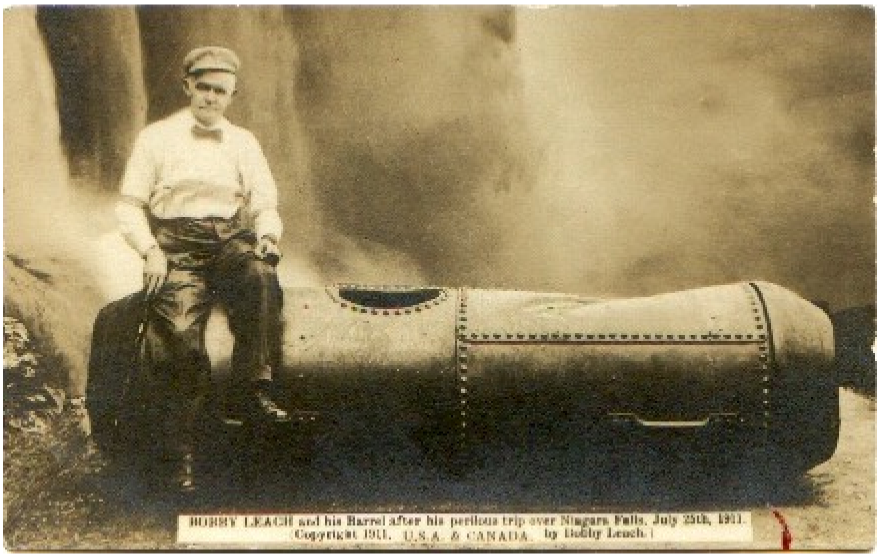
Greece – Armageddon or New Dawn

With the global financial markets watching tentatively to see if Greece finally goes over a metaphorical "Niagara in the barrel" I must confess to feeling a certain calm. As I have noted before I have been there done that when Argentina (a much larger economy) went into a spiraling devaluation (and corresponding inflation) in 2001. However none of this is particularly novel, just novel in recent years. In 1997 we had the simultaneous Asian and Russian crises. In 1994 we had the Tequila meltdown in 1994 which washed across the Latin markets.



Greece as an "Emerging" Market

One of the problems in recent years when Greece is that so many have been mistakenly talking of it as a "developed country". Just becoming a member of the Euro mechanism does not make one developed. If asking the question "what does Greece make?" brings back the response "olive oil" then you have there your answer. A small mono-culture nation with no great service industry (beyond tourism and ship-owning) combined with a reticence to develop mining and a rather arid climate, sounds like a developing country rather than a developed one. Greece anywhere else would be developing. Geography does not dictate how developed a country is…

Curing what Ails It

Starting with the premise that Greece is really a pseudo-developing country makes the economic doctor’s task in prescribing medicine all the easier. There is one cure for every illness that looks like Greece’s and it’s called devaluation. Frankly if Greece had not been in the Euro mechanism, it would have taken its lumps back in 2008 and be in the pink of economic health now.

Then how might this play out? The difficult thing is the “denial”. Denial results in a Greek central bank not having a vault overflowing with freshly minted drachma notes to start distributing on Devaluation Day +1. Somehow it will muddle through, bank notes can be flown in en masse. The populace will also start bringing back their flight capital to take advantage of the bargains on offer (Greeks are still Greeks after all!). It also helps that this all happens at the start of the summer tourist season when the country receives a surge of tourists loaded to the gills with their own currencies and disposed to spend them. That whole part of the Greek service sector will be able to operate in a multi-currency manner. Banks will probably have an extended holiday and may even be nationalized.

The mechanism for changing from one currency to another overnight is not that complex and not really unknown territory. Brazil shifted from Cruzeiros to Reais in the 1990s after having previously had Cruzados.. Argentina shifted from Pesos to Australes in the 1980s then back to Pesos in the 1990s.

It is worth recalling also that Greece has spent more than half the time since its independence in the 1820s in a state of default so whatever might shortly happen is a case of “been there done that”.

The Implications for Mining

To the surprise of many, Greece is Europe’s largest producer of bauxite, however to put that in perspective, the USGS report on Greece in 2012 put its share of global bauxite production at 1%. In the same report it was noted that Greece was the world’s second ranked producer of perlite after the United States and the world’s sixth ranked producer of pumice. It also was estimated to have produced about 9% of the world’s bentonite.

The bauxite producers were Delphi-Distomon S.A., Hellenic Mining Enterprises S.A., and S&B Industrial Minerals S.A. (S&B). All Greece’s major bauxite deposits are located in central Greece within the Parnassos-Ghiona geotectonic zone and on Evvoia Island. The leading bauxite producer was S&B, which had an output capacity of two million tpa exclusively from underground sites located in the areas of Amfissa and Distomon.

However, one percent of the global bauxite market does not really move the dial. Devaluation though would make the country’s production cheaper and maybe drive volumes higher.

When looking at gold it is interesting to go back to a Bloomberg article on the wave to come that said: “Gold mining is gathering momentum after Greece began what it called a “fast-track” approvals program. The Canadian and Australian companies said their projects will add about 425,000 ounces by 2016, worth $757 million at the Oct. 5 spot price, to the 16,000 ounces the country produced in 2011”. However an ominous sign was that the article began with a photo of TVX Gold’s abandoned its Olympias mine with the caption that TVX: “..repeatedly clashed with local government officials and courts and eventually abandoned Greece in 2003 after its permits for Olympias were declared illegal and annulled". That should have been a warning in itself. Curiously TVX Gold had been controlled by the fallen Brazilian billionaire, Eike Batista, whose travails in Colombia we wrote about recently.

In a way that history turns out to be rather circular, the Olympias asset ended up in European Goldfields and then Eldorado Gold (NYSE:EGO) took that over for $2.4bn only to now find.

Glory Resources Ltd. of Australia announced in 2012 that it had identified mineral resources at its Sapes gold project with a Joint Ore Reserves Committee (JORC) estimate of measured and indicated resources of 2.6 million metric tons (Mt) grading 9.8 grams per metric ton (g/t) gold. Then in October 2013, Eldorado moved on Glory also and took it over.

This means that Eldorado Gold theoretically has four projects on the go in Greece but the emphasis is on theoretically as opposition to mining has been fierce from vested interests. It is surely a symptom of the "Greek disease" that the country was so comfortable on the EU's handouts that it thought it had the luxury of rejecting some of the most carefully thought out environmentally sound mining projects on the planet on a mere whim.

Curiously, looking at Eldorado's portfolio of Greek properties it does not list the underground silver-lead-zinc Stratoni Mine located on the Chalkidiki Peninsula. Back in 2012 this was operating at a mining rate of about 18,000 metric tons per month of ore and produced lead, silver, and zinc concentrates. The Stratoni mineralization was classified as lead-silver-zinc carbonate replacement type mineralization, with galena, pyrite, and sphalerite as the main ore minerals. Resources at the Stratoni Mine were contained within the Mavres Petres ore body and had estimated proven and possible reserves of 1.8 Mt grading 8.5% zinc, 6.3% lead, and 177 g/t silver. The mine produced a lead-silver concentrate and a zinc concentrate by a conventional underground drift-and-fill method. The concentrates were shipped by sea to European facilities using either the Stratoni or the Thessaloniki port facilities. Clearly the overvalued Euro and high costs in Greece put paid to this operation which certainly looks sexy to us with its Lead-Zinc component.

Then looking at the gold projects the surprising thing is that Olympias (despite TVX having spent $250mn on developing the mine) is in a holding pattern and Eldorado’s focus is on Skouries. This is a high-grade gold-copper porphyry deposit also located in the Chalkidiki Peninsula in northern Greece.

The mine will operate in two phases. The initial phase consists of a small, open pit, with production expected in 2016. In the following phase, production will come from the underground. The project benefits from a simple metallurgical process and will produce a clean copper-gold concentrate via flotation as well as doré from a gravity circuit. The project was moving along nicely until March of this year when <<sigh>> the government revoked a permit required for the Skouries processing plant.

These travails are one of the reasons that Eldorado’s share price has been one of the least responsive to upward stimuli in the market in 2015.

The problems at Skouries can be linked back to erratic action from the new Left-wing Environment Minister. If devaluation and default come to pass then Syriza might also blow up or the government might see the light on the need to hunt under every stone for new sources of export earnings and economic growth. Not everyone can be an olive picker or a waiter.

Conclusion

My basic premise is that Greece falling out of the Euro zone will not be a disaster but a blessed relief for all concerned. Sure there will be ructions but better to get it over with. If previous experience in Argentina is anything to go by the Greek equities market will become a massive buying opposition on Devaluation Day +1… (excepting banks, which will be ravaged). Everything else will have a giddy surge. Other markets around Europe and globally will heave a sigh of relief and also rally.

The intriguing thing will be to see how fast drachmas start to circulate again… indeed, if they appear immediately then it will be a sign that the government always knew this was going to happen and had made a big stash of notes for the eventuality. After all how can Greece devalue against the Euro if it has nothing to devalue with?

On the mining front, well might we ask whether Greece will see the light on its less than warm reception offered to foreign miners. The amount that Greece will owe to creditor banks (particularly the ECB, IMF etc) will mean it will need to become an export generator (or at least a foreign currency earner) fast and with an "all hands to the pump" attitude, gold mining will seem like easy pickings. However the Greeks have shown in recent times that practicality is not one of their strong suits.

Colombia – the Heart of Darkness for Miners

It is said that second marriages are the triumph of hope over experience. Certainly exploration in Colombia (and Guyana) also fall into that category. Both were particularly egregious examples of collective mania that seized the Canadian mining community (no-one else fell for it) in the early part of the decade. I feel it is timely to do a post-mortem on this period and pick over some of the corpses to try and interpret what went wrong and whether it is worth pursuing mining in Colombia.

As we all know Bolivia and Venezuela are plastered with red flags (literally and figuratively) that make miners think twice and head in an opposite direction. As I have written before Bolivia is not actually all that bad. However more dangerous pitfalls are hidden ones. And the best-hidden pitfalls are generally the ones that come with the imprimatur of the US financial media and most particularly the Wall Street Journal. When that august pillar of journalistic respectability says a country has turned the corner then it has gold showered down upon it. The problem with the enthusiasm for Colombia at the "end" of its long-running civil (and drugs) war was that the gold showered down on Colombia and virtually none came out. The fabled Eldorado (who was supposedly in pre-Columbian Colombia) was a one-way street for investors and it ran in the wrong direction.

The declaration that it was "safe to go back into the water" and that the country was investor-friendly proved a powerful lure for hapless mining investors. Frankly Colombia has made the DRC look like mining heaven. Never has a supposedly friendly regime sabotaged directly (or through neglect) so many foreign owned mining projects in such a short time. The bleached bones of Canadian miners (figuratively speaking) litter the Colombian jungle.

How and what happened?

Hopes Raised then Dashed

After the brutal civil and cartel war started to abate over the last decade sentiments towards Colombia as an investment destination soared. Foreign direct investment in Colombia more than tripled to $7.2 billion in 2009 from $2.1 billion in 2002, when former President Alvaro Uribe took office with pledges to repel guerrilla forces, including the Revolutionary Armed Force of Colombia, or FARC. However it was only really after the Crash of 2008, that foreign miners started to kick the tyres on what many perceived to be the Great Undiscovered Gold province. Essentially an Eldorado in waiting.

My own participation in this sphere was early on when I was engaged in vetting of deals (i.e. due diligence) on some then unlisted Colombian mining assets. This was back in 2010. It was not a happy experience as I kept giving the thumbs-down to these proposals as they were all flawed in some way of another. I moved on and have eschewed the topic and place ever since.

My initial impression was not mistaken as the Colombian government’s failure to implement a clear project development road map has seriously hampered several significant projects, such as AngloGold Ashanti’s (NYSE: AU; JSE: ANG) Colosa project and Eco Oro Minerals’ (TSX: EOM) Angostura project. Other projects have seen drilling programs blocked because of restricted water access as in the case of Colombia Crest Gold (TSXV: CLB). Greystar became a by-word for disappointment and an adventure by Eike Batista into Colombian gold mining was one of the straws that broke his camel’s back.

After so many disappointments, is it any wonder investors have developed Colombiaphobia.

Gran Colombia

Gran Colombia Gold (TSX:GCM, OTCPK:TPRFF) is one of those rare beasts, a Latin American mining company mainly run by Latins. That undoubtedly has been helpful in navigating the by-ways of Colombian government but did not stop it from falling into a debt pit of its own creation.

Back in January the company announced that it has missed the interest payment due December 31, 2014, on its Senior Unsecured Silver-Linked Notes. As a result, the company defaulted on the debt as it had 10 days to cure the default and failed to make the payment. The company shortly thereafter also announced that it has not made the interest payment on its Gold-Linked Notes. The company engaged GMP Securities to assist in the evaluation of its various options.

Meanwhile on the production front the company anticipated production to increase to 150,000 ounces of gold production a year at sub-$950 all-in costs. In May it delivered on that promise with a reported $938 per oz AISC.

The problem back in January was the company’s hefty debt load of $167.9 million.

Despite making some payments and “only” losing $3.1mn in the first quarter (despite the lowered AISC) the stock price wallows at a mere fraction of where it has been in the last 12-months.

Greystar Morphs into Eco Oro

The dully-named Greystar was like the canary in the coalmine for Colombian gold wannabes with its problems giving the first warning signal that all was not well in the Land of Eldorado. The first sign of trouble came in March 2011, when the Colombian government rejected Greystar Resources' proposed $1 billion gold and silver mine, which lacked "viability" because of environmental concerns.

This sent this one-time market star (pardon the pun) into a share price descent more like that of an Acapulco cliff-diver. The company was totally blindsided and rushed to meet with regulators to discuss "alternative options" while withdrawing its permit applications for the Angostura deposit in northeastern Colombia.

The Angostura project is in a watershed area of Colombia and had "technical and environmental difficulties" (to put it mildly). Opponents of the Angostura project said it endangered water supplies to the nearby city of Bucaramanga. Greystar had the option of ending its development plans or redesigning the project which, it claimed at the time, might take one to two years.

The decision was a grievous blow to Greystar's efforts to start its first gold production and stem on-going losses. Greystar needed environmental approval by the end of June 2011 to start output in 2013. The company had said Angostura would produce about two million ounces of silver and 500,000 ounces of gold annually. The company, at that time, had a market capitalization of CAD$231.6 million.

Here we are four years later and the company has changed its name to Eco Oro Minerals (TSX: EOM) to leave behind its unhappy history and in standard Toronto form keeps announcing more ounces at Angostura. This seems to work with the cheap seats though as the stock has soared in recent times.

Ambitions have since been scaled back with a PEA being published with a reduction of the estimated average annual production to 269,000 oz AuEq, largely as a result of having to abandon the open-pit plan and shift to an underground mining format.

The project still appears to be alive and kicking but at least four years behind original planning and much diminished in expectations.

Eike Batista – Where Angels Fear to Tread

They say that as one window closes another one opens. This proved to be a bad pun and a bad proverb for Brazil's once-upon-a-time business superman, Eike Batista, when he dared to enter Colombia in February 2011 with his purchase of Ventana Gold ("ventana" is the Spanish for window, get it?) for around $1.43bn.

At the time Batista acquired an 80% interest in the company, through his resource conglomerate EBX Group, for $13.06 per share in cash. He had already owned 20%, accumulated through his 63X Master Fund. This also is a twisted tale as this agreed offer was at the same price Ventana initially rejected in November 2010, which prompted EBX to launch a hostile bid at a slightly lower price the next day. His goal was to get his hands on Ventana's flagship La Bodega project in Colombia.

If Batista had waited a few more months the Greystar debacle (and the gold price tumble from over $1,800) would have made Ventana a much, much cheaper buy. Indeed if he had even wanted to pursue a Colombian asset any more. For Ventana shareholders it was a lucky escape indeed.

The rest is history with the business empire of Batista blowing up quite spectacularly in late 2013. AUX (the vehicle holding La Bodega) was listed at that time as collateral for US$1.5 billion that EBX (Eike's main vehicle) owed Mubadala Development after the Abu Dhabi sovereign wealth fund converted a preferred equity investment into debt. As the whole matter has disappeared into the Latin American bankruptcy courts, La Bodega has dropped off the radar and its current ownership must be a matter of conjecture.

Conclusion

Colombia really needs to get its act together. The proof of the pudding is in the eating and the Colombian mining scene has been like thin gruel in recent years. Great promise and great geology have been overwhelmed by a government that cannot get out of its own way. Bathing in the adulation of the US press make give Colombian politicians a warm inner glow but it doesn't create jobs or boost GDP.

After so many years of national trauma it was not seen as politic to criticize the government when it was making headway against rebels. Things have moved on though and miners need to call a spade a spade and tell the government that mouthing pro-mining statements while blocking all and sundry is a quick way to scare off foreign investors. It’s time for the Colombian government to either embrace mining or to reject it and at least make its stance clear..