001. At one point you could buy the stock for a little more than cash in the bank: $0.25/share. I picked up a bit more at about $0.50 but couldn't bear to keep adding to the position, or even look at it in my portfolio. I loathed it.

The Almaden story was mirrored by nearly every junior resource company, or at least those that stayed in business. The only successes during this period were the companies that switched to high tech, the Internet, or biotech. That is where the money went to, and was made, during the 1997 to 2002 resource bust. There was virtually no money coming into the resource sector. Bill Gates could have bought the entire gold industry with half of his Microsoft shares.

(Fig. 1: Almaden share price 1994 to 2015. Note at least three separate opportunities for substantial gains during this period. The chart has some problems, but you get the point.)

Gold had been exposed as a "barbaric relic of the past"—so said all the Wall Street pundits, of little value except for dental fillings and jewelry. Its price fell to $250 an ounce. Copper was at $0.60/lb and uranium $10/lb—all virtually worthless in this new virtual economy.

Value was now perceived as "eyeballs and clicks" on a company's web site. Profits and profitability became old-fashioned measures of a company's worth that ignored the limitless future of selling stuff to people all over the world. Junior company promoters, although pretty good at bullshit, could not compete with the New Age Internet Masters at this level. Mining was dead and anyone associated with it abandoned and forgotten on the salt flats.

Our Global brokers would sit for days without a call or sell. Regardless of how good a project was, or how cheap a company had become, there were virtually no buyers. Clients didn't want to be reminded of their portfolio, let alone add another losing idea to it. Liquidity dried up. Good or bad news were both reasons to sell, and then the news stopped coming at all. Offloading a small $10,000 or even $5,000 position could crush a company's price. There was no incentive or reason to step into a position that had been declining for years and showed every sign of continuing to do so forever.

The '97 to '02 bust dragged on and on and on. It was a lonely desolate space kid.

The first year of the bust was a correction—a buying opportunity. The second we were on bottom. The third, nearing an end: it couldn't get much worse. By the fourth year I think nearly everyone had resigned him or herself to the fact that gold and metals were indeed going the way of the buggy whip. Gold, copper, uranium, virtually all metals were selling for less than their cost of production. Mining professionals and successful entrepreneurs --the people who knew the industry best--hated it the most. They quit.

I recall a Hard Assets Investment Conference held in some shabby hotel on the outskirts of Miami in 1999. The headline speaker was some nut job newsletter writer who had somehow gotten on NBC, ranting about the end of Western civilization the very microsecond the computer clocks clicked over to January 1, 2000. That, he claimed, was when all the gold and guns stored in your backyard bunkers would become valuable. The conference was absolutely devoid of investors. In desperation, the conference organizers bussed in a load of folks from some nearby old folks homes. They arrived with bags strapped to their walkers and proceeded to steal anything not tied down to a booth. I think that was the low point.

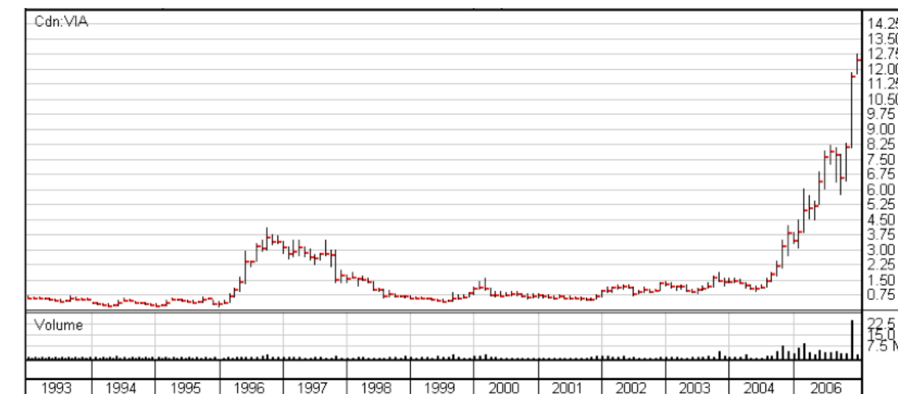
Honestly, it was a depressing period during which a lot of good people abandoned the industry and no new blood entered.

However, in retrospect, it proved to be an exceptional time to buy real companies, assets, and people at a steep discount to their potential or the value represented by those assets.

Almaden Minerals (AMM), which merged with sister company Fairfield, continued its business through the bust, acquiring quality properties that no one cared about, and advancing them to the drill stage. The share price climbed from its low of about $0.25 in 2000 to $3.60 in 2006: a 1,340% gain in six years, if one had bought the low (Fig. 1). As the chart shows, AMM offered a second opportunity for a substantial gain (from the 2008 low) based on the Ixtaca discovery in Mexico. Good people keep coming back.

Virginia Mines (VIA) was another company I purchased on the way down. A $3.75 stock in 1996 was a "steal" at $1.50 in 1998. Virginia was Andre Gaumond: one of if not the best guys in the business, working in the best province in the world (Quebec), getting money back from the government, and fully funded for years. This was as good as an exploration investment gets.

Yet VIA continued to decline. I reluctantly added a bit later that year at $0.75-- I mean the guy had $0.45 a share in cash! At one point in 1999 the stock was selling for $0.35: a 22% discount to cash. The stock languished at under $1.00 until about 2002, eventually hitting $1.50 in late 2003 (Fig. 2).



(Fig. 2: Virginia Gold 1993 to 2006, when it was acquired by Goldcorp.)

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After looking at the chart above you are probably expecting, since it's my tale, that I stayed the trade to the end. I didn't. Seventy-five cents to $1.50 at that time was a big (and rather rare) win after years of pain. I took the profits and bought you some shoes, kid.

I re-acquired VIA in early 2004 after visiting the trenches at Eleónore (when I was contributing to Paul van Eeden's letter). We held through the ensuing take-outs by Goldcorp and then Osisko: some face saved, and lots of money made.

Then in 2004, Andre and his team exposed some gold mineralization in trenches at the Eleónore prospect in Quebec. Over the next two years successive drill campaigns showed Eleónore to be a very large, high-grade gold deposit. Goldcorp acquired the deposit for shares, in a deal that equated to ~$13 per VIA share. Goldcorp proceeded to double after the acquisition. VIA shareholders also received half a share for every VIA share in the Newco, Virginia Gold. Virginia Gold was recently acquired by Osisko Royalties (OR) for ~$14.50.

Bear in mind, all this could be had for a price that valued the original Virginia Mines at less than the cash in its treasury.

Not to belabor a point on this walk down memory lane, but there were other examples of truly stupendous profits that were made on purchases during the '97-'02 bust, at a time when having teeth pulled seemed a more enjoyable choice than coughing up the dough for a junior exploration company story.

In late 1997 some young kid named Brian Dalton and his mates who had funded their way through university staking claims and renting trailers during the Voisey's Bay land rush IPO'd their company at ~$0.25. From there Altius Minerals (ALS) traded as low as $0.18 and slowly climbed to $0.70 over the next four years. ALS was a bet on some frugal Newfies using other people's money to explore for world-class deposits. The wait was worth it. They attracted Barrick into a search for Carlin gold deposits in Newfoundland, made a uranium discovery in Labrador (Aurora), nearly closed a deal on an oil refinery, and bought a few royalties along the way. The stock got as high as $30 in 2006 and now sits at about $14 (Fig. 3). Buying smart, honest people running companies with a tight share structure in a busted market is usually a good idea—if one has the patience.

*(**Fig. 3:** ALS 1997 to 2015.*
***Note** the four years of absolute boredom as the company executed its business plan.)*

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First Quantum had built a small copper recovery operation in Zambia near a project I was involved with (ZCCM). Nice little operation, very smart people that we (mostly Rick Rule) financed at ~$0.75 in 1999 in a placement that included a full warrant. The company managed to lever its success into bigger and better African copper projects, hitting $4.50 in 2004 and $27 in 2011 (Fig. 4).

I met Ewan Downie, President Wolfden Resources, at the 2002 PDAC. He was an unknown then, with few friends and fewer backers, yet it was clear he had some very good ideas on projects that he had picked up for nothing in the Canadian north. Rick and I financed him at $0.35 and were virtually alone in the deal. He subsequently made the High Lake copper discovery, taking the share price to $8 in 2005. It was eventually sold for $3.60 in 2006 and Premier Gold (PG) was spun out of it.

Nevsun Resources (NSU) was another highflyer from the '92 to '97 boom; it fell from $16 to $0.10 (Fig. 5). Then in January 2003 it discovered the Bisha deposit in Eritrea, which took the share price from about $1 to over $8 (admittedly on some serious broker BS). Nonetheless, the company found a legitimate deposit that is now in production and making good money.

*(**Fig. 4:**First Quantum, 1997 to 2015.*
***Note** the seven years of pain.)*

*(**Fig. 5:** Nevsun 1995 to 2004.*
Nearly flat-lined for four years)

DID YOU SEE IT COMING DAD?

On the whole, no. There were certainly some people who understood the cyclical nature of the metals market, and that we couldn't continue producing copper, gold, etc., at below the cost of production (Ross Beaty, Frank Holmes, and Rick Rule come to mind). But honestly, in 2000 few if any saw the China miracle, emerging markets' boom, 9/11, Bush, Greenspan, the Iraq debacle, the Taliban, etc., coming. No, the sector was dead and there were few of us left with any optimism or belief.

I don't see the need to rehash the 2002 to 2010 commodities bull market in any detail—you lived it. Suffice to say the Internet and real estate bubbles burst; gold rose from about $300 to a peak of around $1,900; copper $0.60 to a high of $4.50; uranium ran to ~$130; nickel to ~$23; iron to ~$180: it was all about a billion Chinese buying refrigerators and cars, while the US printed trillions of dollars. Big numbers that attracted big dollars into a sector that had been demolished and was perfectly positioned for a serious melt-up, if there were only a new narrative to bolt onto.

We supplied the ratchet and did it again: nothing could go wrong, and massive quantities of indiscriminate money flowed into mining. The billion in China were soon to be followed by the billions in India and the rest of the developing world. QE and currency debasement was an endless treadmill that guaranteed gold would be the last man standing as fiat currencies imploded around the world.

But then metal prices began to decline, economies slowed, profits disappeared and another crash began again.

What went wrong this time Dad? Is it all over? I mean, like, this time seems really bad.

In next week's Exploration Insights, kid; I'm starting to get depressed and there are still some drill results coming out that we need to look at.

That's the way I see it.

Brent owns shares in Lara, B2 Gold, Nevsun, Premier, and Osisko Royalties.

TRAVEL AND APPEARANCES

I was interviewed at the recent Cambridge House conference. It came out well and covered a range of ideas related to the junior market and investments.

I have been invited to appear on BNN's Market Call, Friday June 26 from 1 to 2 pm EST. This is a call in show where I field questions from viewers on anything to do with mining and exploration. Call in and contact details: Toll free: 1-855-326-6266. Twitter: @marketcall. Email: marketcall@bnn.ca.

July 28-31 is the Sprott/Stansberry Natural Resource Symposium in Vancouver. I expect the show will be even better than last year, with a number of serious industry speakers and me. I will be chairing a special panel titled "Insights into the Business of Exploration" that will feature the Presidents of Premier Gold, Reservoir Minerals, and Mirasol Resources, at 2 pm on Wednesday. Consider attending.

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WHY BANKS ROB DEPOSITORS:

"BECAUSE THAT'S WHERE THE MONEY IS"

By David Smith of Money Metals Exchange

One of America's most notorious bank robbers, Willie Sutton (1901-80), is said to have remarked that he robbed banks "because that's where the money is." In a strange twist, the banks themselves are now beginning literally to rob their own customers.

The theft occurs via the innovative practice of "paying" (i.e. "charging") negative interest rates on savings and checking account balances combined with account maintenance fees. Cash strapped Greece is looking to go even further – charging customers for daring to withdraw cash! So what gives here?

BANKING POLICIES ARE BECOMING INJURIOUS TO YOUR FINANCIAL WELL-BEING

Since the global financial near-collapse of 2008, Central Banks, led by the U.S. Federal Reserve, have tried to solve the problem of faltering economies, excessive debt creation, government deficit spending and a deflationary landscape by flooding the system with fiat money, literally created out of thin air.

Their reasoning is that the problem of excessive, unpayable debt can be solved by creating still more debt!

If you had trouble paying off a $300,000 dollar home mortgage, would borrowing another $200,000 to continue making payments help you solve your dilemma? Of course not. You would simply owe a total of $500,000! Yet this is exactly what many of the world's leading financial wizards have been doing to keep government budgets afloat for the last 7 years.

In an effort to stimulate the economy and encourage consumption, the Federal Reserve has lowered interest rates well below where they would be if allowed to fluctuate based on free-market forces like business and consumer demand.

This has taken us to a Zero Interest Rate Policy (ZIRP), which by definition is theoretically the lowest rate that a central bank can impose as part of its strategic agenda. The closer rates get to zero, the fewer options monetary planners have at their disposal to attempt to stimulate economic demand.

> *"There have been 61,998 cash seizures made on highways and elsewhere since 9/11 without search warrants or indictments through the Equitable Sharing Program, totaling more than $2.5 billion.*

ALTERING YOUR BEHAVIOR

The effect of excessive money creation has been compared to the liquid sloshing around in a giant punch bowl.

And since interest rates are so low, investors must take on more risk in the search get greater returns. Across the globe, this new money – in an uncontrolled manner – seeks out profitable venues for growth.

A great deal of the central bank-created paper/digital money thus ends up chasing finite amounts of art, real estate, collectibles, or financial assets like stocks or bonds. This has sparked the latest stock market bull runs in one country or another, leading to new and unsustainable bubbles.

Afterwards, the supposedly most-connected person on the planet – the U.S. Federal Reserve Chairman – always seems to be surprised.

THE WAR AGAINST CASH

While investors are chased into higher risk assets in search of yield, we are witness to a simultaneous "war on cash."
Governments around the globe have lowered the amount of cash a person can withdraw without attracting the attention of authorities, who snoop on you to make extra sure you aren't dealing drugs or selling weapons to terrorists. France, Sweden, Denmark, Israel are just the most recent to have announced this change.

With the formation of groups like the Orwellian "Better Than Cash Alliance," plans are underway to eliminate cash altogether and leave the public with little choice but to keep all their money in a digital account. While using only electronic money may seem to be more "efficient," it makes it possible for authorities to track all of your financial dealings AND even allow banks to impose a Negative Interest Rate Policy (NIRP) upon you.

Without measures to prevent block them, account holders with cash balances might choose to withdraw and hoard paper currency. That would be the simplest way to escape negative interest rates.

But with funds trapped inside of bank accounts, bankers could simply deduct the negative rate charge from each customer's balance. (Question: Would not such "digital cash balance robbery" be just a modernized version of what Willie Sutton was doing back in the day?)

TARGETING YOU FOR OUTRIGHT THEFT THROUGH NIRP OR ASSET FORFEITURE

And then there are the rising abuses of Civil Asset Forfeiture. If you're stopped on the road and have a few thousand dollars on you – no matter that you might be going to buy a used car or plan to make some purchases during an extended vacation… the police can easily deprive you of the cash, without even charging you with a crime.

In recent years, Civil Asset Forfeitures have reached the scale of billions of dollars. And police departments come to depend on this tempting "revenue stream," creating the perverse incentive to seize even more.

Following a lengthy investigation last year, The Washington Post reported,

"There have been 61,998 cash seizures made on highways and elsewhere since 9/11 without search warrants or indictments through the Equitable Sharing Program, totaling more than $2.5 billion. State and local authorities kept more than $1.7 billion of that while Justice, Homeland Security and other federal agencies received $800 million. Half of the seizures were below $8,800."

"Monetary thinkers" feel things would be so much more efficient -- for the government -- if we all went totally to digital accounts. No need to carry cash around or pay bills by mail. The authorities will know exactly how much money you have and what you spend it on, placing your balance under their control at the press of a button.

Coming Soon to a location near you?

The legend of the Greek craftsman Daedalus is relevant today. He learned how to fly and taught his son Icarus – cautioning him not to get too close to the sun at the risk of melting the wax on his wings.

Immensely powerful central bankers believe that they can safely "fly high" with their monetary policies. But like Icarus, who flew too close to the sun and plunged from the sky when his contraption fell apart, so too do our monetary authorities run the risk of similar demise – and taking the rest of us down with them.

FINANCIAL REPRESSION HAS ONE LOGICAL OUTCOME…

In a recent article at *mining.com*, David Levenstein really nails it, saying:

"Financial repression has long been a driver of demand for physical precious metals. This demand will accelerate as measures become more draconian. Some bank customers… will decide that bullion is a better option than sitting on piles of depreciating paper currency or paying banks to hold deposits... Historically, only gold and silver have been trusted private stores of value as well as a hedge against political, financial, and economic turmoil. In such an insane environment, gold and silver will become the only real trusted alternative to fiat currencies. And, as more new capital flows into physical bullion, its price will soar."

Got gold? Got silver? Got common sense?

Disclaimer: *David Smith is Senior Analyst for TheMorganReport.com and is a regular contributor to MoneyMetals.com. For the last 15 years, he has investigated precious metals mines and exploration sites in Argentina, Chile, Mexico, China, Canada, and the U.S. and shared his findings and investment wisdom with readers, radio listeners, and audiences at North American investment conferences.*

Ferrosilicon produce with our quartzite Langis deposit in Mintek south Africa

STEEL FRONTIER

FERROSILICON PRODUCER POISED TO ENTER STEEL ALLOY MARKET

By Christian Vakenti

A Quebec-based mining company is poised to become the next ferrosilicon producer in North America.

Canadian Metals Inc. (CME) is focused exclusively on the development of its Langis Project, a high-purity silica deposit located in the province of Quebec.

Until recently, ferrosilicon was a mineral that was primarily mined in China. Due to a partnership with South Africa's MINTEK, Canadian Metals has completed the first step in a rapid journey, where proof-of-concept has already been established and commercial production comes next.

This is good news for the Canadian junior, which plans on entering the market for steel additives soon, at a time when steel production is expected to increase in North America.

Having tested the process of producing ferrosilicon from the quartzite sand that can be found at Langis in abundance, the Quebec firm is now engaged in its next phase: conducting a Preliminary Economic Study (PEA) on a commercial facility.

> *"The interesting thing about CME is the seemingly unique corner of the North American market it will soon be able to carve out for itself. By proving this important steel additive can be successfully mined here, and in abundance, CME finds itself in a very pretty position: holder of a vital resource, with no known competitors in it's region."*

As the company actively explores Langis, results from a drilling campaign begun in May of this year will feed into the PEA study, adding solid numbers into the equations. Drilling is scheduled to take place over a large area of highly concentrated sandstone, rich in silicon, as indicated by government mapping and in part from previous drilling campaigns.

Ferro silicon (FeSi) is an atomized alloy, used as an essential alloy in the production of steel and cast iron. It is formed by combining iron and silicon with a silicon content range of 15% to 90%. A universal "heat-blocker" used in the production of carbon and stainless steels, this additive is used with other ferro alloys to remove oxygen from steel and as alloying element to improve the final quality of the steel.

It can also be the basis for manufacture of pre-alloys like magnesium ferro silicon (FeSiMg), used for modification of melted malleable iron. Used in this manner for the production of cast iron, it can accelerate graphitisation.

Ferro silicon replaces the need for ferro manganese, spiegeleisen and calcium silicides in the manufacturing process.

Main markets for FeSi are the worldwide producers of alloyed, stainless and carbon steel. Used mainly as a master alloy during iron- and steel-making, the production of one tonne of steel consumes four to five kilograms of FeSi.

As an alloying element it also improves the electrical and mechanical properties of steel along with corrosion resistance. One of the fastest growing categories within steel-making is the stainless sector, in both flat and long products. Stainless steel has a specific consumption of FeSi ***five to ten times higher than regular carbon steel***. One tonne of stainless steel needs approximately ***twenty kilograms*** of FeSi.

At the end of this July, CME had just announced a first tranche closing of a private placement in the form of convertible debentures, amounting to some $700,000. This sizable fund will be used to carry out the PEA on the Langis project and for working capital purposes.

The convertible debentures mature three years from the closing date and bear interest at a rate of 10% per annum, payable in equal semi-annual installments on June 30th and December 31st, commencing December 31st, 2015. At the option of the Corporation, interest shall be payable in cash or in shares for the first year. For year 2 and 3, interest shall be payable in cash only. If the payment is made in shares, it will be based on a price equal to 85% of the average closing price of the Common Shares of CME for a period of 20 consecutive trading days ending five trading days before the payment date.

> *One of the fastest growing categories within steel-making is the stainless sector, in both flat and long products*

The interesting thing about CME is the seemingly unique corner of the North American market it will soon be able to carve out for itself. By proving this important steel additive can be successfully mined here, and in abundance, CME finds itself in a very pretty position: holder of a vital resource, with no known competitors in it's region.

As the steel market looks to take an upswing and with prices strengthening, Canadian Metals, Inc. is poised to enter the new steel frontier not only at the head of the pack, but for the foreseeable future, as the only North American vendor of note.

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Brent Cook's
Exploration Insights
Turning Rocks Into Money

EXPLORATION INSIGHTS

But then metal prices began to decline, economies slow, and profits slip away.

What went wrong this time Dad? Will mining boom again?

Don't hold your breath kid. It's bleak out there and we have a 10-year super commodity bull to work off this time.

I think what ultimately killed the recent boom was the slow realization by investors that most mining companies really couldn't make money. Those savvy investors got the commodity boom and gold price right, and bought into the thesis that mining companies' profits would soar with the rising metal prices. The share prices did soar, for a while, but. . .

By Brent Cook

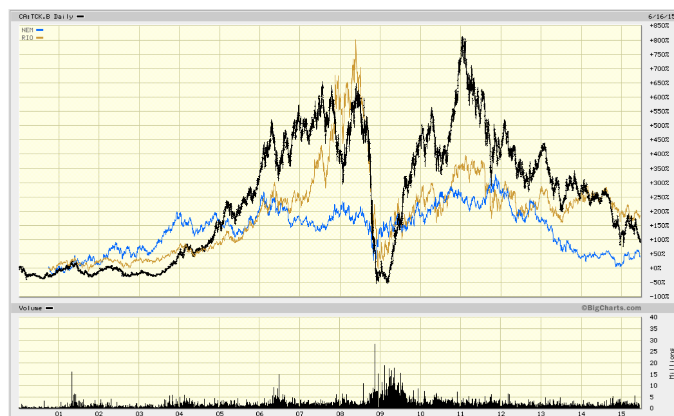
Instead of profits they got production costs rising in tandem with metal prices; capex blowouts; companies issuing equity and taking on debt whenever they could to cover the multitude of stupid acquisitions (supported by dubious, but 43-101 sanctioned, technical reports and financial projections) all piled on top of an eat-what-you-kill banking/brokerage community fronted by inexperienced or compromised analysts faced with the tall task of feeding the global frenzy of very short-term hedge fund gamblers with no skin in the game, trading stocks based on microsecond blips up until the shine wore off and, well, here we are today—busted again.

Of course on the junior side, they always soar higher and crash harder—the junior gold index (GDXJ) is down about 85% from its high in early 2011. Ouch.

The allure of a pot of gold at the end of the rainbow, and the sense of greed that instant riches inflame is very powerful and primal. It's easy to overlook the fact that the overall odds of finding an economic mineral deposit are extremely low, as I've said many times before. That one-in-a-thousand shot at an easy score led investors (large and small) into overfunding more than 3,000 exploration companies to the tune of billions of dollars, chasing that pot of gold. As in all booms, expectations and blind faith overshot an otherwise obvious reality—gold doesn't sell for $1,200 an ounce because it's easy to find.

We know that legitimate large discoveries (meaning ones that are probably economic) have declined significantly over the past 10 years--still, there have been successes. Problem is, when you spread those limited successes over the 3,000-odd companies exploring tens of thousands of prospects through the 10-year bull market, one's optimism fades.
And fade it has.

Volume (liquidity) in junior mining stocks has collapsed: the action is elsewhere for gamblers chasing a ten bagger. Proof comes via a recent screen by Ian Cassel of ten baggers over the past five years on the US and Canadian exchanges, which turned up 120 companies. On that list were only three mining related equities: Reservoir Minerals (RMC.V), Abitibi Royalties (RZZ.V), and Dynacor (DYN.V). No wonder the miners' gambling hall is empty, kid.



(Share prices Teck [black], Rio Tinto [brown] and Newmont [blue], 2000 to June 2015)

I think the reality has finally set in that around 90% of the juniors will never find anything of value. Further, that even when successful maybe half the deposits are sidelined by
1) metallurgical problems,
2) geotechnical issues,
3) capital costs,
4) jurisdictional/political realities, or
5) metal prices. We can't seem to win even if we win.

BUT HASN'T THIS ALWAYS BEEN THE CASE?
Not so much. At the start of the 2002 boom and throughout the previous ones, most of these issues didn't surface so early in a discovery's history. Today we are unfortunately much better informed. We have instant access via Google and 43-101 technical reports to a project's past failures and a promoter's questionable history, plus unregulated bloggers and virtual chat rooms that allow anyone (informed or not) to expound and rant at will. The classic quote, generally attributed to Mark Twain, that a mine is a "hole in the ground with a liar standing on top of it" is so much easier to prove nowadays that brokers, promoters, and liars are all at a serious disadvantage compared to their mentors.

Add to those promotional problems the very real fact that it is flat-out getting harder and harder to find new mineral deposits. The recent booms coincided with an era in which much of the world was just opening up to modern exploration techniques. Satellite imagery and a search through historical records allowed geologists to walk on to outcropping mineralization or alteration that had never before been drilled.
Those days of an easy pump or outcropping orebody are, for the most part, gone.

Today we are usually looking under cover through barren rock for deposits that will be more expensive to drill test, develop, and mine. Additionally, it seems that whenever a discovery is made NGOs, politicians, and excitable locals turn up to either throttle or steal a project. (Ecuador, Venezuela, Argentina, El Salvador, Mongolia, China, Russia, Pakistan, Alaska, Zambia, South Africa, and Thailand come to mind.)

The discovery success rate will certainly continue to decline; and we are currently faced with slowing economies across the world, which translates to slower metal consumption, which translates into lower metal prices, which translates into less money coming into the sector. We are now experiencing another bust phase of the commodity cycle.
Is this worse than usual Dad? This is, like, getting really depressing.

HARD TO SAY.
As we discussed ealier, the 1997 bust was absolutely horrible. The 1987 crash came fast and furious; I spent the resultant bust taking hydrology classes and soil samples—not fun. The late '70s boom was killed when Volker took the Fed's target rate to 20%: the gold price collapsed, recession ensued, and, except for uranium, mining was dead yet again. Then the uranium price crashed too, just as it had done in the early 1960s after the US government stopped supporting the price.

But boy, that 1950's uranium boom was spectacular. Charlie Steen kicked it off when he found the Mi Vida mine near Moab, Utah in 1950. Your grandpa was out there roaming the desert with a case of beer, a box of dynamite, and a Geiger counter stuffed into the back of a Cadillac. At the height of the uranium boom, the Salt Lake City penny stock exchange traded more shares in a day than the NYSE. It was a promoter's dream, and millions were made and lost on rumors and tips from a small-time radio show host and some guy in a dirty Cadillac.

The early 1960's base metal mining boom was built on the back of the Kidd Creek discovery in Ontario, and broken by Viola MacMillian and the Windfall scam, which took the share price from $0.56 to $5.60 and back again. In Australia, the 60's mining boom (link) followed a short but severe recession, and came about due to a number of major discoveries (Kambalda, Mount Newman). This boom came crashing down in 1970 when Poseidon's nickel discovery, which had taken the share price from $0.80 to $280, turned out to be of minor value. In both cases, confidence in the mining and exploration markets went to zero, as did most of the previously highflying penny stocks. No one wanted any part of a liar standing over a hole in the ground anymore.

The cycles of boom and bust in the commodity markets goes back to at least the Bronze Age collapse (now that was a bust), and probably to the salt trade in 6000 BC. It's just the nature of things. Rising demand causes rising prices, which cause increased exploration, which results in more discoveries that go into production, causing oversupply and therefore declining metal prices, which are usually correlated with economic recessions, then decreased supply, which eventually results in rising prices (again).

So all you're really saying Dad is that this happens all the time and it's simply supply and demand that moves metal prices, and fear and greed the stock prices?

The same holds true for mining shares. Greed follows fear and vice versa. When everyone wants in there is no shortage of new paper and new stories, when everyone wants out, stocks go no bid.

Despite how bad it feels out there today, it could get worse. Metal prices are still at historically high levels and production cuts have been minimal--so far. Most mining companies have been chopping their sustaining costs and have managed to remain cash flow positive, at least at the operational level. The rapid drop in energy prices and near-global currency devaluations may have saved us from the final leg down-- or just put the inevitable off for a year or two. As for gold, it still faces a possible pounding as (if) the Fed begins increasing interest rates--and it's hard to see what could take it higher that hasn't already happened.

So yes, it could easily get worse and drag on for some time. There are still hundreds of zombie juniors that have to fade away, and a number of resource funds still in liquidation mode. There are no catalysts on the horizon to take the mining sector higher; and nearly everything I see says mining is dead. It is hard to imagine how things could look much worse, which is another way of saying this is how the bottom looks every time, before it eventually and slowly gets better.

Despite how bad it feels out there today, it could get worse. Metal prices are still at historically high levels and production cuts have been minimal--so far.

BUT WHEN?
I don't know when; I don't think anyone really does. It's the events that come out of left field--the black swans-- that usually seem to kick the resource sector into gear, and out. In my opinion, it will be the fact that we are not finding enough metal to replace what we are mining that puts the sector back in front of investors—but who knows.

So all you're really saying Dad is that this happens all the time and it's simply supply and demand that moves metal prices, and fear and greed the stock prices?
Yeah, I suppose that's about it, from 30,000'. It looks pretty dismal and scary out there in Mining Land, just like it did in 2000 and at the bottom of every previous bust. And like then, the hardest thing to do today is to put on your dust goggles and head into the abyss to buy another doomed junior mining company.
So don your goggles, we're going in--fortune favors the bold. . .
That's the way I see it.

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