HRA - *Special Delivery*

#332 – 27 April 2008

HRA - *Special to GMSR Subscribers*

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Turning Diamonds into Coal

A shift away from base and precious metals speculations has left in its wake an unusually strong interest in bulk tonnage mineral plays such as iron ore, agricultural additives like potash, and coal. These are the big box stores of the mining sector that do well during economic up ticks, but that in most cycles have scant impact on the junior mining sector. They typically are about the best use of infrastructure to supply a readily obvious and regional scale resource base. The last boom in bulk commodities was during Japan's rapid growth spurt, with most attempts early in this cycle to generate new output for China's growth spurt finding out that rising prices had not yet caught up with cost gains. This new demand has outstripped shipping infrastructure in Australia and Brazil for iron ore, and mining infrastructure in Canada for potash. Coal is largely a domestic product, with most of its exports coming from Australia. The Australian coal fields have been inundated by floods that have slowed mining considerably, but just as significantly coal shipments are subject to the same shortage of rail and port facilities that is hampering iron ore. That combination has tripled coal prices over the past year, which brings us to the return of an HRA diamond spec we had dropped due to the gemstone's slow motion appeal.

Fortunately its shareholders **Goldsource (GXS-V; up $1.19 on Friday on 1.8 mm shares to $1.97, and up $1.60 over three days on 3.8 mm shares)** appears to have turned diamond into coal during exploration for the sparklers in east central Saskatchewan. Two of the drill holes testing its Border project cut seams of black coal averaging 30 metres thickness and beginning just 80 metres below surface; the two drill holes are located 1500 metres apart, so the tonnage potential is already in place. Though coal is held in a separate tenure to diamond exploration projects, two of the GXS insiders have coal experience and the company has applied for the appropriate claims after they had looked at the core. The area is not known for its coal potential so this is a true discovery story that is fortuitously timed to a coal hungry market place. The project is within good power and transport infrastructure (near existing rail lines), which is as important as any other factor for this type of story. That said, the company is still waiting for initial analytical results needed to determine what sort of potential valuation the deposit might garner. Our best guess, or more correctly hope, would be something akin to the deposits in Wyoming of the same age that supply about 1/3 of US coal consumption despite having somewhat weaker thermal properties than eastern North America coal has, because the western coal is low in both sulphur and ash. Wyoming's coal is often blended with coal from eastern North America deposits so that the mix will meet emission standards at electricity generators.

Goldsource has had an incredible run in the past three trading days but the company is still valued below the potential indicated by the admittedly still scanty data on the coal find. GXS has only 17.7 million shares out and only 1.2 mm shares of dilution in options, so as Friday's trading evidenced there is little in the way of the stock moving higher if traders feel they have to own it. We could envisage a reasonable bottom line potential for the discovery using last year's benchmark pricing for thermal coal of around $50 per tonne, assuming that (importantly) in-fill drilling demonstrated a continuity of the deposit similar to the first two holes *and* that the deposit required little by way of extra processing for an operation with a reasonable scale. At current list pricing of closer to $150 per tonne for thermal coal, the deposit could be a very significant money spinner. Should the deposit include at least some added value material (coking coal for steel making commands about twice the price that thermal coal does), it could have a very good shot.

We caution that current coal pricing has to be viewed as peak pricing due to bottlenecks in the system and weather specific problems this year, but the real opportunity here is that what could become a new coal district has been discovered within good infrastructure, in a mining friendly jurisdiction that has a very low political risk profile. As importantly, Goldsource management includes both local gold mine operators and geologists with backgrounds in coal. The real boon provided by the high coal prices is that the discovery can get noticed and moved along judiciously. It could be a couple of weeks before there is proper analysis of the core and confirmation on tenure. Following that (assuming good news from the lab) comes planning to further drill it, but given a valuation of less then $40 million and a very good corporate structure, there is still a lot of upside room in this story. With the strong gains last week GXS looks short term overbought technically and we hope for some pull back in the stock price that could be viewed as a buying opportunity. Staged buying on weakness and trading to market conditions to get costs down ahead of more definitive results might be the best option at this point. We must caution however that that if there is a fly in this coal ointment by way of poor thermal or pollutant characteristics, the share price will fall as quickly as rose, even if further testing of the deposit were in the offing. It's a buyer beware situation but our outlook for GXS is speculative buy on weakness/ trade ahead of laboratory results for its Border coal discovery. http://www.goldsourcemines.com/

We've had a few emails about **Hathor Exploration (HAT-V, down 8 cents at $2.22 on 537k shares)** since they released more gamma counts from the remainder of the winter drill holes at the Roughrider zone. We held back mainly because we didn't view these results as changing our basic take on HAT, that it's a good spec at current levels. We're hoping to see more detailed maps and some interpretation of the zone which we believe the company is working on. With that in hand we can comment further which we intended to do in the next *Journal* but we still view Roughrider as an important discovery with legs. More detail from HAT and confirmation that the drills will in fact return soon after break up would settle things down until actual chemical results start to arrive. http://www.hathor.ca

Another company that put out major news last week was **Africo Resources (ARL-T, up 18 cents on 48,800 shares at $2.18)** which announced a proposed placement of 40 million units at $2.50 to a private entity ultimately controlled by Dan Gertler. Gertler is and Israeli businessman who is a major player in both cobalt and the DRC. He seems like the right guy for the job but current shareholders clearly aren't sure what to make of what amounts to a management takeover and represents a large amount of dilution. This deal effectively ends the court case (Gertler bought out the opposing party in those cases) which is good but we need to get a better idea of the big picture plan for Africo, and see the vote on the placement pass, before it's likely to impact the share price much. http://www.africoresources.com

We note that **Almaden Minerals (AMM-T; *up 9 cents on 7,400 at $2.35*)** has reported strong results from its Caballo Blanco gold joint venture in southern Mexico. Operator **Canadian Gold Hunter (CGH-V; off 4 cents on 187,100 at $1.41)** has announced an intersection of 94.5 metres at 2.1 g/t gold that follows up a previously reported 82 metres of 1.1 g/t gold in the Cerro la Paila (formerly Cerro la Cruz) target that has a geophysical expression of some 800 x 900 metres. Several other reported holes have similarly broad gold zones at lower grades in the 0.5 g/t range but with contained higher grade sections. Given the scale of the target there is scope here to outline a multi-million oz gold resource of the higher grade material that could potentially core a much larger low-grade bulk tonnage system. While the AMM market seemed to take little notice of the results, partner CGH is consolidating after a strong price gain on good volume since the announcement.

Given Canadian Gold Hunter is earning 70% of Caballo Blanco but is trading at only two-thirds the valuation of AMM (fully diluted, but before netting out cash), some further gain from CGH would be expected before a significant lift for Almaden were likely. In this sceptical market it may take a few more drill holes to solidify these results as a significant discovery, but this is a deposit model that does generate large deposits and CGH is a part of the Lundin Vancouver office that has created large wins for shareholders with exactly this type of situation. We would definitely hold on to an AMM position for further word on this program, and we

would look for an entry point into CGH on a speculative basis to more fully participate in the story if more holes like the last set are reported. We will have more to say on the project as further results are forthcoming.
AMM -http://www.almadenminerals.com/index.html. CGH - http://www.canadiangoldhunter.com/s/Home.asp

Regards for now – David Coffin and Eric Coffin

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