# Turkey – Treasure Chest or Lobster Trap?

In their heyday, one of the principles that the Rothschilds (supposedly) operated by was that the best time to invest was "when the blood was running in the streets". In more recent times the mantra has been cited by Mark Mobius, the guru/PM of Templeton as a measure for testing emerging markets for investability. By this criteria Turkey would certainly be a very attractive market for bottom-fishers these days. However for us, the "blood running in the streets" is less attractive if it is our own or that of mining executives, and thus investors should be careful what they wish for.

Multiple terrorist attacks in Turkey have made even walking through the airport or one of the major streets of Istanbul or Ankara an exercise in which one literally puts one's life at stake. This has been further compounded by the recent attempted coup in Turkey. In the wake of the failed military uprising has come a round of oppression that has sent all indicators of investability (or even moral acceptability) plunging, leaving a challenge for miners that are either established already with operating mines in the country or in the process of proving up mineral properties. From my own bitter experience of the country (running a gold explorer in Turkey for three years) the problems for foreigners doing business in the mining sector there have been brewing over a much longer period and predate the latest terrorist outrages and problematic coups. Turkey under the current regime is just "bad business".

**Treasure Chest?**

Turkey sits in the prime stretch of the Tethyan Belt that stretches from Pakistan, through Afghanistan, Iran, Turkey the Balkans and then arches up to become the Carpathian Mountains in central Europe. Along its way is strewn some of the most impressive base and specialty metals deposits on the planet, not to mention resources in precious metals. For obvious geopolitical reasons the “eastern end” of the belt became a no-go zone in recent decades, except for the truly intrepid, while the western end has been intensively mined in the past but fallen into relative quiescence in the post-Communist period as states morphed into EU territories with varying degrees of mining friendliness (or unfriendliness). Turkey sat in the middle as ostensibly a Western(ish) state with a perceived rule of law and much vaunted “open for business” attitude.

Turkey has been the scene for Western companies, in particular hunting for gold and, to a much lesser extent silver, some desultory hunting for base metals and almost no attention to its specialty metals. There was even a uranium hunt going on with a foreign company involved, looking to service Turkey’s nascent nuclear energy build-up.

**Lobster Trap?**

The trouble in paradise for miners began way before the political train was derailed. The old adage of “Looks like a Duck, Walks like a Duck and Quacks like a Duck, but not a Duck” held for Turkey and the 800lb gorilla of international mining. Newmont found out a decade ago that the duck could bite even if it didn’t have any of the other advertised qualities. The company held the most advanced gold project in the country, Ovacik, when it ran into “local opposition” that effectively blocked it from moving forward and ended up with Newmont selling out for a song to a local group. The local group went on to greater glory, listing with much fanfare and sharp elbows amongst international investment bankers. It peaked at around a $3bn market cap in a welter of enthusiasm that it was the “anointed” of the government in the gold mining space, a national champion. The wheels fell off that theory in recent years when the group fell out of political favour and was accused of being involved with the cleric who is currently getting the blame for the attempted coup. The group’s problems mounted. Say no more…

Many is the time that we have heard the claim about how foreigner-friendly the Turkish mining regime is. However, our own experience has been that the devil is in the details, to put it tactfully. Owners of mining concessions in Turkey may have once been able to stake them relatively cheaply but then they find themselves brutally milked for forestry licenses (even when there is nary a tree or bush on their properties). License and concession renewals, and the rigmarole involved, consumes enormous amounts of time and money to the detriment of actual exploration. For a junior miner the effect is somewhat like going to the bloodbank and forgetting to say “whoah”.

Then comes the *coup de grâce*. A project gets to the feasibility stage and has to get an Environmental Impact Assessment (a ÇED in the local parlance). This is when the fins start appearing in the water. Someone sidles up to the unsuspecting miner and tells them the news that that they hadn’t heard before that to get the ÇED they must take on a local partner – indeed a “secret” partner – and the secret partner will open all sorts of magical doors and, by the way, the secret partner is a free-carry.. A what?? Yes, the secret partner’s work is so valuable that he/she gets to have not 5% , not 10%, not 20% but up to 40% of the equity and will pay nothing for the privilege. Indeed the foreign miner should consider themselves favoured that the tailor to the Great & Good or the person who is a human hot water bottle to “Number One” has deigned to choose your humble project to be taken to the Most High. Indeed, it’s not just the foreign policy that is Neo-Ottoman in “modern-day” Turkey, it’s like the eunuchs in the Topkapi Palace are back in business.

This sets the scene for the naïve miner trying to wrap their brain around how they explain (lie?) to the auditors, regulators and shareholders as to how they are gifting 40% of the company to somebody that just appeared out of the fog of the *shisha* smoke in the bazaar. This naïve miner, in December 2013, when confronted with a demand for $1m to a certain minister and $800,000 to another minister (fortunately, and foolishly, laid out on a fax that the clueless intermediary left in our possession) fled to Istanbul airport, convened a board meeting the next day to repudiate attempts by those seeking *baksheesh* and reported the matter to the TSX. We suspect we were one of the very few to do so.

Like so many others we disappeared from the Turkish scene (making slightly more noise as we departed) but avoiding our own starring role in a personalized version of Midnight Express. Well may one ask of those that haven't departed as to what they had to do to get their ÇED. Don't expect a straight answer because there are laws on the books in Canada, the US and the UK that don't comprehend the existence of "secret" partners.

**Post-Coup**

Ever ones to put a positive spin on a situation, we are sure there are miners out there that probably say under their breath to investors that the coup was a good thing because it sank the Turkish lira and thus made costs "so much lower". The slight wrinkle in this theory is that "secret" partners like to deal in dollars and they aren't in the business of haggling or giving discounts no matter how hairy the political situation gets.

**Conclusion**

Regimes that start heading down the road towards totalitarianism rarely have a Road to Damascus and get back on the path to righteousness. Turkey is now on the slippery slide. The EU was prepared to tie itself in moral knots to accommodate the increasing repression of critics. The US was prepared to play along with a major NATO partner. Now that both have felt the fangs of the dog that bites the hand that feeds, the mood is souring rapidly. Even as we write the history books are being rewritten as to who lit the touchpaper on Syria and who sold arms to both sides in that war and then bought oil from both sides.

Is this a place that one wants to make a mining investment at this point? Sure the geology is great but frankly with Iran, its eastern neighbour in the Tethyan Belt, rising in the acceptability stakes as Turkey takes a dive, and knowing what we know about Turkey's "mining friendly" regime (take a rabies shot before you negotiate), who needs it? Financing money is starting to flow again but it is not, as yet, indiscriminate, and countries with coups, failed or otherwise, in their immediate past are going to be a tougher sell than ones where the regime is stable and trustworthy. With countries like Argentina and Iran coming in from the cold then who needs to be invested in a country that has yet to show an example of any Western miner having knocked the ball out of the field? Turkey will still be around when all this passes. Better to await the coup that finally works out.

---

# Blue Jays, Lithium, Uranium and Pot

Back in April, the smart money picked the Washington Nationals to win the World Series, and with good reason, but as the season played out and Jonathon Papelbon reverted to old school choking, the Nats failed to make the post-season. No playoffs for you! The "experts" were wrong.

There were also pre-season picks like St. Louis and the Dodgers, who did in fact have very good seasons. The experts were right.

No one picked the Blue Jays to be a team verging on greatness. Mid-season changes and players having career-years propelled the organization to an expectedly giddy post-season. The experts couldn't have been expected to see that one coming.

Making calls on public companies is similar to picking teams in the pre-season. Some calls look easy, but they don't pan out. Others do. Some surprise everyone. And against that background we're going to re-visit some of our 2015 picks.

We started the year with Integra Gold – we call that one a win. Our first article of 2015 said Integra was a likely takeover target. It had just released its Preliminary Economic Analysis on its Lamaque properties in Quebec, form which we observed, "…Integra cut its cash needs, reduced the lead time to production by 25%, crammed down its all-in sustaining costs and provided visibility on the key metrics for success. They significantly de-risked the company and as a result made it very attractive to larger companies with stronger balance sheets."

In August, 2015 Eldorado Gold Corporation ("Eldorado") invested $14.6 million into Integra by way of a non-brokered private placement of common shares, resulting in Eldorado holding 15% of Integra's voting common shares. In a widely held company like Integra (and despite it being under the 20% threshold), that gives Eldorado control.

Integra continues to report strong results and is running a $1M Gold Rush challenge aimed at crowd-sourcing brainpower to find the next gold prospect on its property. We expect more good news from Integra over the next several months.

Copper Mountain Mining – unfortunately, we were right here, too. The full story of Copper Mountain's shame can be found here, and the links in that article can be tracked backwards to the sorry beginning.

In July we called it a "slow-motion disaster movie". We have been highly critical of the board and management, not only for the poor operational results but mainly for the non-compliance with disclosure obligations. Copper Mountain misled the market for over a decade, seriously harming the holders of the NSR on the property.

Copper Mountain continues to disappoint. From a year high of over $2.30 down to its current price of roughly $0.55 a share, CUM shows what leverage does to a producer on the way down. With copper treading around $2.40 a pound, it's unclear whether Copper Mountain will be able to continue as a viable operation. If it can hang on for another year or so, a supply-demand imbalance in copper might get leverage working upwards for the shareholders.

In April we looked at two companies exploring in Brazil. Since then, one (Cancana Resources – manganese) has established a strong path to success while the other (DNI Metals – graphite) is still trying to find a way.

Back then we said, "Cancana's business model is to start with the known knowns. Develop the known manganese fields, consolidate title to the local boulder fields, and bring processing into one central plant. This should result in short term revenue, high plant usage, low downtime, and higher margins. Combining this with organic growth through the drill bit (scheduled to commence in May, 2015), Cancana has the opportunity to supply the global steel market while maintaining its premium charges."

Cancana has delivered on these goals. It has expanded its footprint, reported good exploration results, made progress with mining engineers Ausenco on centralizing the processing, begun selling product, and increased efficiencies. We like this narrative and expect more positive news from Cancana over the next 18 months.

DNI Metals is still trying to execute on its business plan. It had a hard time closing on its announced private placement, and eventually had to change the terms of the offering to get the minimum amounts in the door. But close they did, and management deserves credit for that. They have put the funds to work in Brazil and in Madagascar. The stock has drifted down significantly from its opening and finance price – time will tell if management can deliver. DNI's season had a rough beginning but isn't over yet.

In a somewhat confusing move, DNI also recently announced it is acquiring a lab in the Greater Toronto Area to carry out testing and metallurgic work for itself and for third parties. We don't like this acquisition. A junior exploration company needs focus to survive, and this acquisition is an unneeded deviation from the business plan.

A company that is sticking to its business plan is Carube Copper, who is exploring assets in Jamaica. We've looked at them twice, once briefly and once in greater detail. We recently met with management for an update and are enthusiastic about its chances for success.

Carube, in addition to the Jamaican assets, holds the British Columbia gold-copper assets puppied out of Wallbridge Mining in 2010.

Carube has had considerable success staying on path. This is a strong deal with considerable upside offered by the assets themselves, the high quality management team and the partnership with OZ Mining, an Australian mining company with a billion dollar market cap. So far, Carube is having a good season and we expect that to continue.

Another company we looked at who has ties to a much larger company was Contagious Gaming. At the time Contagious was operationalizing its English gaming assets and earning revenue in North America from its software platforms. Since then, Contagious has announced two large deals, made a serious disclosure gaffe, and is generally a puzzling company. The board and management have not done a good job engaging the shareholder base, but closing on either of the large announced deals on accretive terms would be similar to the Blue Jays roster makeover halfway through the season. A failure to close on either deal would likely see the management team get demoted. Watch the news flow to judge management's success.

Also on the high tech front, in July we looked at Seair Inc. and its SWEET technology, aimed at oil / water separation in the oil patch. SWEET's passive technology creates microbubbles in the oil, which lowers the cost of operation. Seair can separate more oil at a lower cost than any competing process. Customer payback ranges from only 3 – 6 months, an astounding short period of time.

At that time we referred to Seair’s formal exclusive strategic partnership with Renewable Fluid Services (RFS), a U.S. based process and product development company. Seair will provide SWEET to RFS to use in RFS’ oil recovery process. This relationship has borne fruit. In late September Seair announced it had signed a confidentiality agreement with Petroleum Development Oman (PDO) with the intent to run a SWEET major field trial in a large polymer flood operation.

Seair’s new management team is clearly focussed on taking what had been benched technology and commercializing it. We expect more good news as SWEET undergoes more field trials.

Also in July we looked at the Fission – Denison proposed merger. At the time we liked the combined uranium portfolio of exploration and development properties, the cash flow from toll-milling at the Cigar Lake Mine and management fees from Uranium Participation Corporation, and the strength of the proposed leadership team. We also acknowledged weaknesses in the deal, which goes to Fission’s shareholders for approval next Wednesday, October 14.

Some of those shareholders are strongly opposed to the deal. At a town-hall style held by Fission in Toronto on Oct 6, those shareholders made their voice heard. It’s going to be a close call whether the deal is approved. Expect major consequences if the shareholders vote down the merger.

And speaking of voting, we’re still waiting on the Allard decision and on the federal election before we make any medium term call on the marijuana industry. The Conservatives have made their anti-marijuana stance very clear – if you have any financial interest in the Canadian cannabis industry then a vote for the BigC is a self-inflicted wound. Purely from a cannabis viewpoint, the best result would be a Liberal government with the NDP having enough seats to make a difference. Cast your ballot accordingly.

Last, we closed the season with a short piece that asked, given its poor energy density ratio, how did lithium become the metal of choice in the battery industry? How did this minor leaguer come to play in the big leagues? That simple question sparked an incredible amount of debate. My inbox was filled with conflicting commentary, opinions and science as to lithium’s properties when compared to other metals.

Lithium’s continued use by electric vehicles and power tool manufacturers could be increased by better technologies for extraction and processing (see our piece on Pure Energy), but is at risk by commercialized research that empowers other metals to economically take lithium’s place.

We will be moderating a panel at the Technology Metals conference in Toronto on Oct 13 and 14 at the King Edward Hotel. Chris Reed of Neometals Ltd. will lead a separate panel looking at lithium’s role and future – we intend to be there.

Play ball!