Diefenbaker summer…

Despite a continued sense of ill ease about the US economy and financials sector, there has been limited support for gold and silver stories. There have been gains for the producers in line with the last several days of up tick for the yellow metal, but precious little of this is trickling down to smaller players. That can partly be attributed to the continued risk aversion, and could in part be “sell-in-May” syndrome settling in for another year. However, these would typically be seen across the juniors sector and there are some areas of real strength in usually hard to excite sub sectors. This is a generational phenomenon we have taken to calling the Diefenbaker Summer.

Some of you may relate Diefenbaker to a dog belonging to the lead character on the television comedy Due South. The namesake for that canine character was John Diefenbaker, a populist politician of the 1950s and ‘60s who has been the only Canadian Prime Minister to hail from the Saskatchewan. That prairie province is now booming on the back of record prices for grain, uranium and potash for which it is one of the world’s leading exporters. Added to that is, at least from an HRA perspective, the recent Goldsource coal discovery.

We are in the first boom market for these goods, and other bulk commodities like iron ore, since the high inflation period of the late ‘70s and early ‘80s. Price charts for these contract-sold commodities usually mirror Saskatchewan’s rather even prairie landscape. The enormous price jumps for them of late have pulled generation-old ideas out of cupboards, and these are getting funded by skyrocketing junior vehicles. The underlying supply shortages, based on a lack of both *developed* deposits and related infrastructure, are quite real. But it is still surprising to us just how quickly the speculative market has taken these sub sectors under its wing.

This move into goods measured in tonnes is taking up some of the funds that might usually make it into metals measured in grams. The sector’s hot money is more enchanted by a sniff of KCl (the makings of potash) at 2 km depth then on potential expansion of an already outlined surface gold deposit. Not ones to fight the tape, we are also reluctant to chase it overmuch. The balance to that is therefore including brief outlines of the two other juniors who look best positioned around the Goldsource coal discovery to add to this new resource. Both of these companies have had gains, but both continue to offer some sober upside potential to a play that has already quickly reaped large gains for HRA, as well as pre established plans B.

We may talk about a few other “bulk commodity” plays as the year lengthens. However, we do think it important to add one more historical footnote. John Diefenbaker became Prime Minister after one of Canada’s greatest landslide election victories, but his populism wore off of over his first term and he did not repeat that victory. Gold looks like it has finally begun trading with less reference to oil as moves by Asian governments to slash gas and diesel subsidies were finally joined by China overnight. If this continues, gold juniors will begin to get proper respect. Do be cautious of jumping on the bulk commodity bandwagon at the expense of companies with undervalued assets however. The wind can change quickly on the open prairie.

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King Coal

Goldsource Mines (GXS.V, off $2.00 at $13.80 on 404k shares) announced the receipt of its first 55 coal applications and was told another 179 will be approved and issued shortly. This will give GXS 1,430 km^2 to get busy on, and we expect there are other applications to come based on their ongoing (and still proprietary) interpretation of the area geology. As we predicted, Goldsource will start off with the seven holes they have existing permitting for, which will be completed in July and August. We do not expect that GXS (or perhaps anyone else in Saskatchewan) will get much other drilling done before freeze up. In any case, we're pretty sure the promoters circling the find will want to know Goldsource is not a "two hole wonder" before they bring in the rigs.

The news release on the permit issuance and summer program included a note about a target size of 2-4 billion tonnes. We think that might have got a few people's attention. It's a crazy number but you can infer a lot of tonnage with even a handful of carefully placed drill holes if you have a simple basin and seam thicknesses like GXS does.

Clearly, this stock is now a phenomena and following its own rules. We are not going to pretend it's cheap with a market value of $270 million but the fact we expect Goldsource to close a $15 million no-warrant placement with ease near current levels tells you this play is being taken very seriously. If, and it's still a BIG if, they do drill holes that indicate the tonnage they hope for the current price range would equate to a valuation of only $0.20 per tonne. A buyer would likely pay more than current value for even a measly billion tonnes if follow up testing continues to indicate good thermal grade coal.

GXS has had a big spike, which we suspect was aided by beleaguered short sellers screaming "uncle!" While that buying has tailed off, we've learned not to underestimate this stock, and let it ride at least until the drilling gets underway.

With that noted, and before we mention a couple of other coal stocks in the area, we want to repeat an important fact about area plays. They are always a game of "follow the leader". That means that, even if you take a fancy to one of the secondary names you <u>have</u> to follow the lead company (GXS) very closely when drilling begins. Given how visually obvious coal seams are and the enormous pressure GXS will be under to produce news, its likely there will be hole by hole visual reporting. That may cause some BIG price swings in area companies – particularly if a hole appears to cut off a basin in a particular direction. In short, you will need to be ready to turn on a dime and trade any of these stocks on short notice. They will not be buy and forget stocks and you should be planning to recover your funds as early in the drill program as possible.

We added one company from Bob Bishop's list to the HRA list at the SD level recently, thanks in part to its application for coal permits near GXS, on the Manitoba side of the border. We have added a slightly updated version of those comments below and added a third company to the list for the Saskatchewan coal play at the end of the section.

The addition from Bob's list **Bitterroot Resources (BTT-V, *up $0.11 at $0.63 on 950 k shares*)** has a gold project and a uranium project that will also generate news but the coal play is dominating the market action. We should add that we (well, Eric) made some tongue in cheek comments to local media about Mike Carr's lack of promotion skills. We've been friends with Mike for many years so he knows the comments were made in fun. Whatever his promotional approach is it appears to be working given the recent trading pattern which is what matters in the end.

The three coal permits Bitterroot is picking up in Manitoba are within the same geology as the

Goldsource discovery, and all have either rail links or existing road access crossing through them; the road accessibility on the two southern blocks should allow some drilling of this ground during fall if permitting can get done in time. BTT president Mike Carr does have a coal background, so these areas have been chosen as knowledgably as current understandings of the play allows.

One thing that distinguishes Manitoba from Saskatchewan is a significantly higher upfront entry cost in the former, largely refundable as work is done on the ground, which may explain in part why there has been less noise about applications there even though geological considerations would indicate this should be a cross boundary play. The relative lack of "rush" in Manitoba also means that permitting should be simpler since the government offices won't be overstressed as they are in Saskatchewan. Note however that the permit type, a 'quarry" permit in Manitoba's case, works a bit differently. BTT will go through the work permitting steps and will have the quarry permits approved once the work permitting is complete. This might make things look like they are moving more slowly than in Saskatchewan, but we think the odds are Bitterroot will have title and work permits in hand as soon as anyone in the play other than GXS itself.

Manitoba's mining culture, though more focused on hard-rock situations than soft-rock, is as strong as that in Saskatchewan and we see no reason at this point to favour applications in Saskatchewan play over well considered applications next door. BTT's share price has moved less in percentage terms than most coal area players, which is another reason for some comfort in this case. Bitterroot continues to have value based on its other active projects.

The Bitterroot holding that is simplest to grasp is the Mineral Creek -Linda (very high-grade) gold joint venture on Vancouver Island. BTT's private partner is the operator and is starting to extract a bulk sample from the vein. The plan is to process 2-300 tonnes and be sure the sampling is working then scale up to complete the remainder more quickly. The larger 5,000 tonne bulk sample to be done here is on a vein segment that has returned up to 50 oz/ton in recent sampling. If all goes well, it could very quickly generate a strong cash position for the company. BTT has earned 50% of the project; mining of the first 2,500 tons will bring BTT's interest up to 75%. BTT has also begun a 4,000 metre drill program which will focus on the "Gap" zone near the Linda/Mineral Creek areas which has not previously been drill tested. If the bulk sample is a success exploration will work to defining larger ore blocks to mine later.

"Sample" or not, the hope here is that a program with further upfront costs in the $100,000s might actually generate enough gold to supply a one-off 8 figure ($10 million+) of top line revenue to BTT and outline a fairly simple route to further revenue generation. While we emphasize this is a test, we also have to say we would be surprised if this program did not generate sufficient revenue to at least pay for itself, and that is a rare enough occurrence on its own. We will have more to say on Mineral Creek as the program gets into operation and further exploration work is laid out. There should be some information on how the sampling is going and perhaps some early drill results by late next month.

The third leg Bitterroot is standing on, which sustained much of its market interest over the past few years, is the uranium exploration joint venture in Michigan on which Cameco Corp (CCO-T) is earning in. Last year's work indicated this new exploration district has the right parts without having generated results of ore quality. Some further targeting work is planned here before the drill actually starts turning, but the permitting may generate some more lift for the stock before that. Again we will have more to say on this work as targeting is completed.

We think the combination of the coal acquisitions in Manitoba and the gold projects in British Columbia will supersede the uranium exploration for the time being. Bitterroot has about $3 million in cash. Warrants and options exercise would bring in a further $5 million and add a further 8+ million shares to the current 58 million on issue. We think Bitterroot has a

much better underlying asset base and asset to valuation base then other players we have noted in the coal play other then GXS, and hence our decision to move it the HRA list and strengthen its outlook to ***Spec Buy for Coal Excitement and, hopefully, non-dilutive gold revenues.***
http://www.bitterrootresources.com/

The other obvious contender in the Saskatchewan coal sweepstakes, to us at least, is **Wescan Goldfields (WGF-V; *down $0.15 at $0.91 on 1.1 million shares*)** which surrounds GXS's main holdings. Wescan is a spin out of the gold assets formerly held by Shore Gold (SGF-T) and shares much of its management team. Shore is still Wescan's largest shareholder with 18% of WGF's 63 million shares. WGF has been working on high grade vein gold projects in northern Saskatchewan and has a uranium JV in the Athabasca Basin with Santoy Resources, but it's the coal play driving its market.

We consider it a good area player for a couple of reasons. One is that there are many existing connections between Westcan and Goldsource. Wescan's Chairman Ken McNeill was one of the vendors of Goldsorce's original diamond holdings and remains one of its largest shareholders. As we noted in the original GXS write up in the journal, the last placement that Goldsource completed nearly three years ago at $0.60 went largely to fans of the Saskatchewan diamond play like McNeill. We believe most of them stayed the course. Indeed, one of the reasons we started following Goldsource again below $2 was the belief that it would have a "home field advantage". Loyal Saskatchewan shareholders and insiders at GXS meant others who wanted in on the play would have to pay up in the market, and indeed they have.

With over 60 million shares out WGF clearly doesn't have a small float, but it does have the advantage of the same shareholder base. As GXS's very success makes it harder to trade WGF has been an obvious beneficiary for those who wanted to add to their stake in the play.

The associations help explain why WGF was the next company after Goldsource itself to announce the application for large number of coal permits. WGF has received "comfort letters" from the government of Saskatchewan for permits covering 2500 km^2 which surround the Goldsource holdings on the north, northwest and west sides. WGF has also applied for a number of permits that cover part of the eastern boundary of the GXS holdings across the Manitoba border.

WGF has first mover advantage, which will be significant if this does prove to be a "simple" basin. WGF is the most likely to have direct extensions.

WGF will need to raise some additional funds but with all of its options in the money it can get cash quickly if required. WGF has traded an average of a million shares a day since it announced its coal permit applications at an average just over $0.70. Raising cash is not likely to be an issue.

WGF's share price has shadowed that of Goldsource for the past month, and that pattern is likely to continue. As GXS reaches milestones like the closing of its placement and the start of drilling we expect WGF to trade in tandem. If GXS is successful, we expect WGF would add to its local shareholder base and the share float to shrink. ***As a lower cost proxy on the Goldsource success story we rate WGF as a Speculative buy.***
www.wescangoldfields.com

Updates...

Amanta (AMH-V; *flat on no trades at $0.165*) has picked up poly-metallic, but primarily copper, based ground in Laos. This landlocked country has been a successful hunting ground for copper prospectors, and we think this can be an acquisition that kicks off the company's market in due coarse. Plans to move the tungsten projects in Thailand to a low key operating status are also in motion. The frustration of a no volume market makes this a watching brief, but we do think either of these projects can, eventually, get the company on some radar screens. AMH has promised further detail on the Laotian project once it has signed the agreement next week.
http://www.amantaresources.com/

Bravo Gold (BVG-V; *off 1 cent on 98K at $0.30*) is now drill testing at its Woewodski project in coastal Alaska, and is gearing up for a drill start at the Homestake Ridge project in British Columbia. The hammering this stock has taken through the winter has pushed it far below its asset base. Either a precious metals rich discovery at the Woewodski massive sulphide project, or more simply an extension of the Homestake Ridge mineralization, could begin to reverse that. Some may have been disappointed that Teck did not claw back in at Homestake, but that will dissipate with growth in the deposit. Having taken profit once when the stock was flying high, we would now suggest averaging down in advance of reporting from this summer's work at what are now truly discount prices.
http://www.bravoventuregroup.com/

Constantine Minerals (CEM-V; *even on no trades at $0.45*) has begun its drill program at the Palmer copper-zinc-silver massive sulphides project in Alaska. The company is moving to spark some new interest, which can pay off with some solid drill results from Palmer. While we would obviously like to see more bids now, there has also not been a lot of selling pressure. With the caveat that the stock's volume risk persists, we are maintaining our speculative buy outlook ahead of reporting from Palmer. We note that, as a VMS target, Palmer could produce news, if not necessarily assays, fairly quickly.
http://www.constantinemetals.com/

Diamonds North (DDN-V; *off 6 cents on 372K at $1.08*) has had a busy week. Before the open on Monday it announced strong initial results from testing of its Tunerq nickel discovery, with a best result of 2.5% nickel over 9 metres plus copper and cobalt. While the testing was confined to the discovery area, the company is now proceeding with geophysics and will have a drill back on the nickel later this summer.

This was followed by some strong diamond counts from its Tuktu discovery, with a 552 kg sample returning 2,911 micro diamonds. As importantly, there were 2 stones on the +1.8 mm screen, and 2 and 39 respectively on the +0.8 and +0.6 mm screens, indicating that diamond size curve is shaping up as samples get larger. These RC drilling results are now being followed up with a pair of 20 tonne samples using core that answer definitively the question of how much diamond breakage there is with an RC rig as well as, hopefully, giving the first indication of how many viable gem sized stones the deposit contains.

Today DDN announced a $10 million placement of hard dollar units at $1.05 and flow-through units at $1.20. This will get the company through this year's work with a margin left over. Between nickel and diamond counts to come, we think DDN can finally get some traction for its discoveries. If you are going to own only one diamond exploration stock, this is very much the one to choose. Speculative buy outlook maintained.
http://www.diamondsnorthresources.com/

Linear Metals (LRM-T; up 1 *cent on 53K at $0.65*) just released further results from its Cobre Grande project in southern Mexico.

These included 46 metres of 1.14% & 22 g/t silver, and 32 metres of 0.86% copper & 68 g/t silver. These are in the of-interest category, given the make up of the deposit, but not quite grand enough to generate market interest under present conditions. Skarn deposits are variable in grade thickness, and it may simply be a matter of better outlining the resource potential here for a lift as copper becomes more popular again. It is just as likely however that results from one of the company's earlier phase projects, several of which we do like the look of, are more likely to spark interest. That or success from related Linear Gold from which LRM was spun, that we put back on a more active status last month. In the mean time, hold the stock for future developments.
http://www.linearmetals.com/

Majascor (MAJ-V; *off ½ cent on 105K at $0.12*) has acquired the uranium rights for De Beers Baker Lake project that is within the Thelon Basin in Canada's Nunavut Territory. This Canada's second uranium district, after the Athabasca Basin in Saskatchewan, and MAJ is picking up good ground. As with other projects in this district, historic work has located high-grade grab samples (up to 14% U3O8 in this case) and the exploration trick is to outline a scale potential. This project is about 30km south of the Kiggavik deposit where Areva is currently conducting feasibility studies.

The Thelon Basin does not have the developed infrastructure advantage of Athabasca, but it is regarded as highly prospective and a high-grade discovery here could get noticed by the market. With MAJ now in the district, there are three HRA uranium speculations. A discovery by any of them would likely help the others, at least temporarily. And MAJ is still very much part of the evolving uranium play in Quebec, which is of course another high-grade camp in the making.

After last year's strong trade in MAJ you should be holding 0 or low cost paper even if you have been re-accumulating the stock. For the moment we will maintain that accumulation outlook pending further outline of plans by the company.
http://www.majescor.com/

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Regards for now, David Coffin and Eric Coffin

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