

Cambridge Toronto 2007

October 22, 2007

Presented by John Kaiser

The Race to Production and the Revival of Exploration Plays

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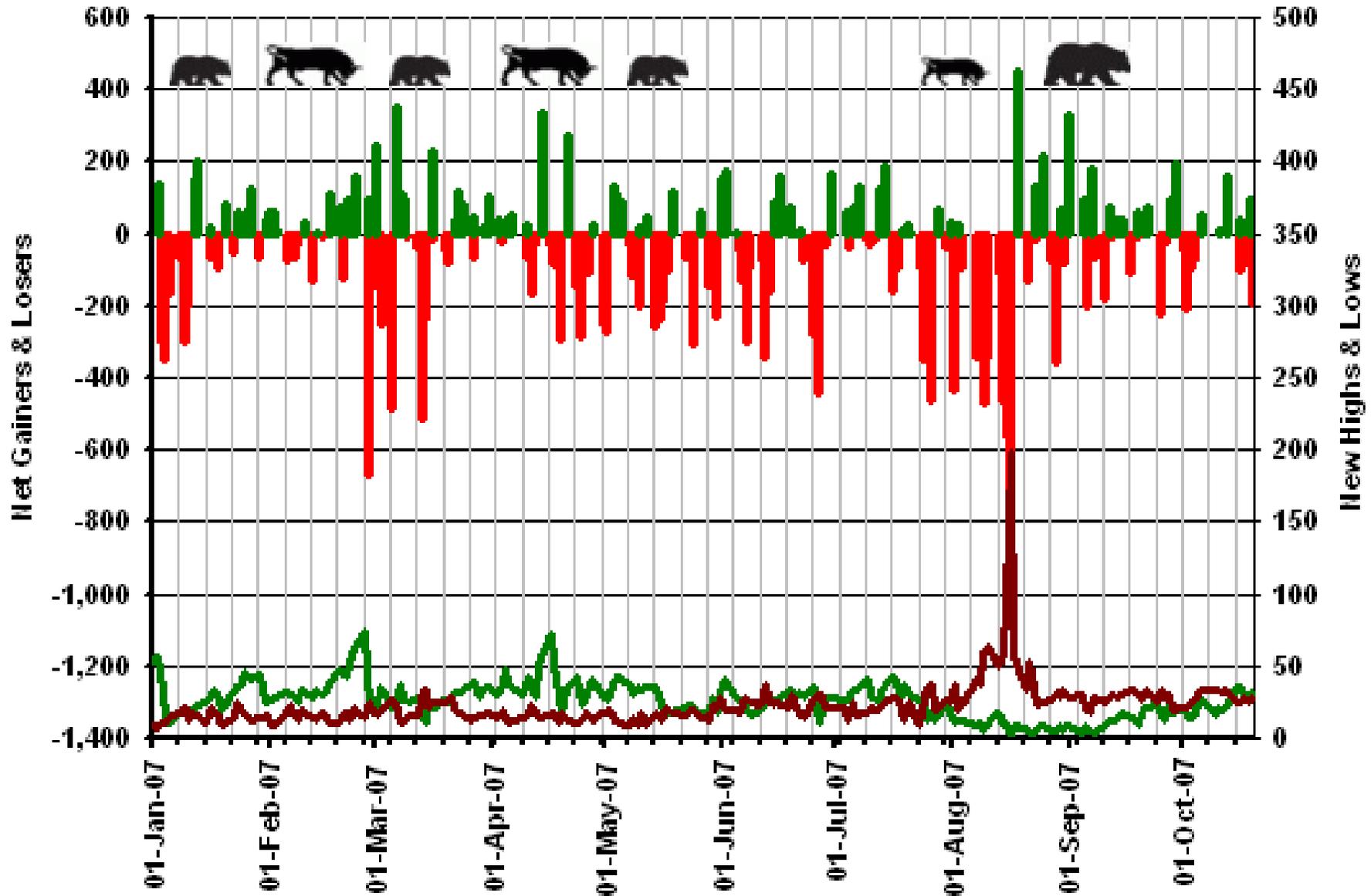
Daily TSXV Market Trends - Very Short Term



Net Gainers (green) & Losers (red) - bars

New Highs (green) vs New Lows (brown) - lines

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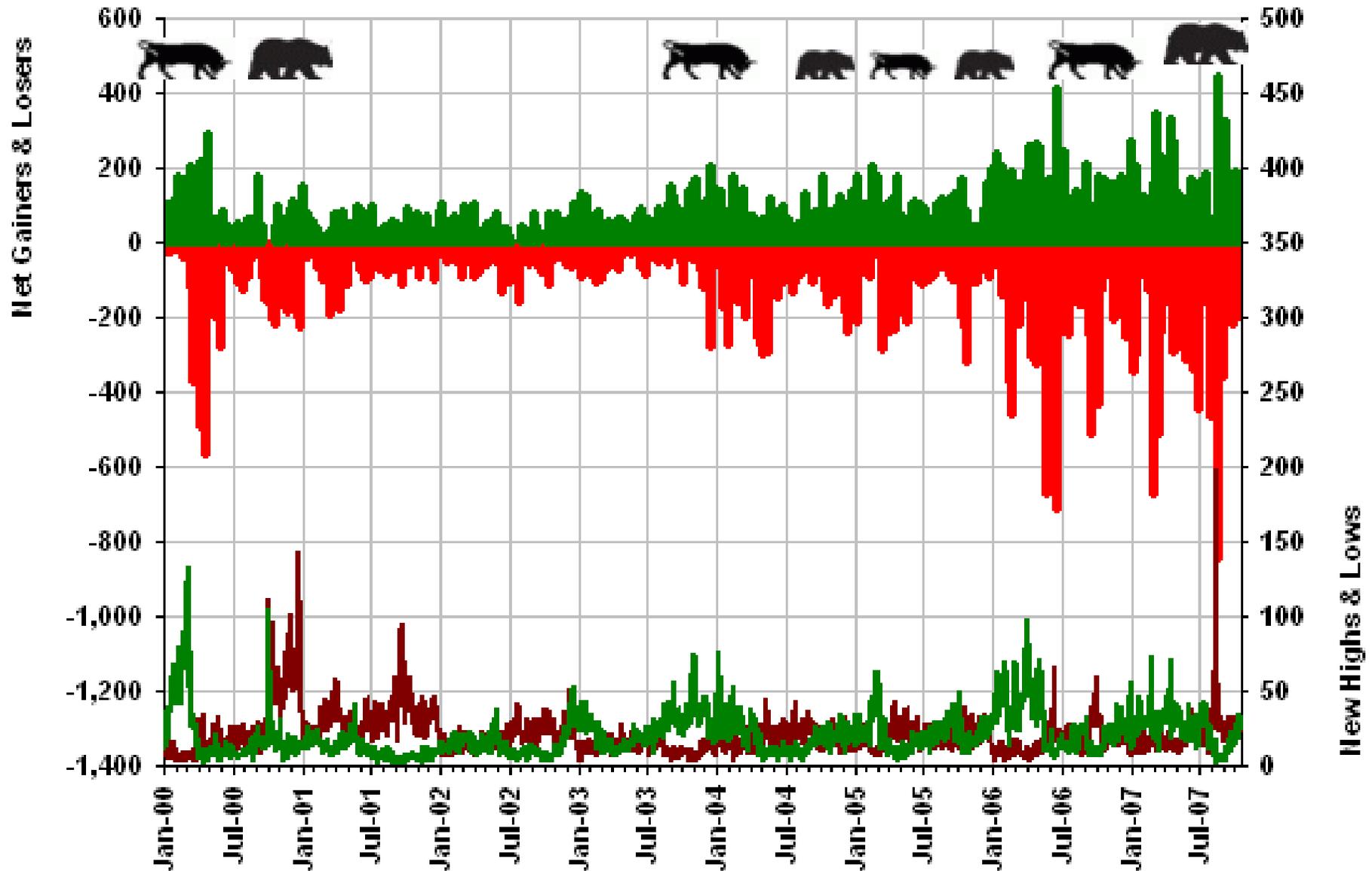


Daily TSXV Market Trends - Long Term



Cyclical Bears vs Structural Bulls

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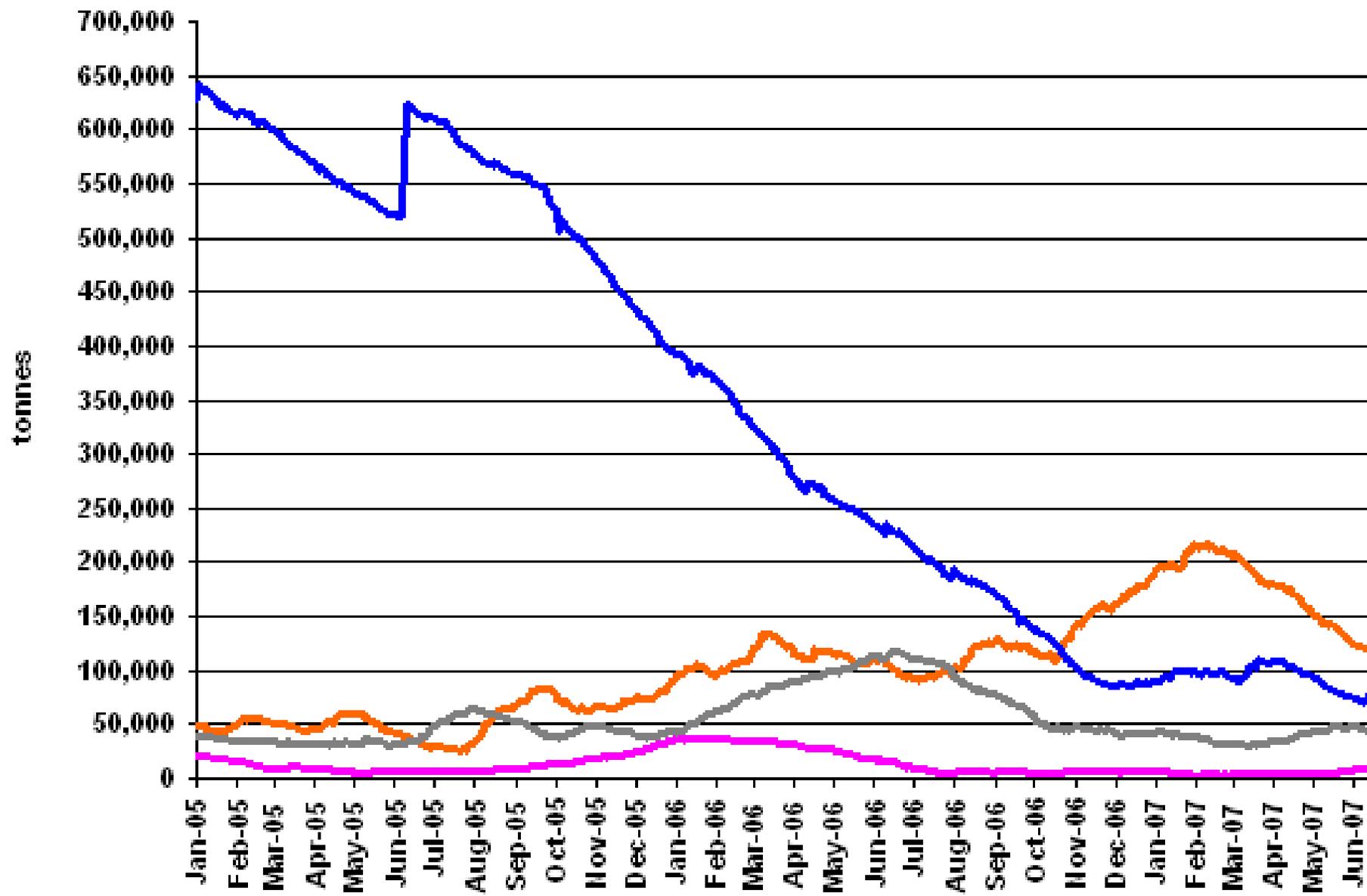


Ode to Veneroso

There's a man who sees a lot of danger
From metal stashed away in secret places
The metal boom is just a fabrication
That very soon will fall apart
Secret Warehouse Man, Secret Warehouse Man
Where do you get your scary data?

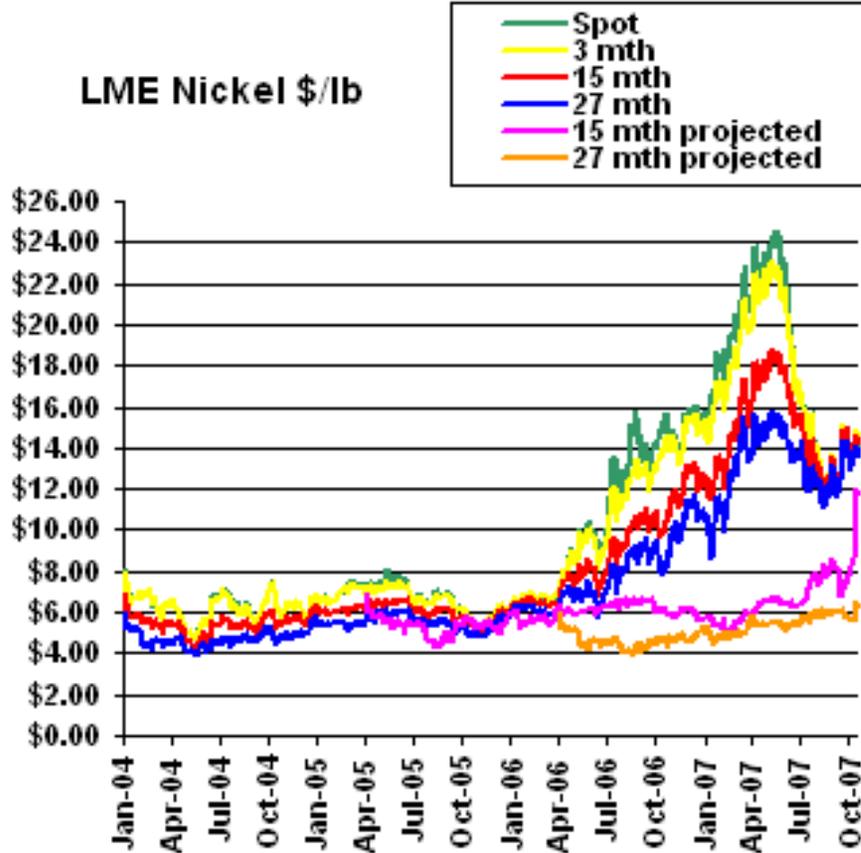
**Sung to the tune of Johnny Rivers'
"Secret Agent Man"**

LME Warehouse Stocks

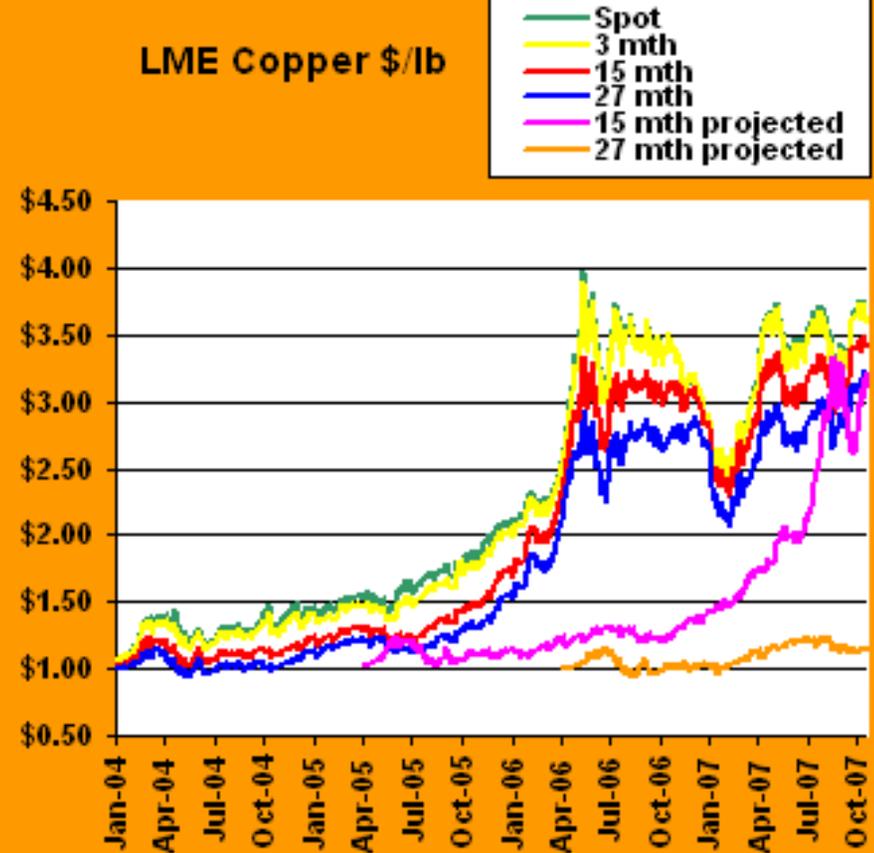


Cyclical Bears have enjoyed many small victories while continuing to lose the war with the Secular Bulls

LME Nickel \$/lb



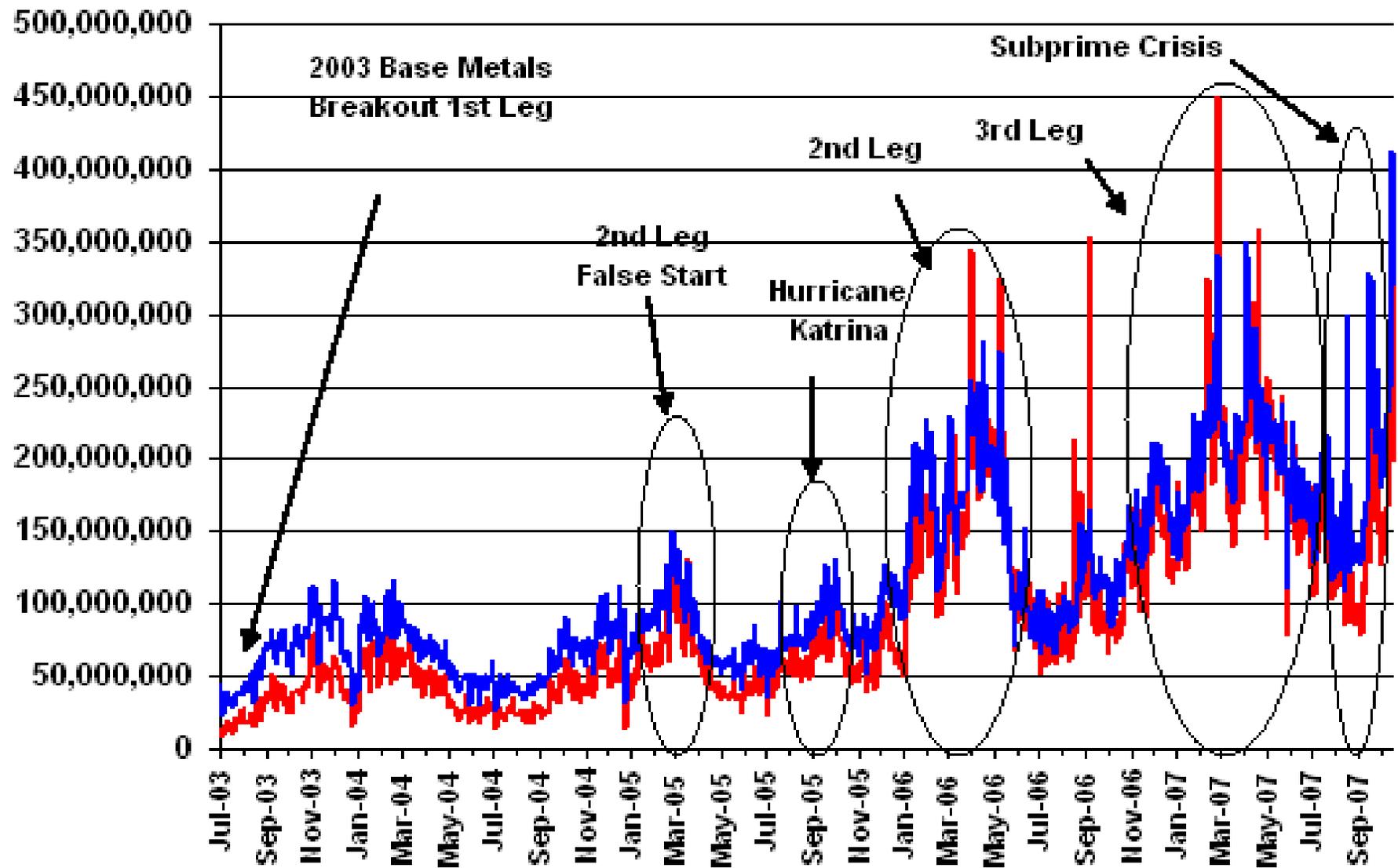
LME Copper \$/lb



Daily TSXV Volume & Value Traded



October 19, 2007



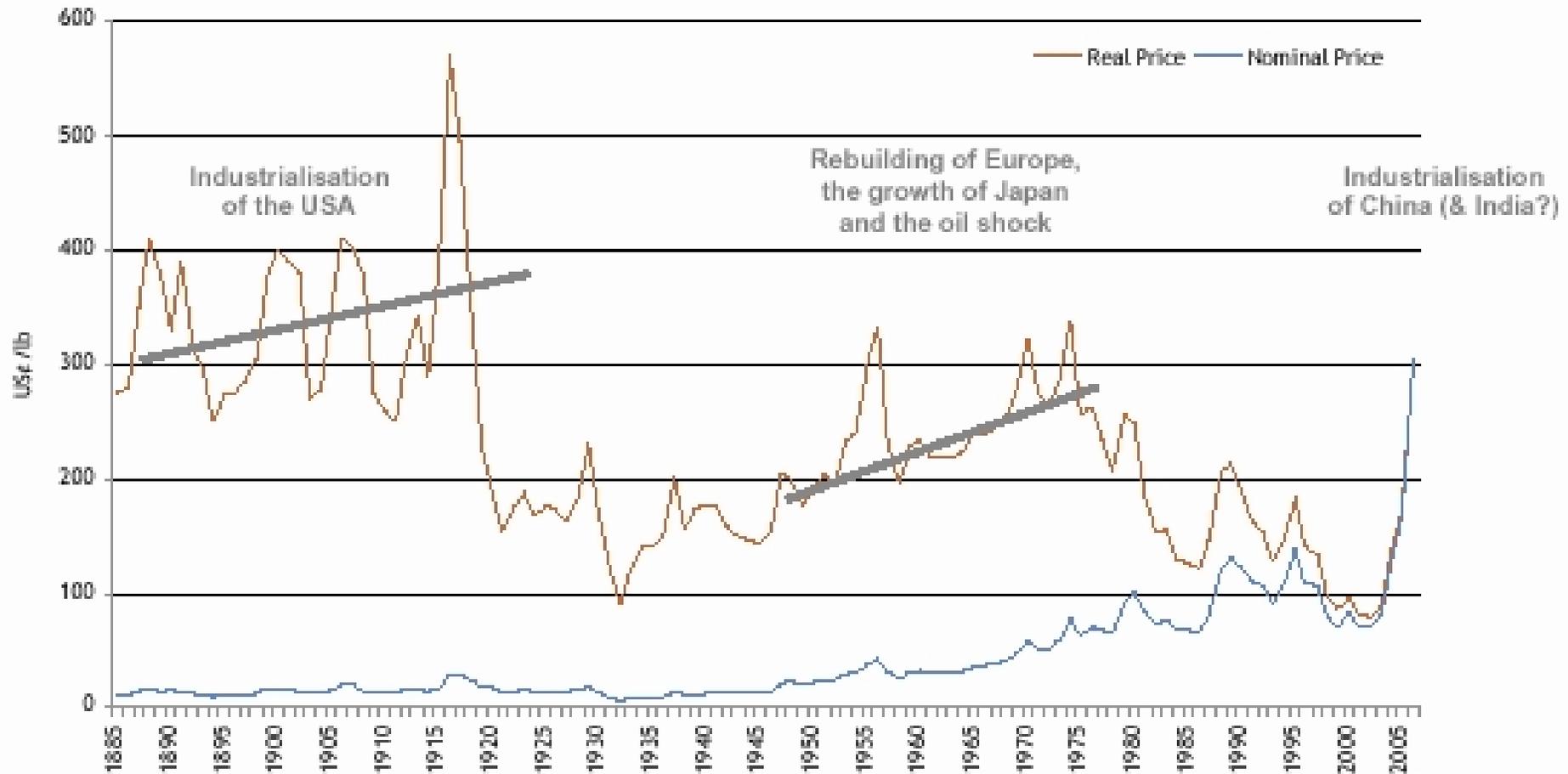
The Battleground

- **Cyclical Bears vs Secular Bulls**
- **The boom-bust nature of the commodity supply cycle**
- **Super Cycle and the Rise of Asia**
- **The China Price and the infrastructure boom**
- **Bankrolling the Rise of Asia through debt-fueled consumption**
- **End of the housing-real estate bubble and the emerging sub-prime debt problem**
- **China's \$1.2 trillion in foreign reserves, the trade deficit and the deindustrialization of the OECD**
- **Iraq and the decline of American empire**
- **If (when?) the music stops, will the global economy implode?**

Super Cycle or Business Cycle?

Copper prices since 1885

Source: Xstrata June 2007 Presentation



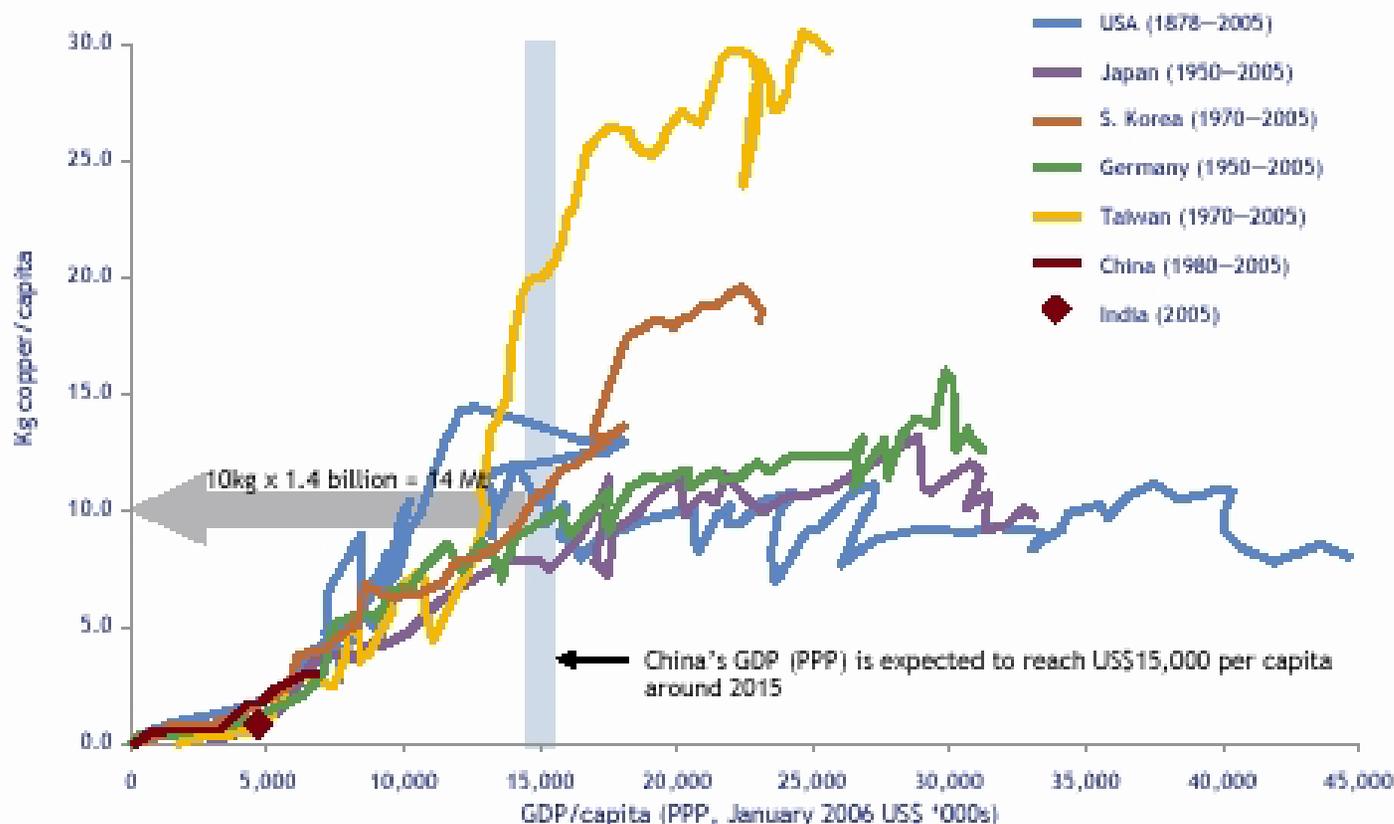
Price spikes can occur due to supply issues, but a true super-cycle is underpinned by demand

China-India Modernization: Scale Shift in Demand

Importance of the China Effect

xstrata

Copper intensity per capita



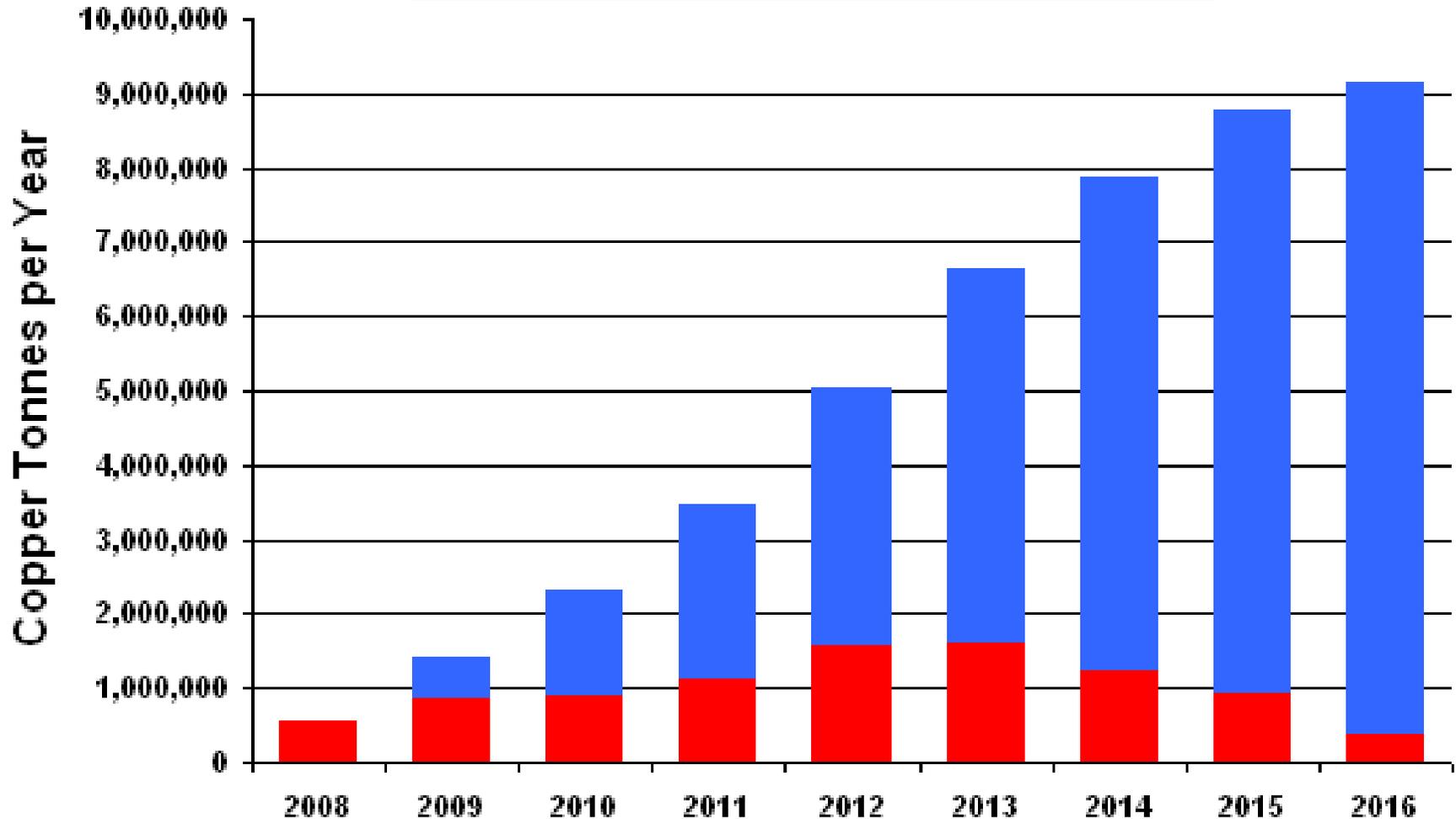
- If China's GDP achieves 2015 forecast it is likely to require an additional 9Mtpa of copper
- This means growing global copper production by over 50% to meet Chinese demand alone

Copper Supply Pipeline

- **Credit Suisse Report – Sept 14, 2007**
- **66 new projects in pipeline: 75% greenfield, 25% brownfield, \$66 billion Capex**
- **8 million tonnes new supply by 2015 on top of current 16 million tonnes**
- **Need 4.3% annual demand growth compared to 3.9% average since 1997 to absorb supply surge in 2011-2014, but deficit likely in 2008-2009**
- **If rest of world averages 1%, Chinese and Indian demand need to average 9%**
- **48% of new supply grades < 0.6% Cu**
- **Needs \$1.92 / lb long term copper for 15% IRR**
- **Zambia/Congo only 15% of new supply**
- **Chilean supply growth plateauing**

Projected New Copper Supply

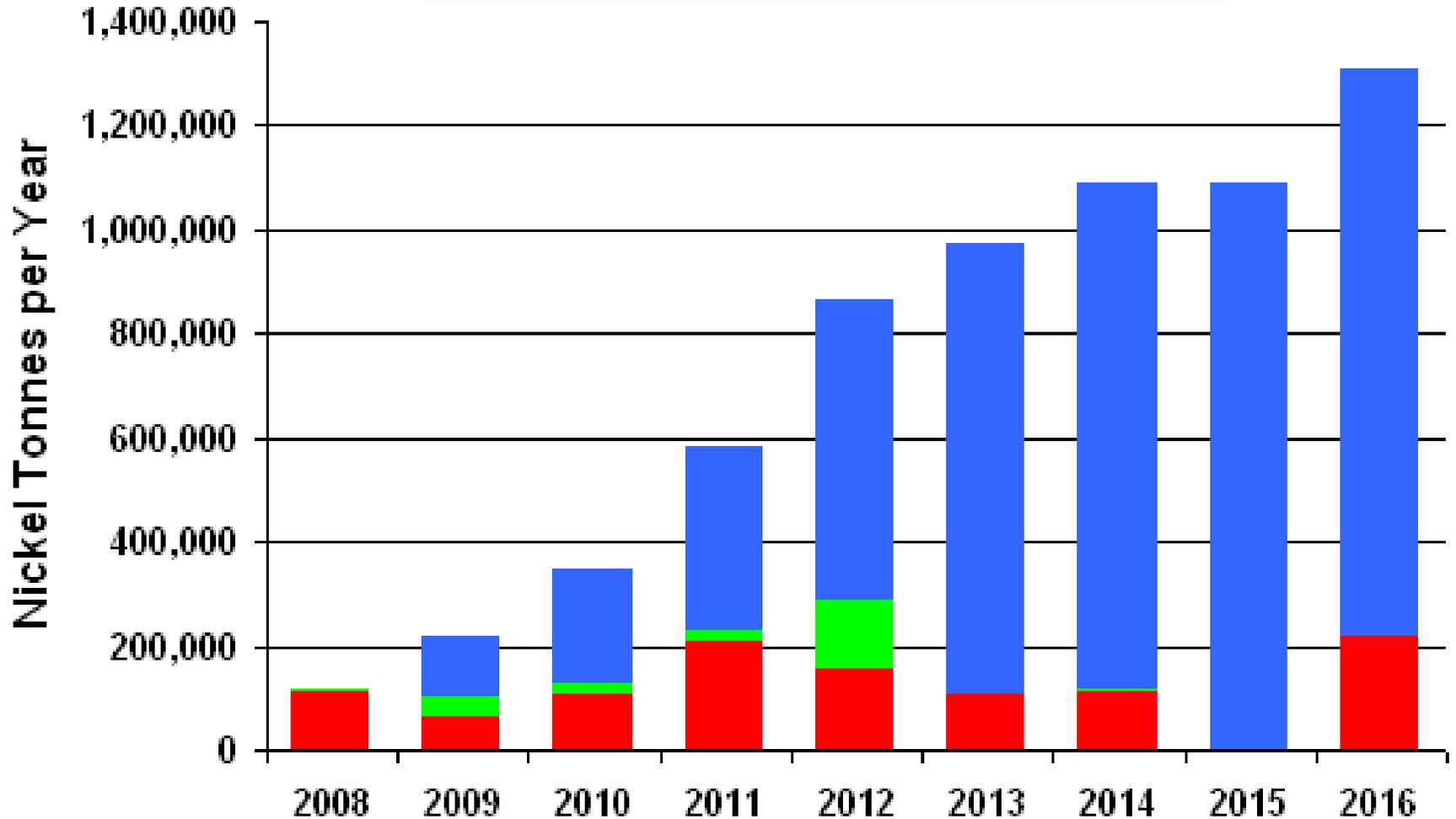
(2007 Estimated Supply: 16,800,000 tonnes)



Source: Credit Suisse September 2007

Projected New Nickel Supply

(2007 Estimated Supply: 1,600,000 tonnes)

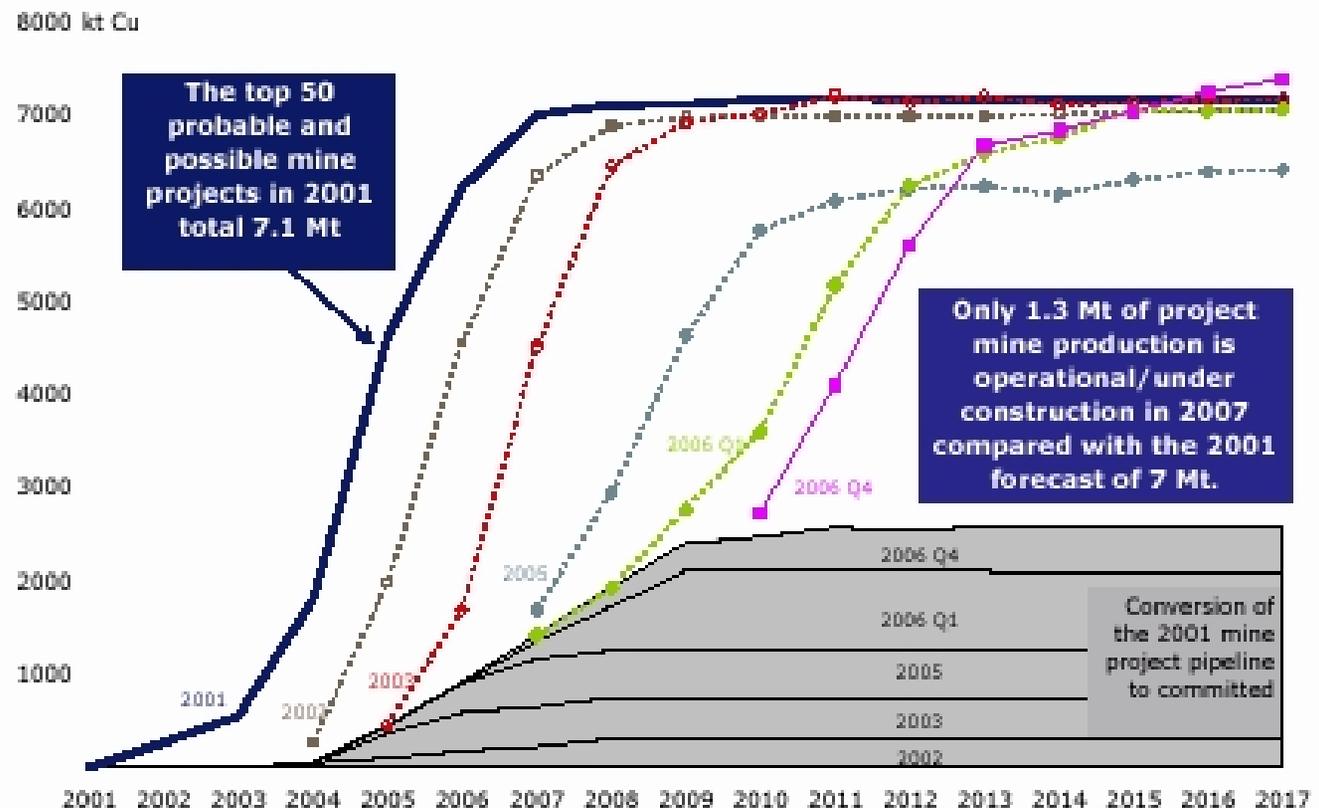


Supply-side optimism fails to reflect today's higher cost reality



Copper Output Growth from New Projects: Expectations vs Reality

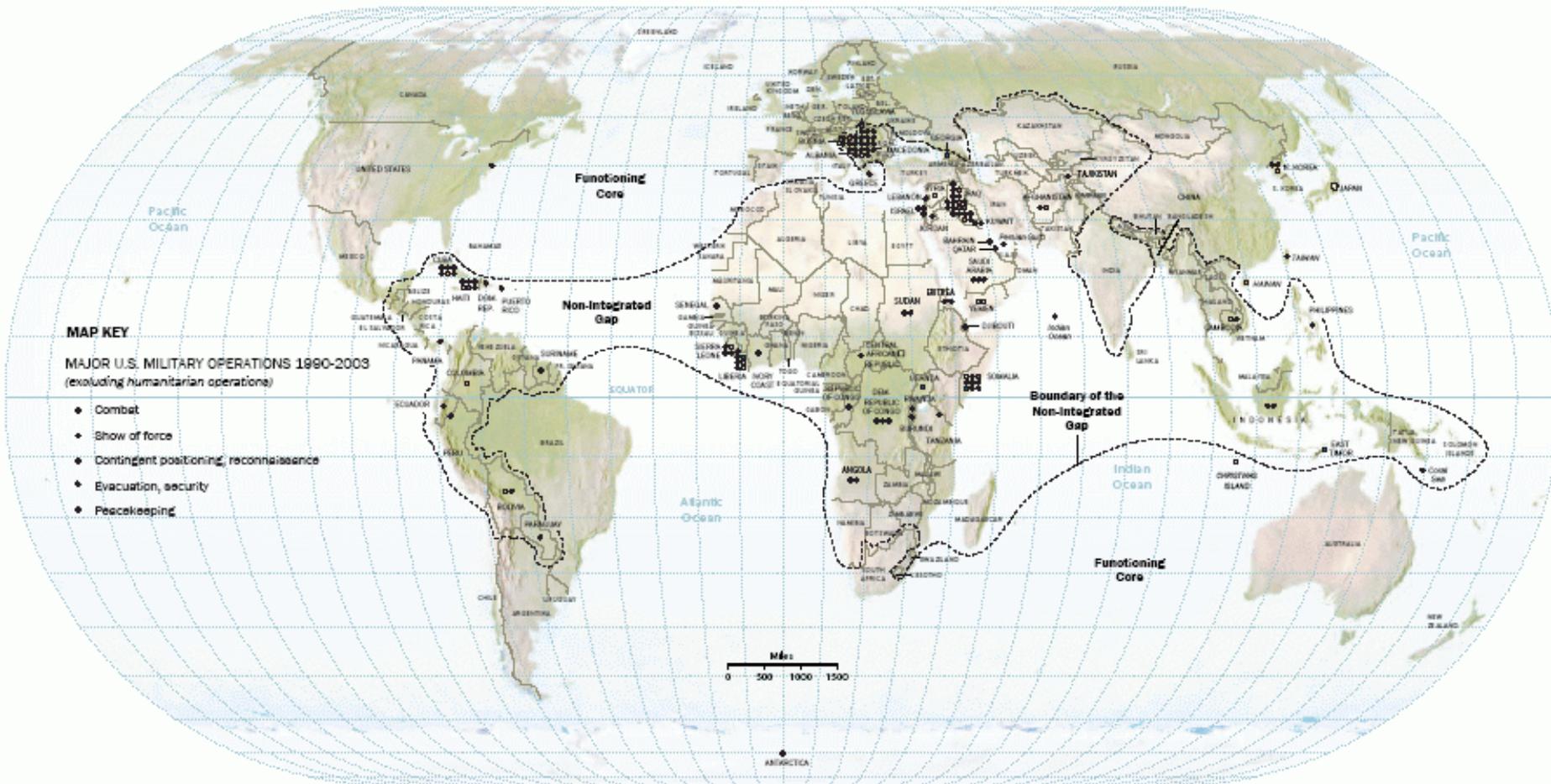
- There is a gap between the expectation and the reality of project delivery
- High prevailing prices have not yet shortened this expectation gap
- Shortage of skills and equipment, riskier jurisdictions and higher costs leading to longer lead times



- Higher long-term prices due to increased marginal cost of supply
- Supply will take time to catch up with rampant demand growth

Globalization and its Discontents

The Pentagon's New Map:
War and Peace in the Twenty-First Century



Response data source: U.S. Military Services via
Dr. Henry Gaffney Jr. / The CNA Corporation

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Recent Nickel Related Buyouts

- **Rio Narcea** - \$5.50 cash - \$1 billion (sulphide - Spain)
- **Weda Bay** - \$2.70 cash - \$269 million (laterite – New Caledonia)
- **Canico** - \$20.80 cash - \$930 million (laterite - Brazil)
- **Lionore** - \$27.50 cash - \$6.8 billion (sulphide – Botswana, Australia, South Africa)
- **Dynatec** - \$5.12 value - \$1.6 billion (laterite - Madagascar)





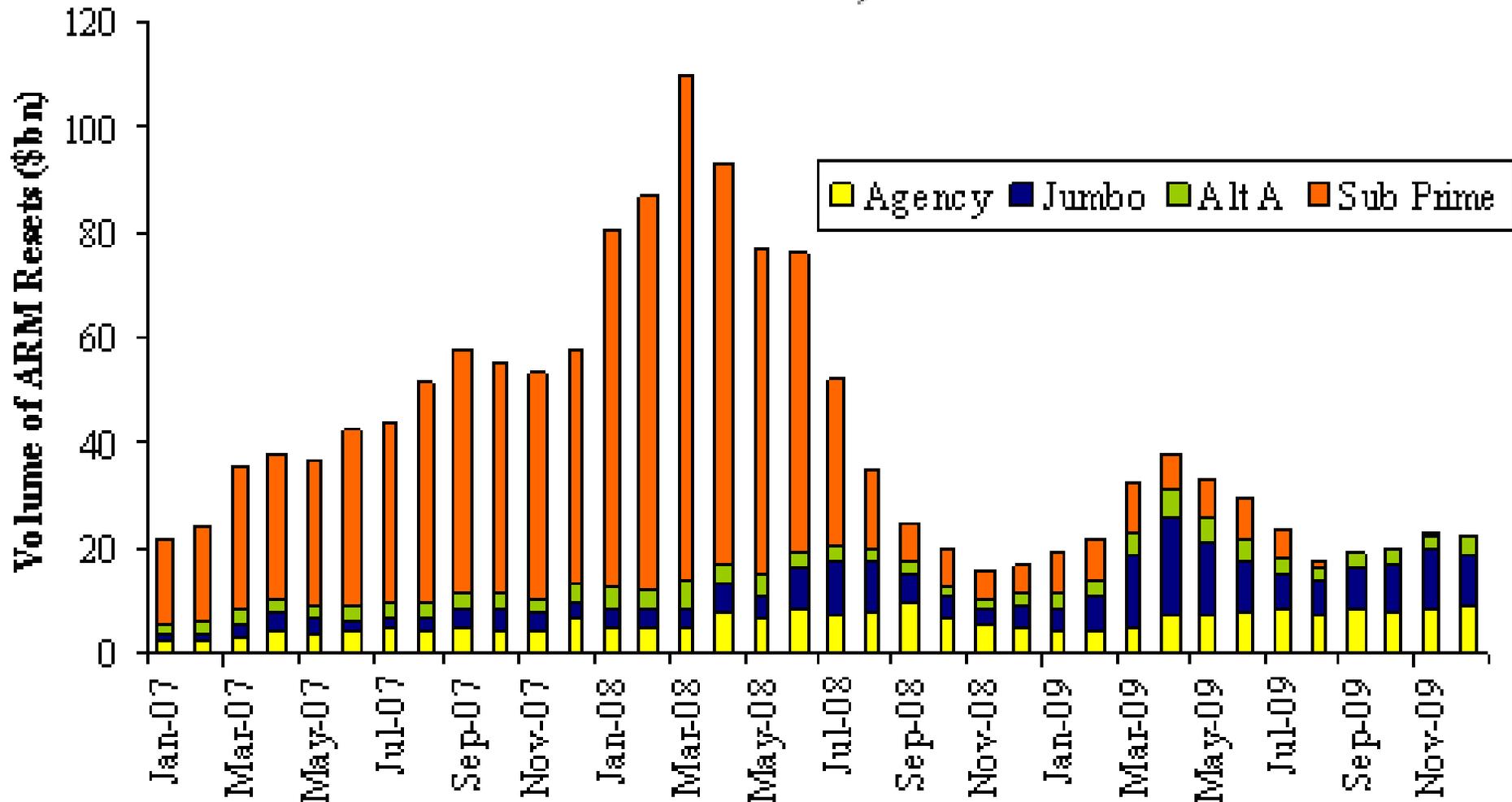
How vulnerable is China to an implosion?



Is economic collapse avoidable?

- The labor pool behind the China Price is not infinite
- Rising health & safety standards
- Rising concern about pollution
- Quality Control: bad toothpaste
- Compression of the American middle class vs Expansion of the Asian middle class
- A service economy cannot survive without a manufacturing base
- China's blindspot for intellectual property rights
- Subprime Reset Problem

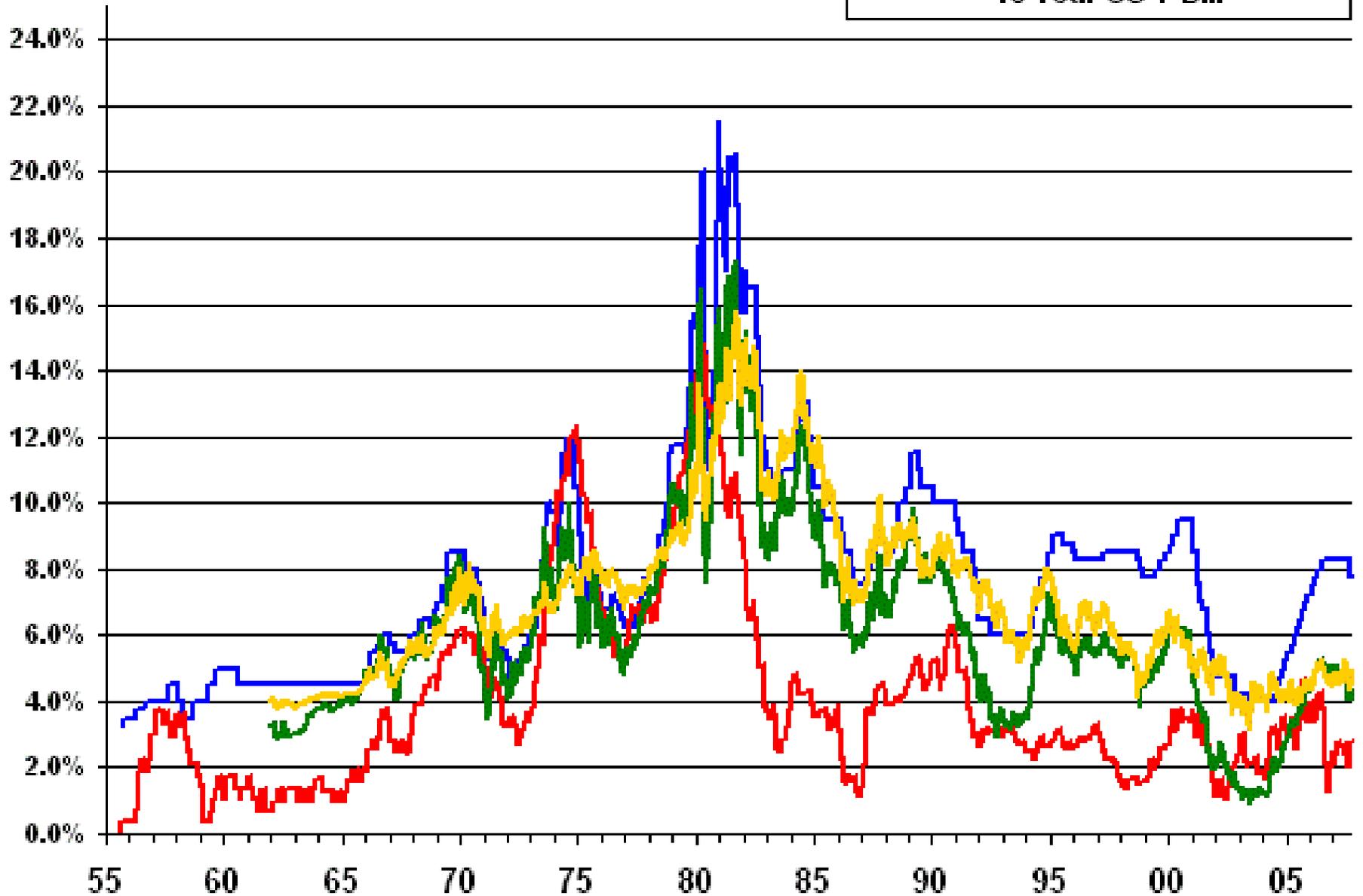
Monthly ARM Reset Schedule by Sector (Securitized + Non-Securitized)





Key Rates

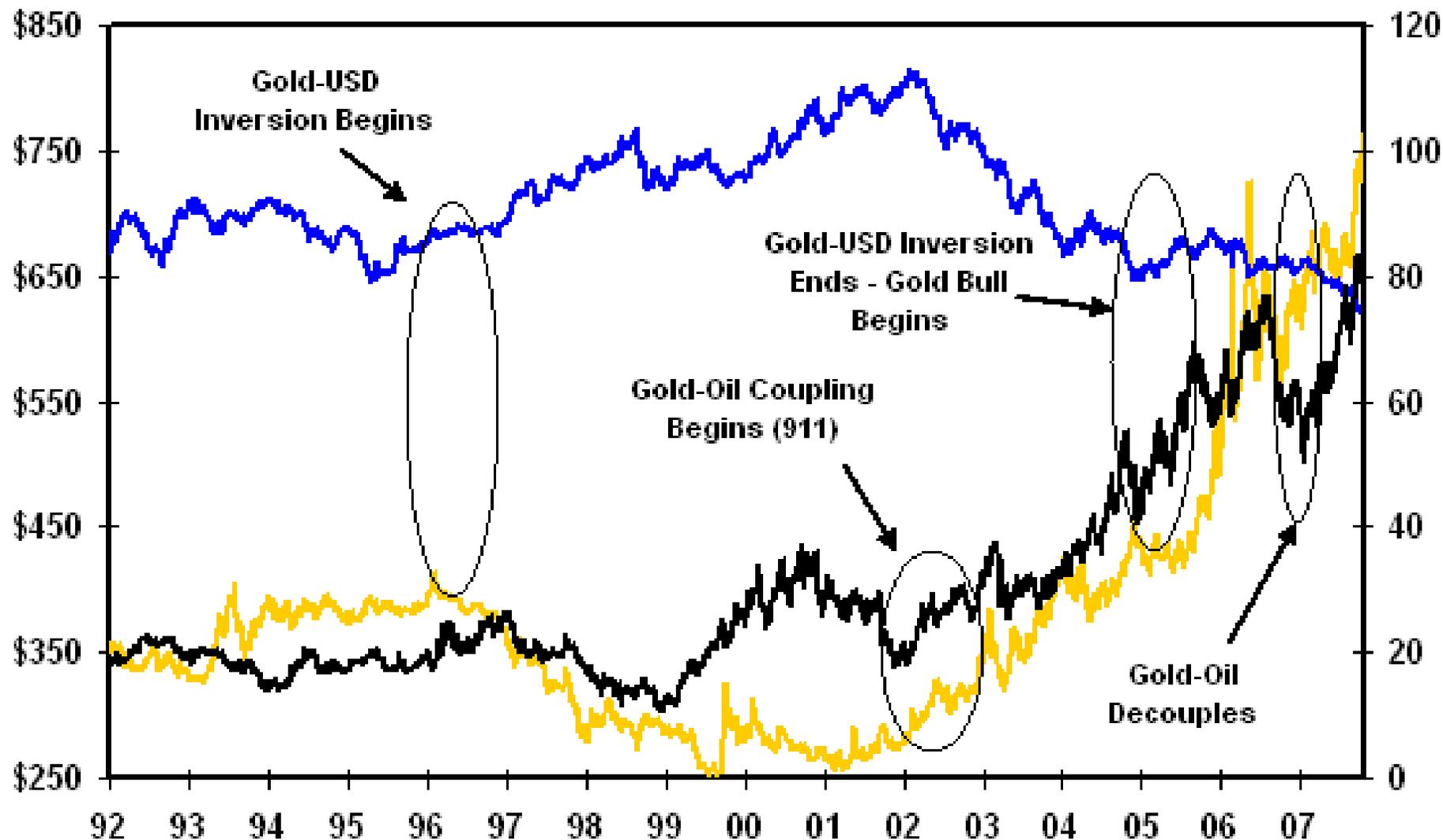
- US Prime Rate
- US CPI Inflation Rate
- 1 Year US T-Bill
- 10 Year US T-Bill





Gold vs US\$ Index vs Oil

- Gold
- US\$ Major Currency Index
- WTI Crude Oil US\$



In 10 years the China Price will be extinct, but will that also be our fate?

- **China must develop a domestic consumer economy if its new wealth is not to end up concentrated in the hands of a minority, a condition that could unleash a human catastrophe that will make the Holocaust and the Stalinist purges look like historical footnotes**
- **The OECD must figure out what economic role its people can in the meantime play that does not involve a decline in living standards**
- **Asia will become like us in the west, and to avoid disaster we must change what makes us happy**

The need for a new economic model

- **Ecology: networked diversity as the key to stability – the more productive participants in the global economy, the healthier it will be**
- **The free trade model of production at a single node distributed to many nodes lacks the circulation system that is essential for sustainable economic growth**
- **Global warming: stimulus for a revolution**
- **The debate is not about whether or not the carbon released by burning fossil fuels contributes to global warming, but what the impact on the planet will be if the per capita footprint of Asia scales to the size of our footprint.**

The Green Movement done right

Reducing our Footprint

- **Reject planned obsolescence: insist on more durable goods**
- **Insist on greater efficiency for energy consumption**
- **Insist on renewable forms of energy**
- **Pursue happiness that is less dependent on the accumulation of physical stuff**
- **Bridge the gap between active artist and passive art consumer**
- **Spirituality and Faith: many paths to the peak vs religion as a coercion system that exploits us-them polarization**

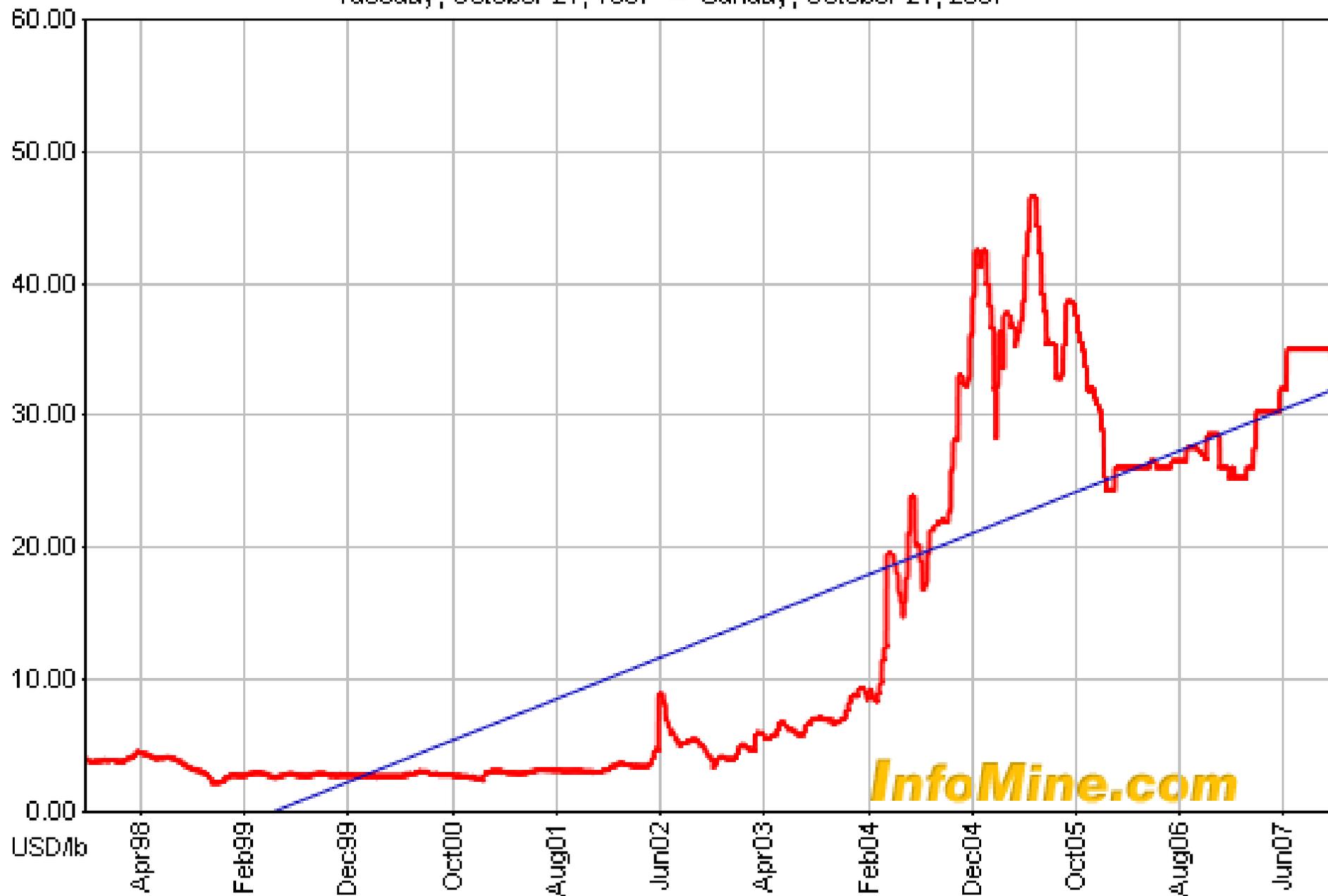


The Renewal of the West

- **Infrastructure Renewal geared toward new forms of energy consumption**
- **Home construction boom was a precursor, watch for a capital project boom in the US that keeps Americans busy while China transitions from an export parasite to a self-sustaining economy**
- **Watch for an inter-generational transfer of wealth that involves “irrational” economics**
- **Watch the growing Silicon Valley venture capital boom in green technology**
- **Watch raw material and energy prices never go back to the bear market levels of 5 years ago**

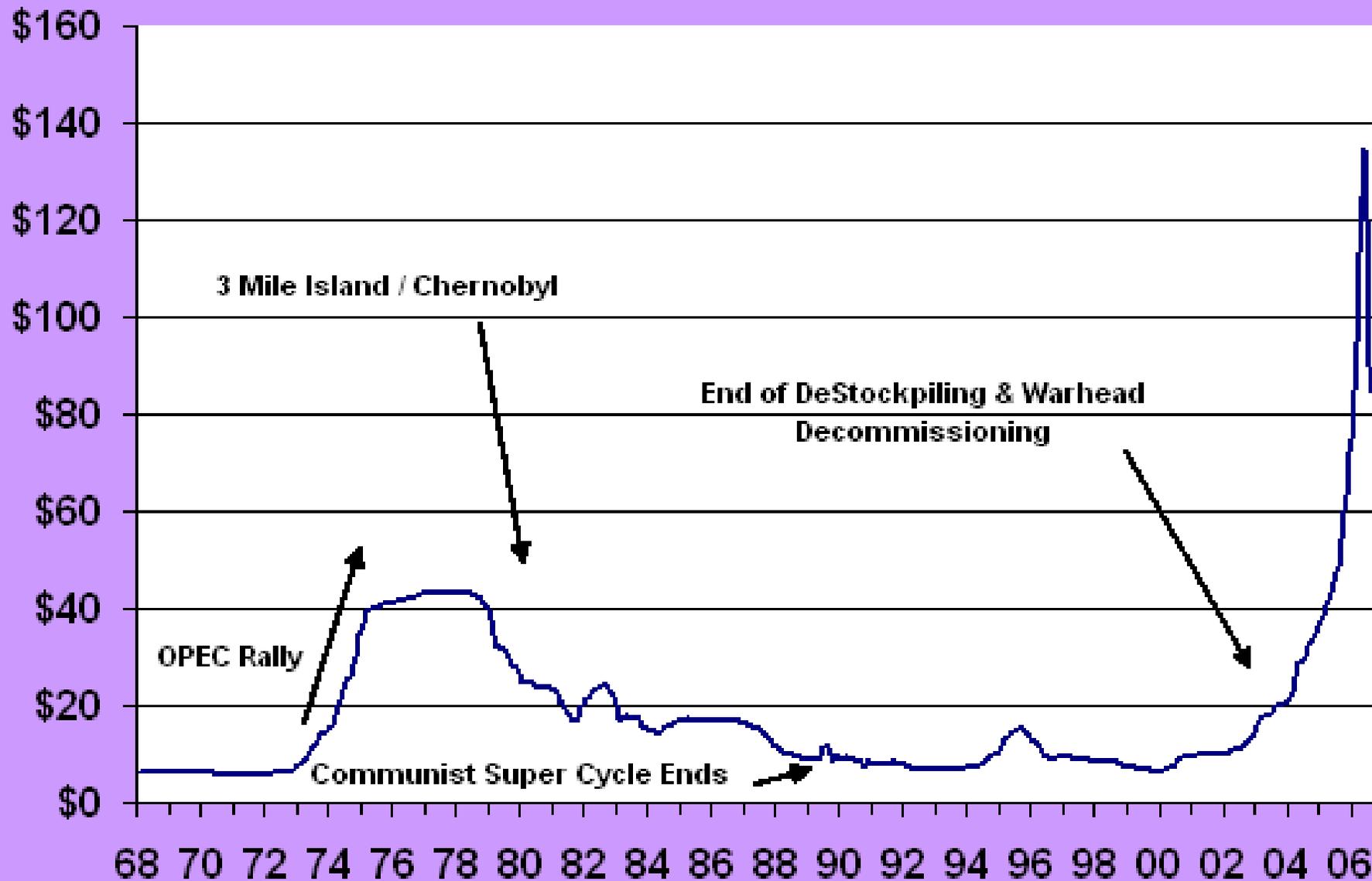
Molybdenum (USD/lb)

Tuesday, October 21, 1997 -- Sunday, October 21, 2007



InfoMine.com

Average Monthly Uranium US \$/lb U3O8



Third Leg Mantra for the Race to Production

**Ask not what higher metal
prices would do for your
junior, but what your junior
can do with existing or
somewhat lower metal
prices!**



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Exit Strategies

Liquidity cascading down the food chain through buyouts and mergers of advanced deposits.

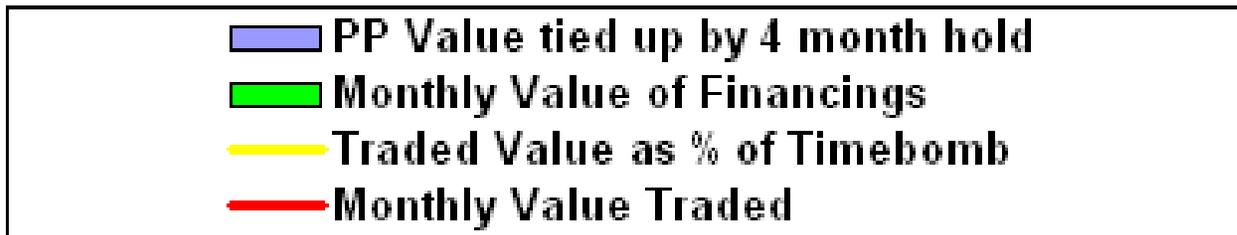
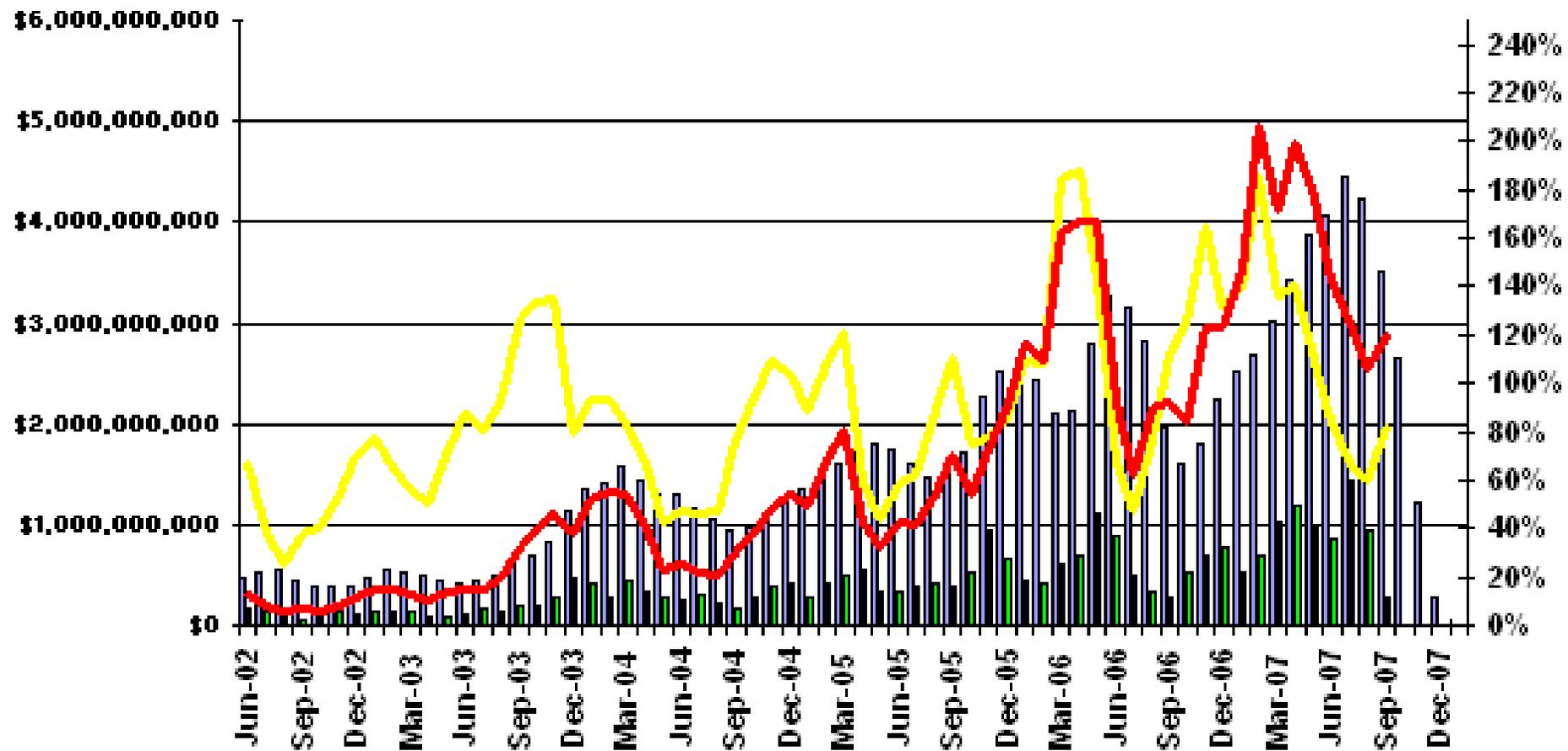
Liquidity entering the bottom of the food chain as new discoveries rekindle the retail investor's faith in the Cinderella story.

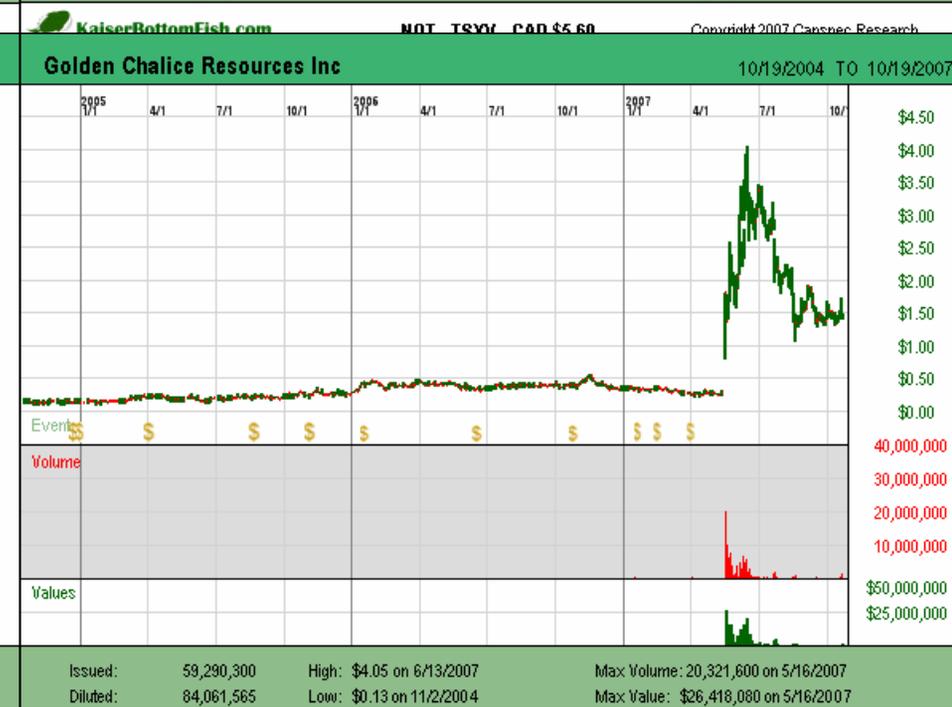
The Fourth Leg

Collapsing the Wall of Doubt

- **\$27 billion raised for TSXV since 2003, \$7.9 billion in 2007**
- **Discovery Plays in the Context of a Long Term Outlook for Elevated Base and Precious Metals Prices**
- **New world class discoveries validating Cinderella as more than a fairy tale of a time long gone**

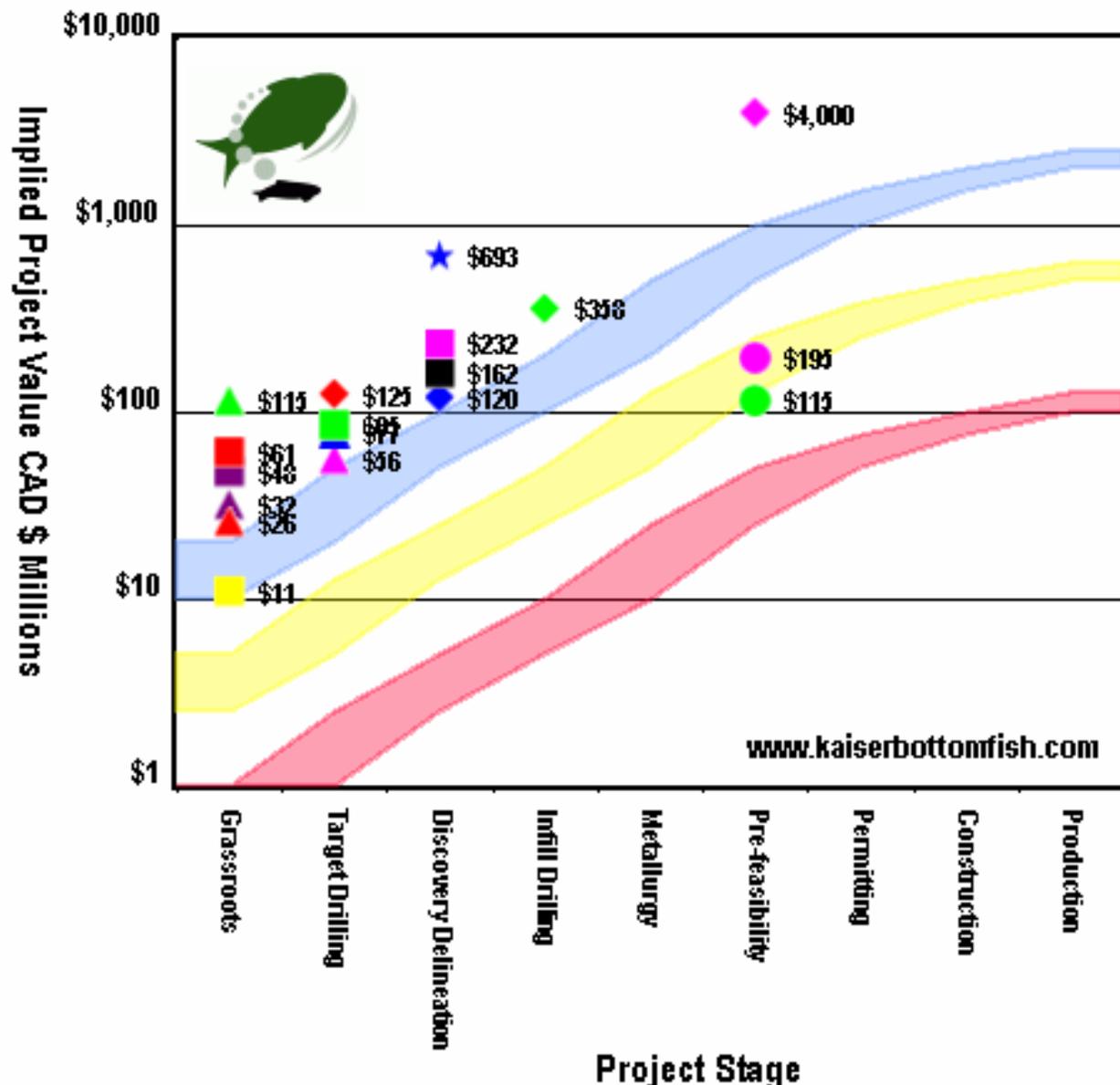
TSXV Private Placement Timebomb





McFauld's Lake Area Play Valuations

Friday, October 19, 2007



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Scaling the Wall of Worry

- The race to production
- Metal prices have yet to peak
- A global prosperity driven bull market in gold
- A revival of discovery fueled speculation
- A Great Canadian Area Play?
- The Renewal of Aging Infrastructure
- Opportunities in the drive to Footprint Reduction
- The Pushback against Globalization
- The best is yet to come!

Thank You

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