

# **Analyst Insight: What will be the saviour of the junior sector?**

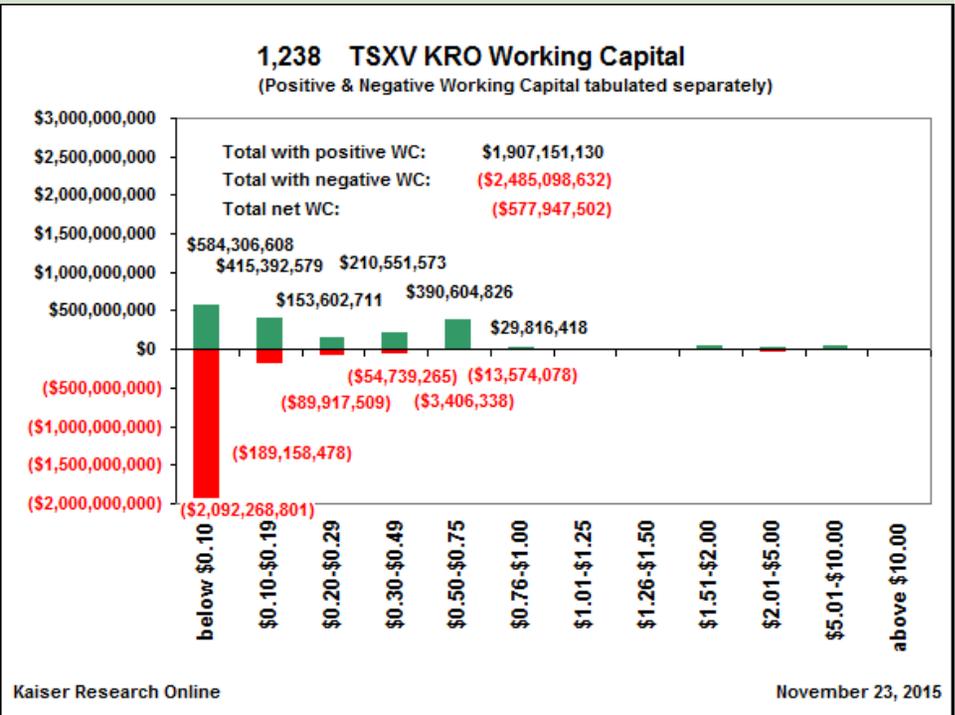
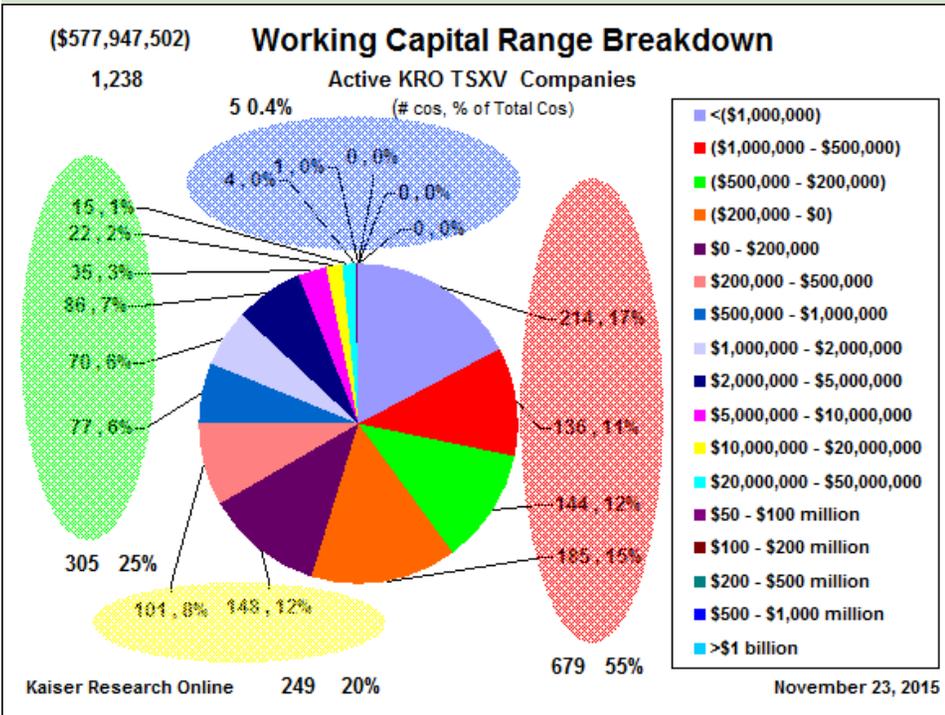
**Presented by John Kaiser**

**Mines and Money London 2015**

**November 30, 2015**

**London, UK**

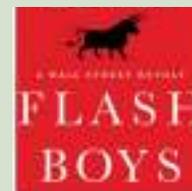
**Less than half of TSXV resource juniors have positive working capital totaling \$1.9 billion while the rest owe \$2.5 billion that will never be paid back.**



**What is wrong and what can save the resource juniors from extinction?**

# A Broken Capital Market for Canadian Juniors

- **Client Relationship Model – Suitability and the death of full service advice**
- **Market failing as a Price Discovery Mechanism – order book fragmentation, short-selling on a down-tick, computerized day trading**
- **Disclosure Overload & War on Forward Looking Statements - junior market no longer works as a casino**
- **Choked Funding Gateways – accredited investor restriction**



**Protecting future investors by destroying existing investors**

# Accredited Investor Questionnaire: who will share comprehensive financial information with a party the regulators view as a latent criminal?

## 1. Personal Data

Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Email for notice and correspondence: \_\_\_\_\_

## 2. Employment and Business Experience

Present occupation: \_\_\_\_\_

Do you own your own business or are you otherwise employed? \_\_\_\_\_

Name and type of business employed by or owned: \_\_\_\_\_  
\_\_\_\_\_

Present title or position: \_\_\_\_\_

Do you have any professional licenses or registrations, including bar admissions, accounting certificates, real estate brokerage licenses, dealer registration, advisor registration or investment fund manager registration?

Yes: \_\_\_\_\_ No: \_\_\_\_\_

If yes, please list such licenses or registrations, the date(s) you received the same, and whether they are in good standing:

## 3. Financial Information

### Your annual net income before taxes (all sources):

Most recent calendar year:  Less than \$49,999  \$50,000 – \$99,999  \$100,000 - \$149,999  \$150,000 – \$199,999  \$200,000 – \$299,000  \$300,000 – \$399,999  \$400,000 – \$500,000  Greater than \$500,000

Prior calendar year:  Less than \$49,999  \$50,000 – \$99,999  \$100,000 - \$149,999  \$150,000 – \$199,999

\$200,000 – \$299,000  \$300,000 – \$399,999  \$400,000 – \$500,000  Greater than \$500,000

### Your spouse's annual net income before taxes (all sources):

Most recent calendar year:  Less than \$49,999  \$50,000 – \$99,999  \$100,000 - \$149,999  \$150,000 – \$199,999  \$200,000 – \$299,000  \$300,000 – \$399,999  \$400,000 – \$500,000  Greater than \$500,000

Prior calendar year:  Less than \$49,999  \$50,000 – \$99,999  \$100,000 - \$149,999  \$150,000 – \$199,999

\$200,000 – \$299,000  \$300,000 – \$399,999  \$400,000 – \$500,000  Greater than \$500,000

### Your estimated financial assets net of related liabilities:

Less than \$249,999  \$250,000 – \$499,999  \$500,000 - \$749,999  \$750,000 - \$1,000,000  \$1,000,001 - \$3,000,000  \$3,000,001 - \$5,000,000  Greater than \$5 million

Briefly describe the nature of your financial assets:  
\_\_\_\_\_  
\_\_\_\_\_

### Your spouse's estimated financial assets net of related liabilities:

Less than \$249,999  \$250,000 – \$499,999  \$500,000 - \$749,999  \$750,000 - \$1,000,000  Greater than \$1 million

Briefly describe the nature of your spouse's financial assets:  
\_\_\_\_\_  
\_\_\_\_\_

*"financial assets"* means cash, securities or a contract of insurance, a deposit or evidence of deposit that is not a security for the purposes of securities legislation. These financial assets are generally liquid or relatively easy to liquidate. The value of a purchaser's personal residence would not be included in a calculation of financial assets.

*"related liabilities"* means: (i) liabilities incurred or assumed for the purpose of financing the acquisition or ownership of financial assets; or (ii) liabilities that are secured by financial assets.

### Your estimated total net assets:

Less than \$499,999  \$500,000 – \$999,999  \$1,000,000 - \$1,999,999  \$2,000,000 - \$2,999,999  \$3,000,000 - \$3,999,999  \$4,000,000 - \$4,999,999  \$5 million or more

Briefly describe the nature of your net assets:  
\_\_\_\_\_  
\_\_\_\_\_

### Your spouse's estimated total net assets:

Less than \$499,999  \$500,000 – \$999,999  \$1,000,000 - \$1,999,999  \$2,000,000 - \$2,999,999  \$3,000,000 - \$3,999,999  \$4,000,000 - \$4,999,999  \$5 million or more

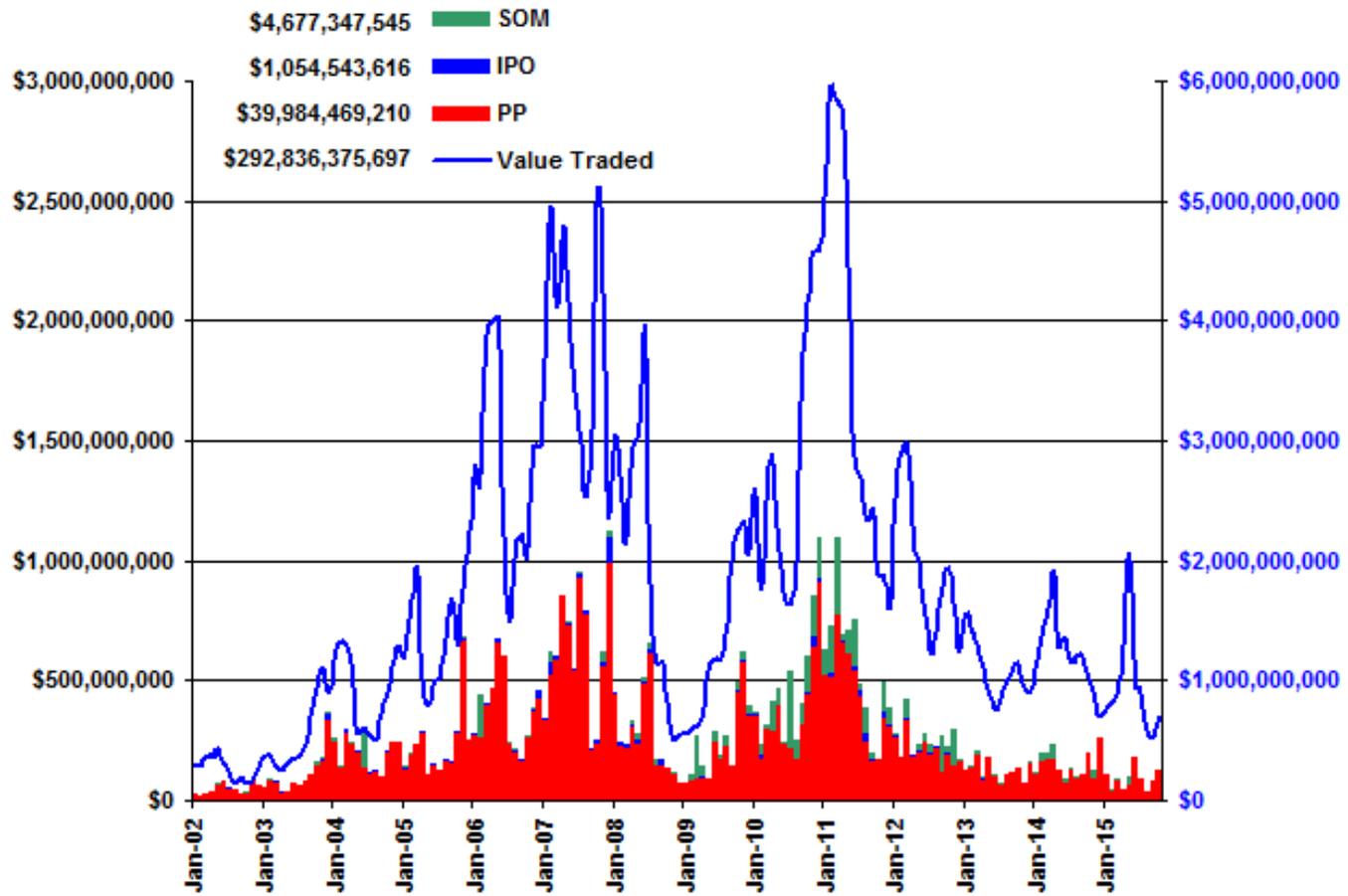
Briefly describe the nature of your spouse's net assets:  
\_\_\_\_\_  
\_\_\_\_\_

*"net assets"* means all of the subscriber's total assets minus all of the subscriber's total liabilities, and those of the subscriber's spouse if the subscriber's spouse's total net assets are being included to satisfy category (1) of the accredited investor definition. Accordingly, for the purposes of the net asset test, the calculation of total assets would include the value of a subscriber's personal residence and the calculation of total liabilities would include the

## Fixing the Broken Capital Market

- **CRM** – find a discount brokerage and set up a 0% responsibility robo-advised account for low risk investments and a 100% responsibility account for high risk speculations.
- **Market** – operate an exchange as a utility with a single first-come-first serve order book, impose a transaction tax to slow down the algo traders, and prevent short-selling without borrowed stock.
- **Casino** – build an outcome visualization system that enables investors to “see” the value of the potential fundamental outcomes between 43-101 events so that they can place intelligent bets and see when a stock offers good or poor speculative value.
- **Funding** – allow non-accredited investors to buy private placements and streamline the process.

### Monthly Value of Resource Sector TSXV Financings 2002-2015



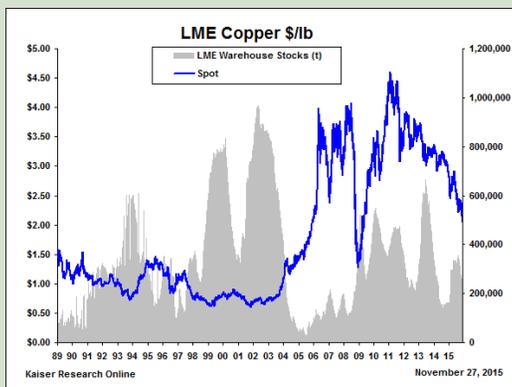
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*(Traded value includes non-resource issuers)*

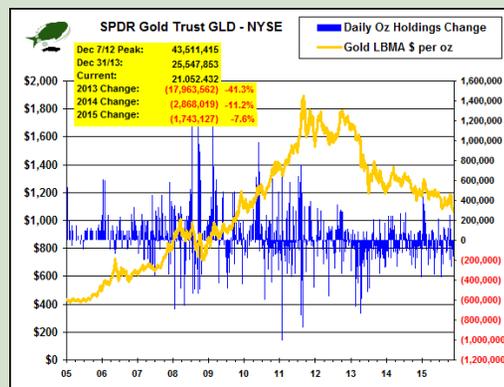
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# Structural Issues are only half the Problem

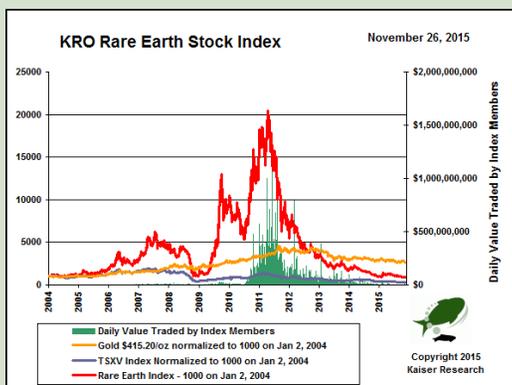
**Commodity  
Cycle**



**Gold Bug**



**Security of  
Supply**



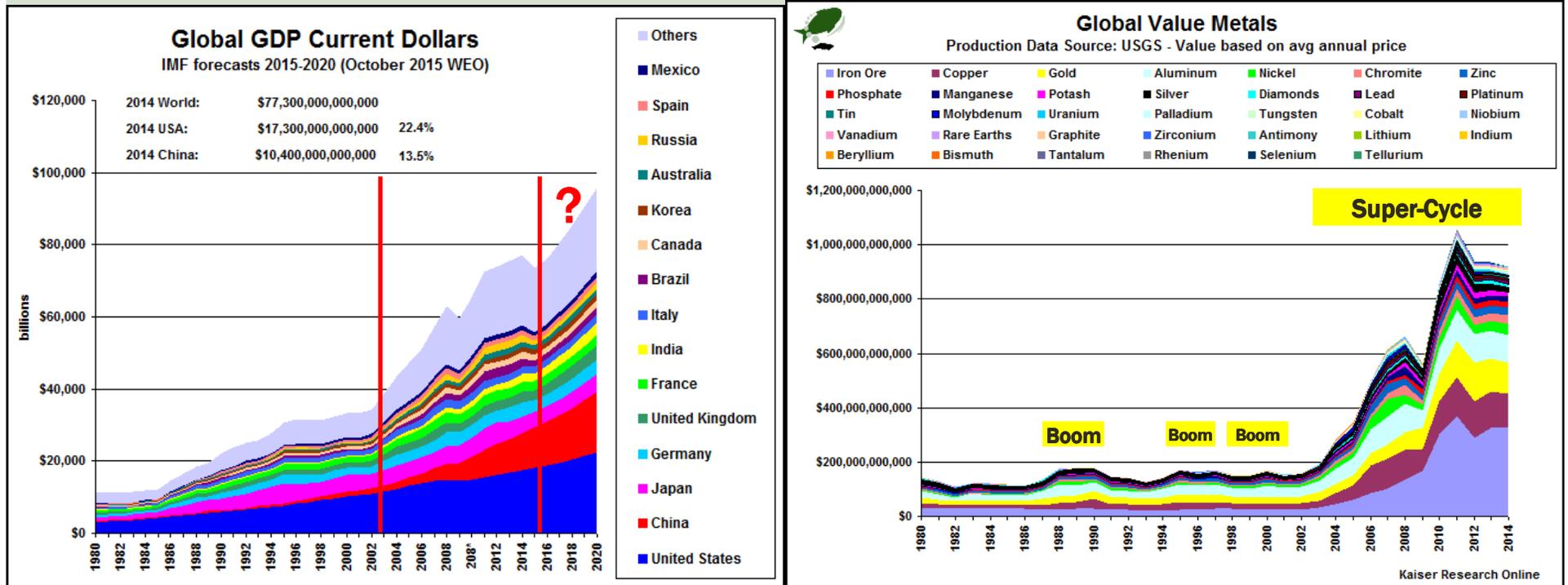
**Discovery  
Exploration**



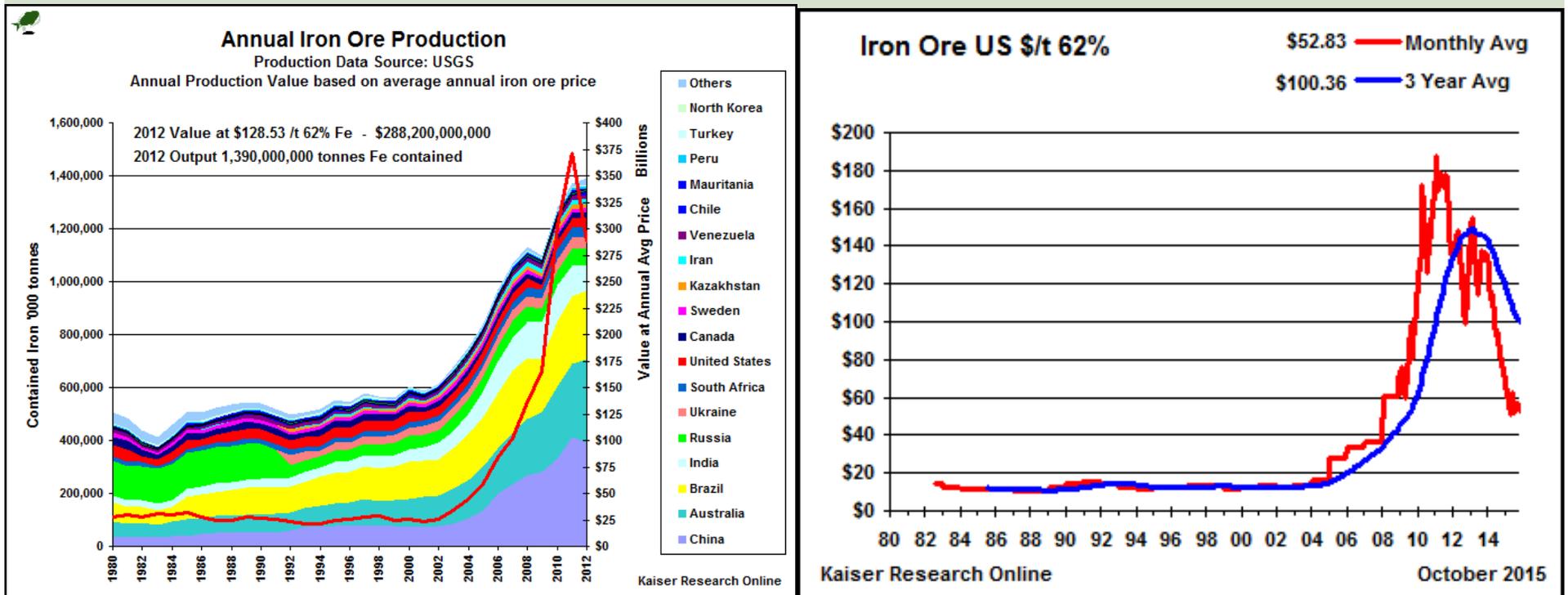
**The sorry state of the core narratives is the other half**

# Commodity Cycle Narrative and its Super-Cycle Variation

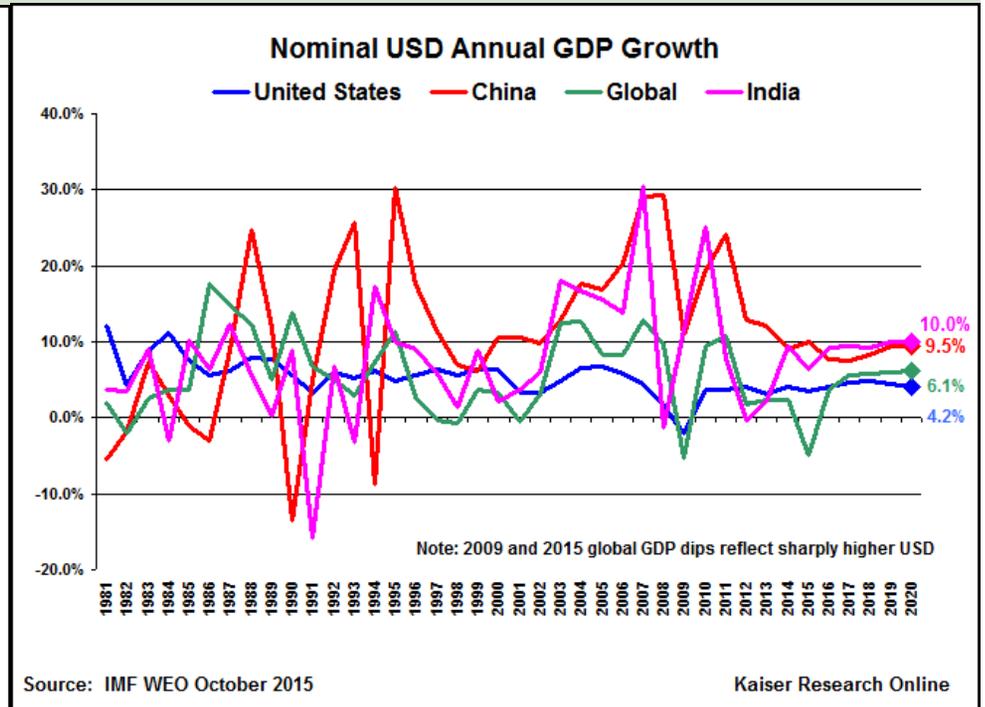
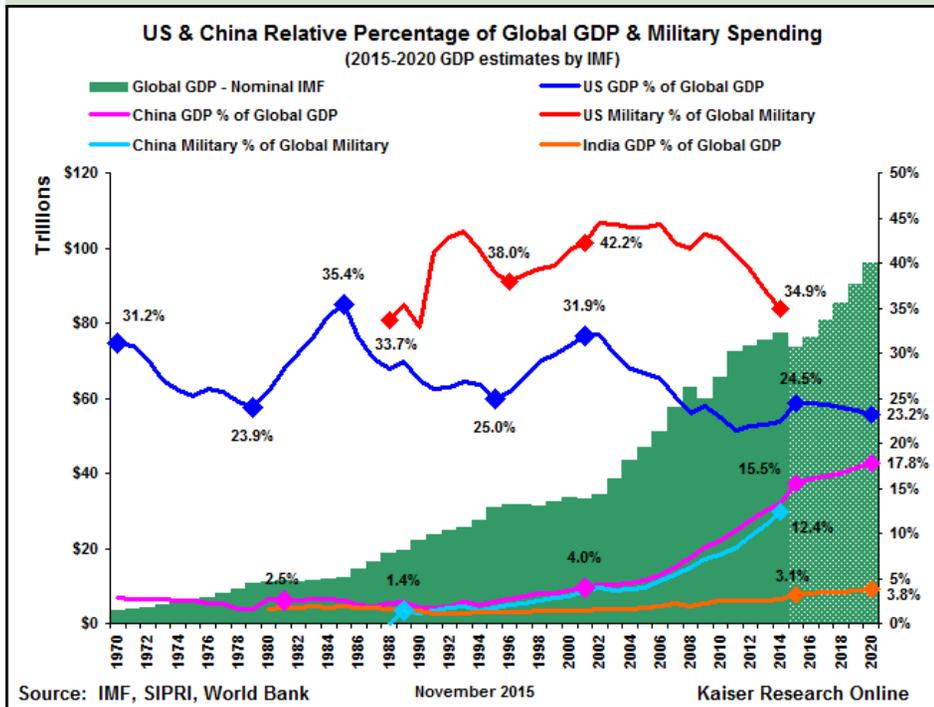
Juniors normally do not respond to commodity cycle booms but play a very important role when super-cycle booms erupt. Unfortunately they are very irrelevant when the super-cycle windows down.



Mine supply response to higher real metal prices has followed the usual boom-bust pattern of the commodity cycle. Due to the “super” scale, unwinding the supply glut will take time as producers shut down marginal mines, shelve development plans, and stop exploration. This may not help if SOE’s do not do the same.



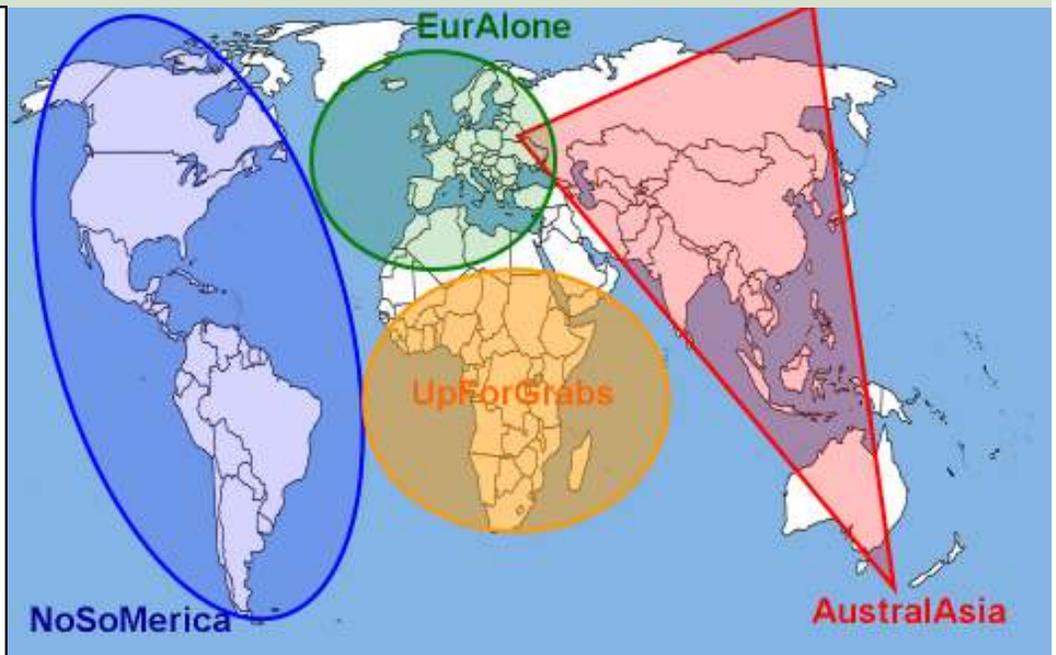
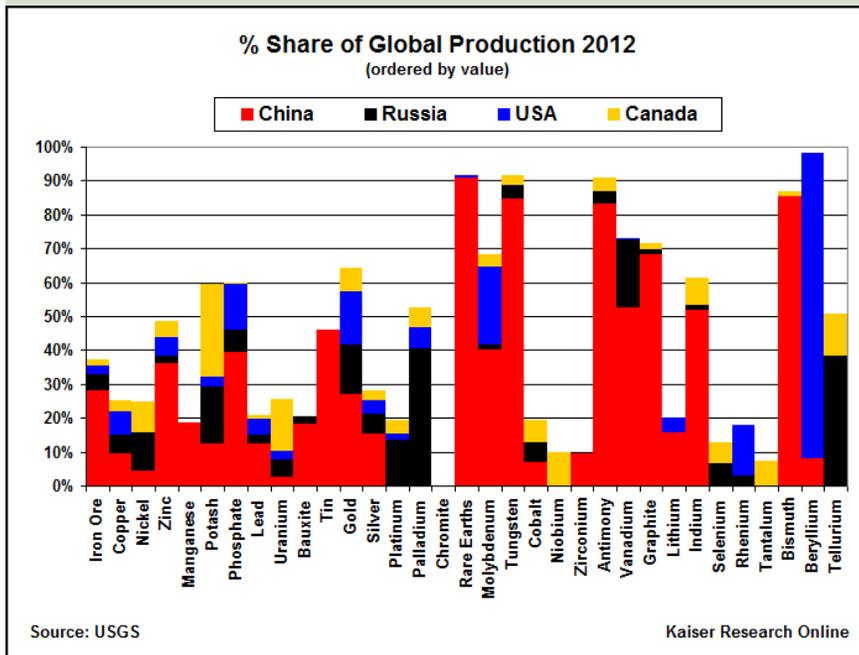
China can no longer drive a super-cycle, emerging market growth has stalled, America's leadership role is unclear, and India cannot hit a super-cycle tipping point before 2020. Any rebound in metal prices as the "de-financialization" washout ends will be served by producers with the project inventory they assembled during the super-cycle. The commodity cycle cannot save the resource juniors, but a security of supply narrative may.



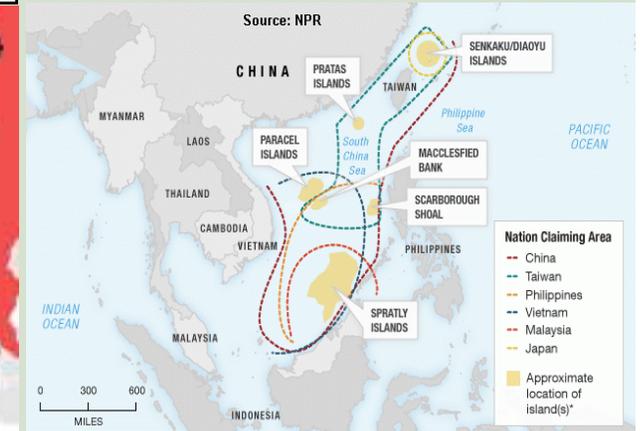
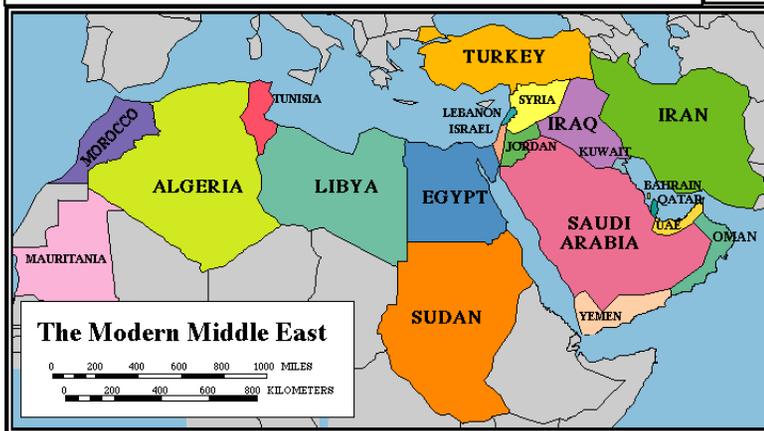
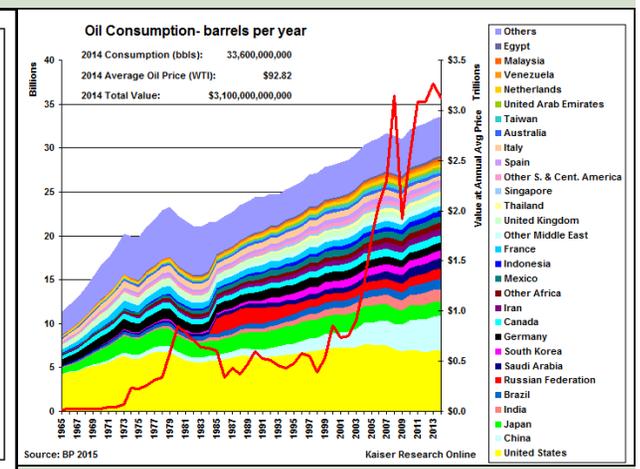
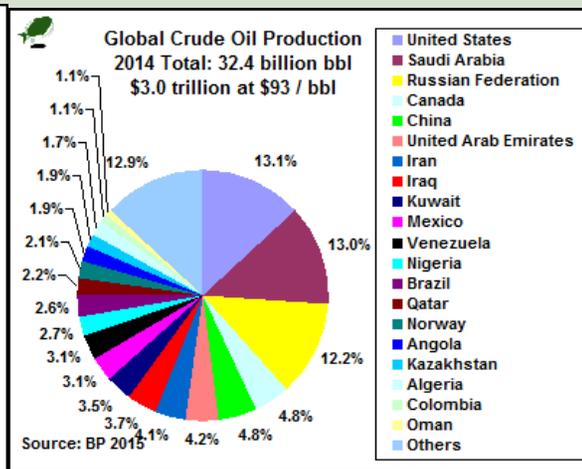
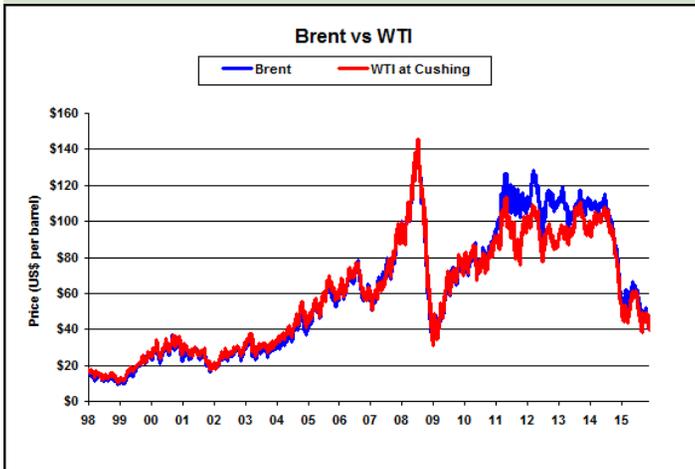
# Security of Supply Narratives

- Geopolitical supply disruptions
- Policy Demand Drivers
- Process Innovation
- Transportation supply disruptions
- Policy Supply Disrupters
- Functionality innovation
- Deposit depletion
- Usage Innovation
- Fashion Trends

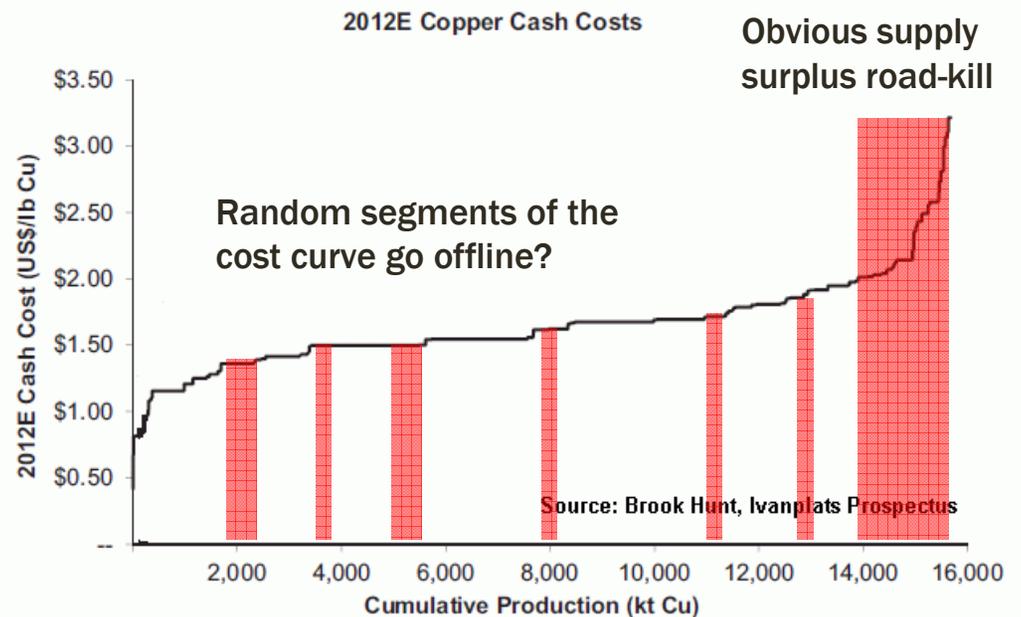
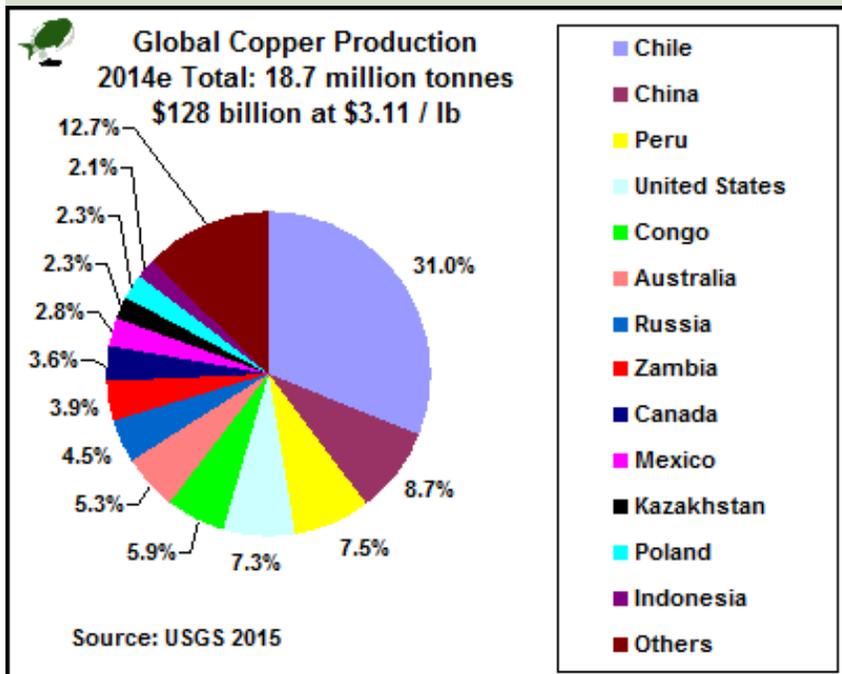
**This is the new conceptual frontier for institutional capital!**



# High Risk of Geopolitical Train Wrecks & Unintended Consequences



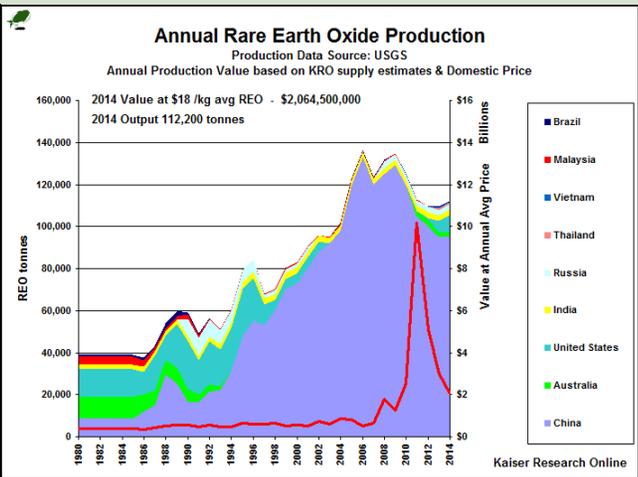
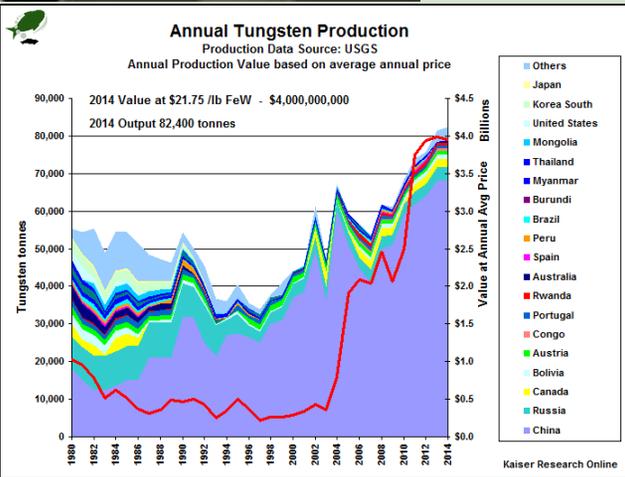
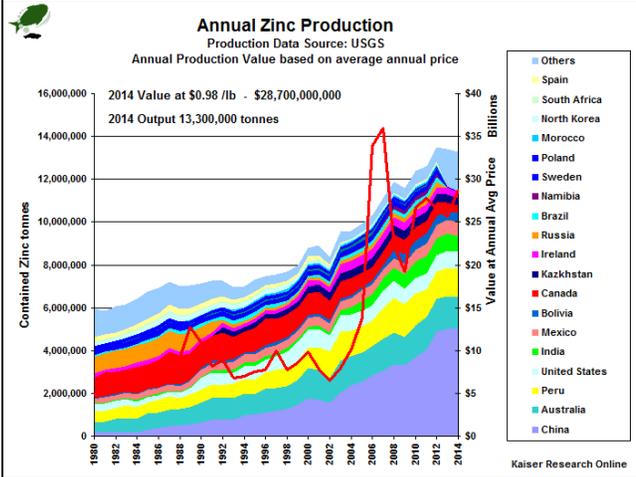
The greatest likelihood for higher medium term non precious metal prices lies with unpredictable supply disruptions such as civil strife, infrastructure failure, resource nationalism, & sanctions. Price uptrends will be metal specific and development decisions will focus on “safe” jurisdictions.





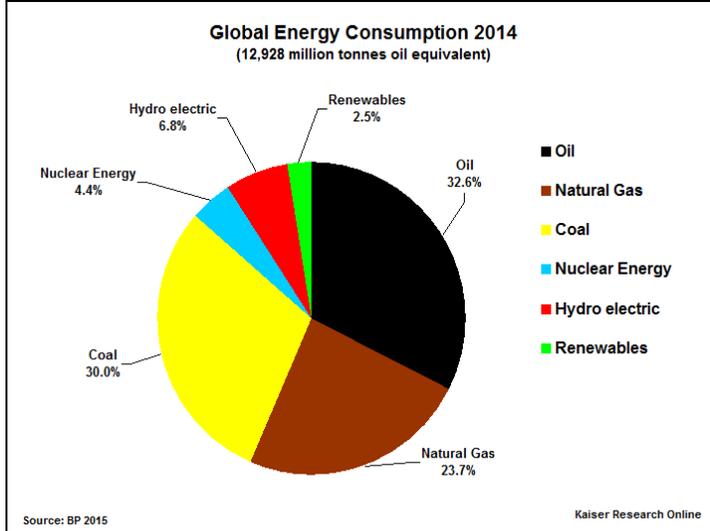
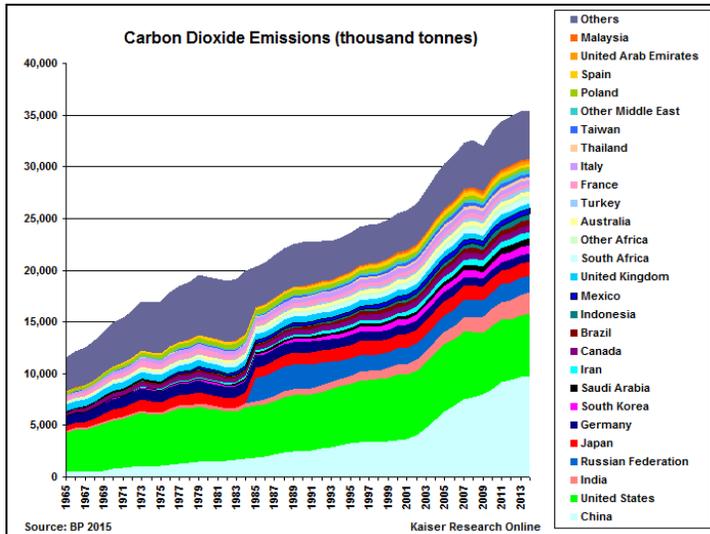
# Environmental Policy as Supply Disrupter

## China's Environmental Awakening



# Climate Change Policy

- Rebuilding momentum
- Alternative Energy
- Tesla phenomenon - GigaFactory
- Energy Efficiency
- Materials Science Boom
- Infrastructure Renewal in America
- Huge transformational implications



**OBAMA ADMINISTRATION Fuel Economy Standards** In the year 2025

The fleet-wide average will be **54.5 MPG**

Consumers will have saved **\$1.7 TRILLION** at the pump over the life of the program.

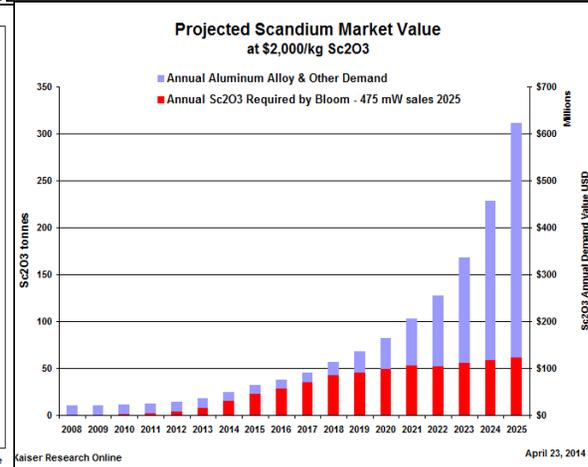
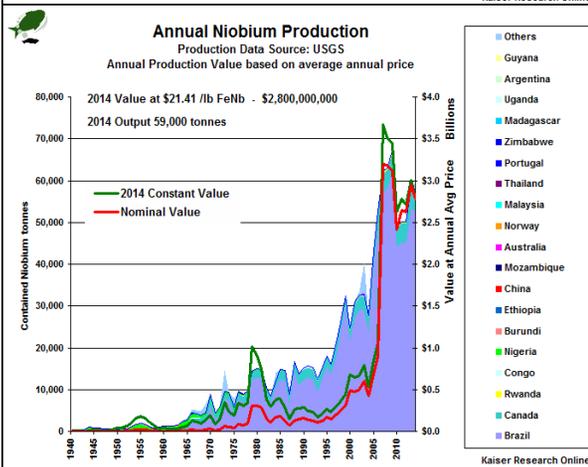
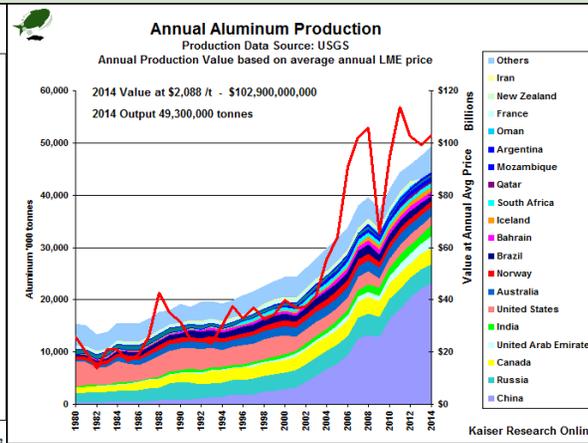
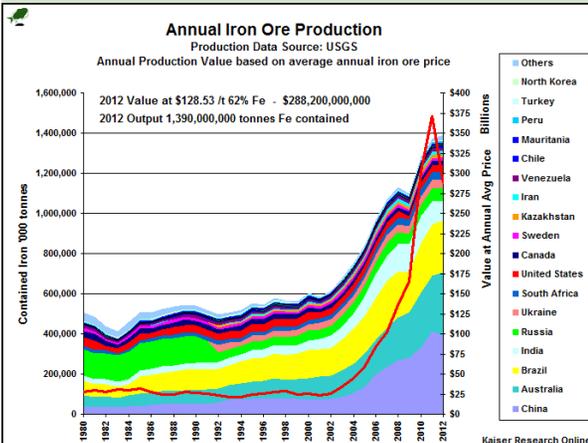
A family that purchases a new vehicle in 2025 will save **\$8,200** in fuel costs when compared with a similar vehicle in 2010.

Over the life of the program, the standards will:

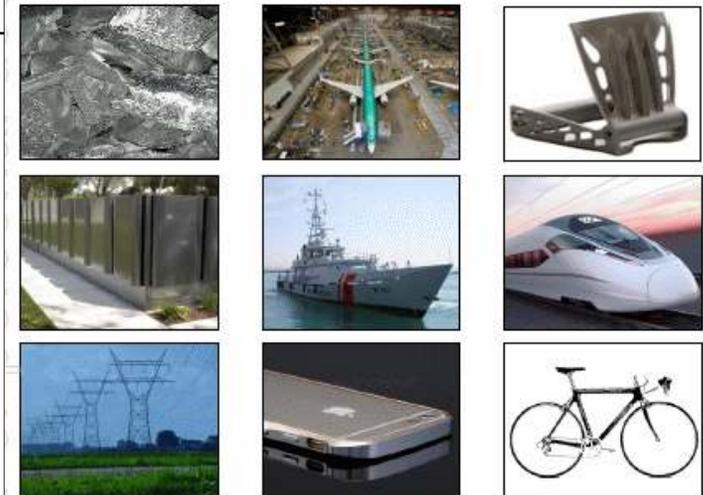
Save **12** billion barrels of oil.

Eliminate **6** billion metric tons of carbon dioxide pollution.

# Scandium: annual \$20 million to \$2 billion growth in next decade?



- Perfect aluminum alloy
- Stronger, corrosion resistant, reliable weld joints, 3D printable
- Historically available only as non-scaleable by-product from uranium ISL, rare earth mines and titanium dioxide waste streams



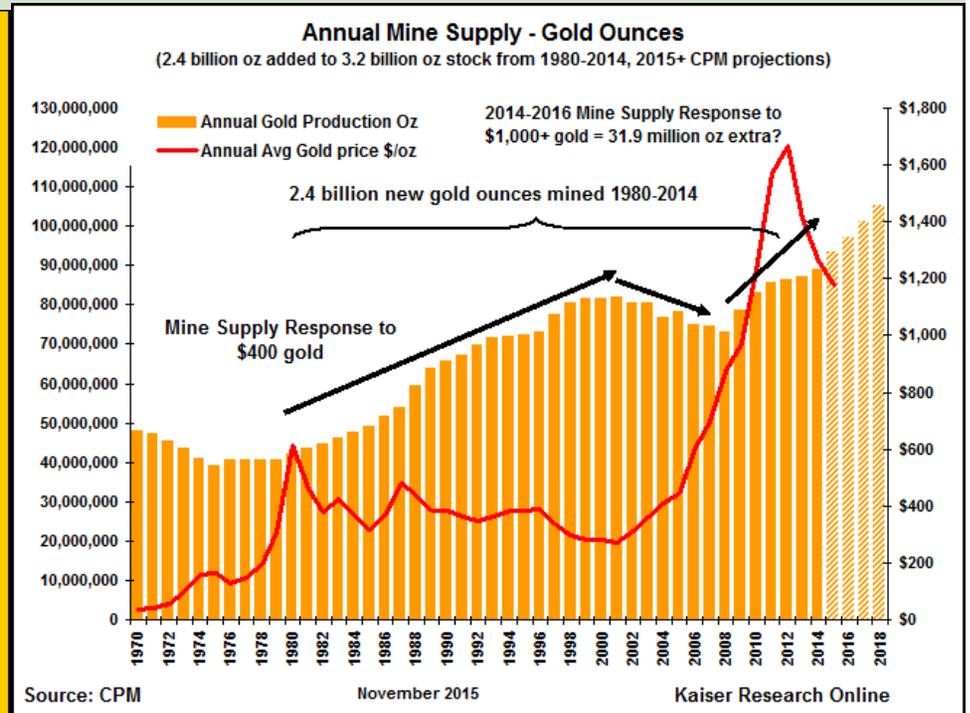
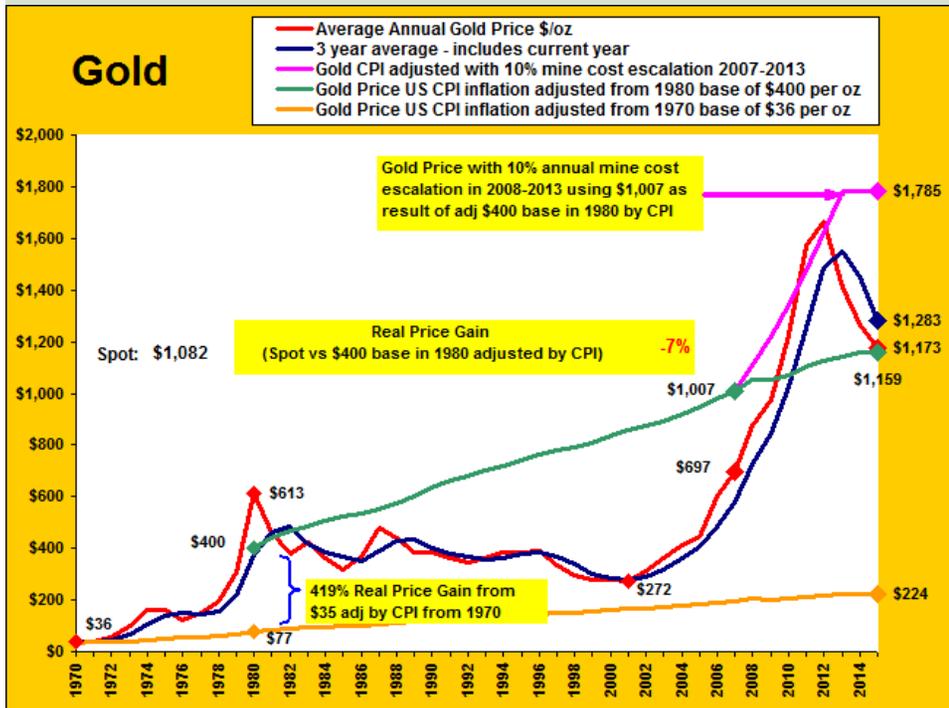


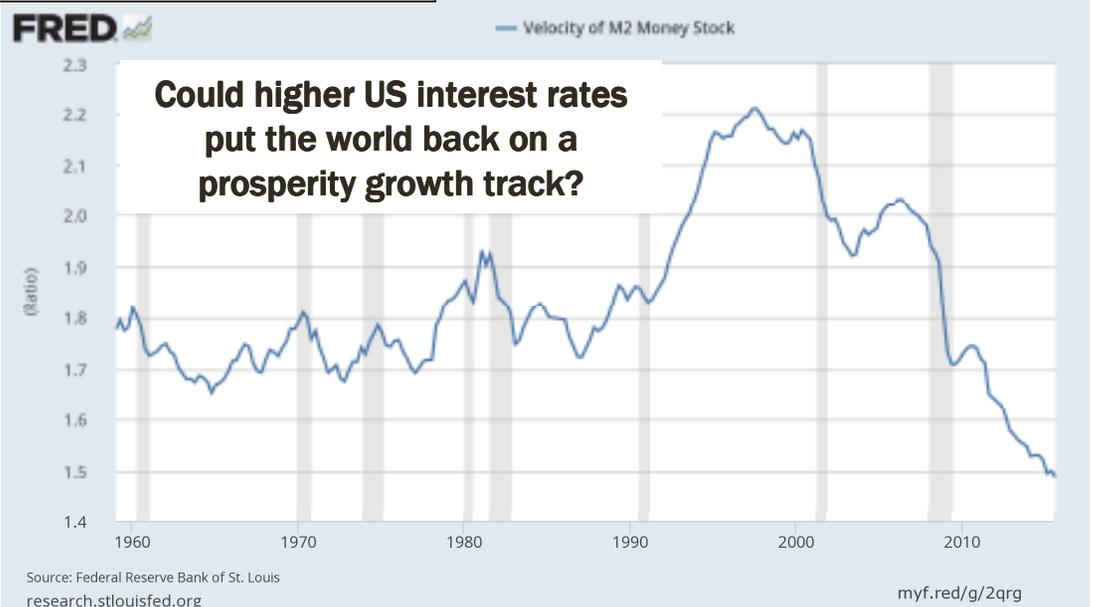
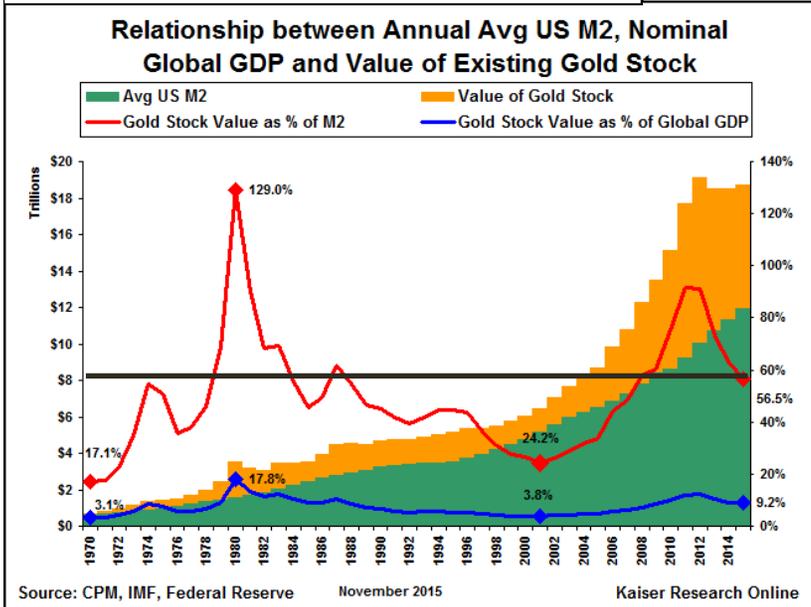
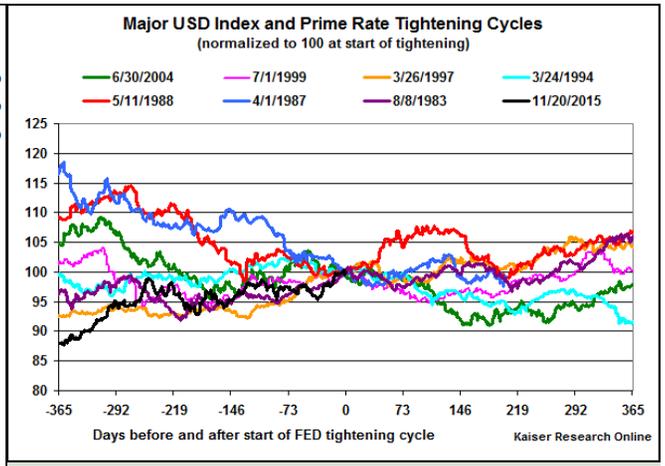
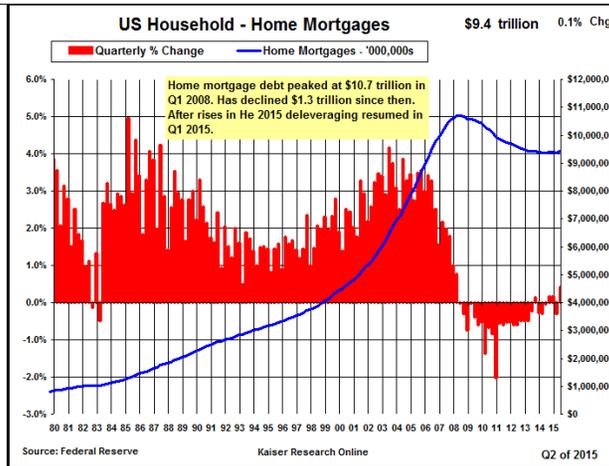
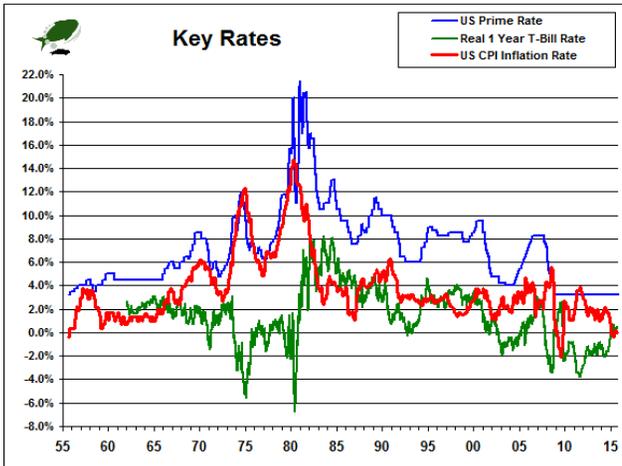
# New South Wales



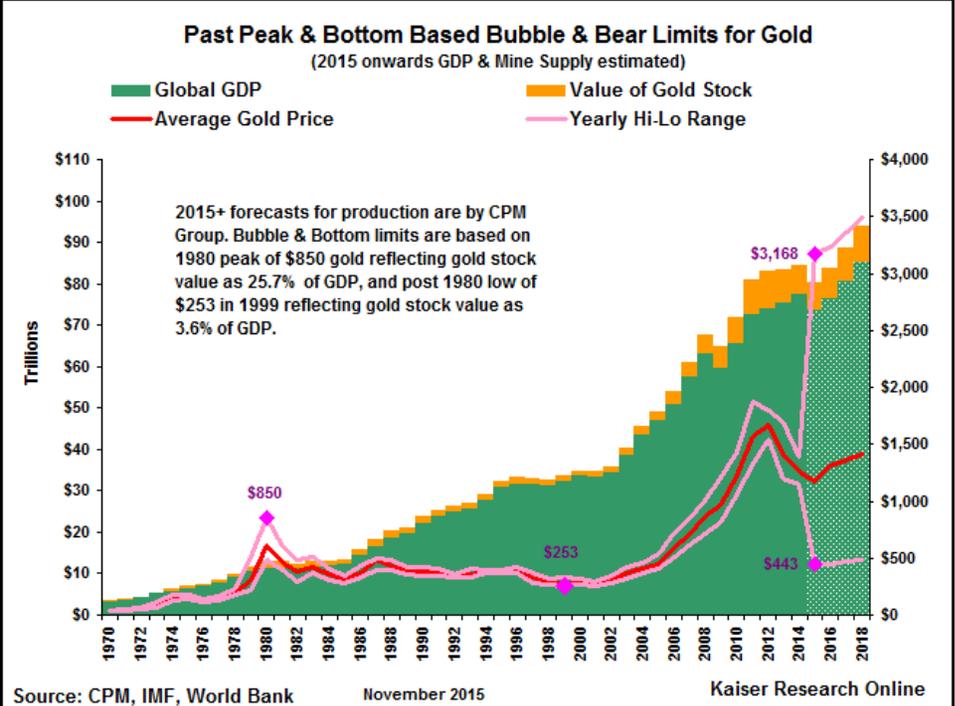
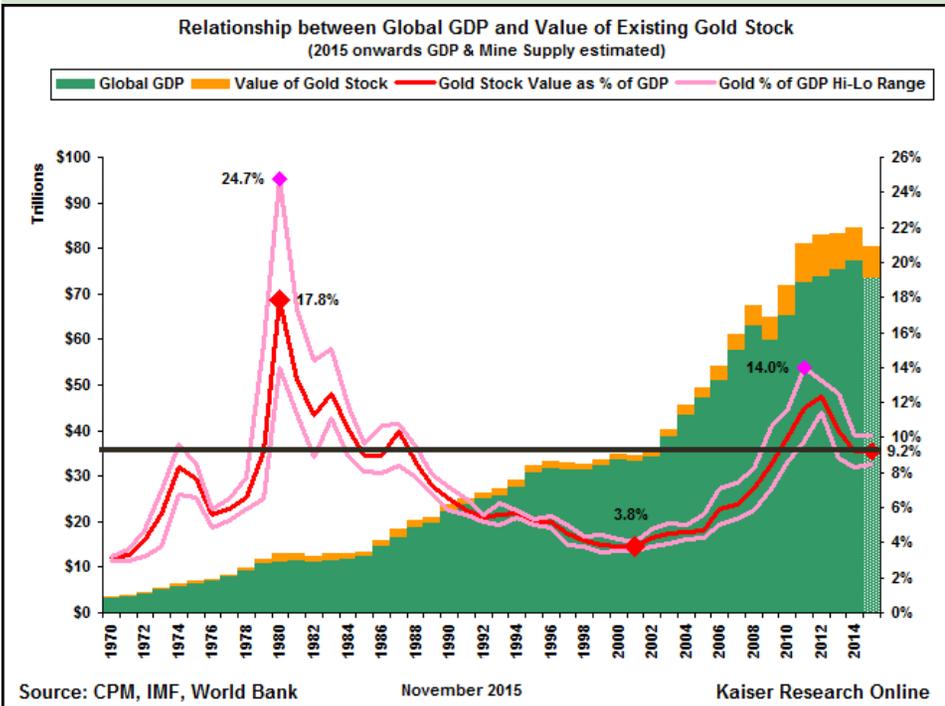
# Gold Bug Narrative

- Hijacked by ideological scolds
- Alienating apocalyptic mindset
- Misguided linkage to hyper-inflation & fiat currency debasement
- Current price full circle from 1980
- 2.4 billion oz low hanging fruit harvested
- Vulnerable to interest rate normalization, strong US dollar, and slow global economic growth





Missing from the debate is a strong argument as to why we should expect a higher real gold price that benefits mine profitability. If you look at gold as a function of prosperity and uncertainty, rising global prosperity and the accompanying relative decline of America's economic and military super-power status can deliver sustainable real gold price growth.



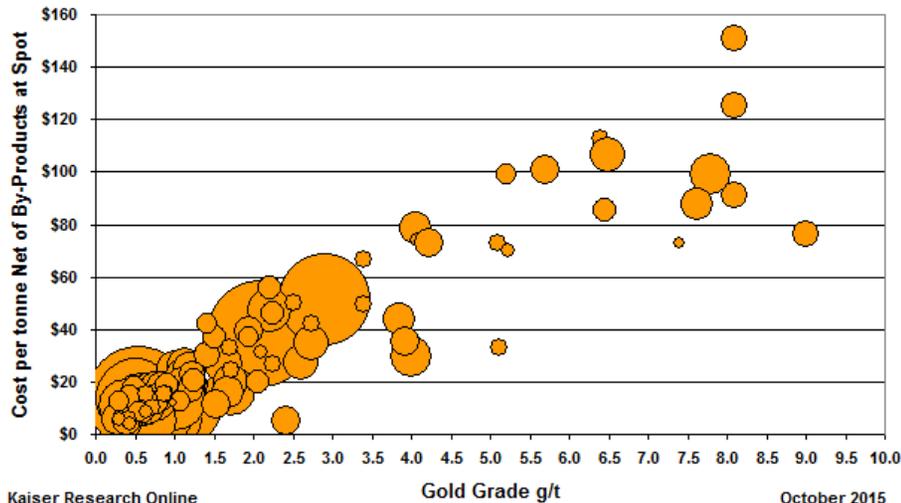
# Advanced Gold Juniors: Leveraged Bets on higher Gold Prices

Unfortunately they are gradually being acquired at a fraction of sunk feasibility demonstration costs by producers or mineral banks. Fortunately the wait will be only 3-5 years rather than the 20 that followed 1982. How long can the surviving juniors hold out?

## All-In Cost vs Grade for Undeveloped Gold Deposits

124 deposits for which PEA, PFS or BFS has been done since 2007 (min 100,000 oz/y)

Additional Potential LOM Production	14,820 tonnes Au
Additional Potential Annual Production	971 tonnes Au
(Bubble sizes 100,000 to 1,000,000 oz per year)	68% cost < \$900/oz



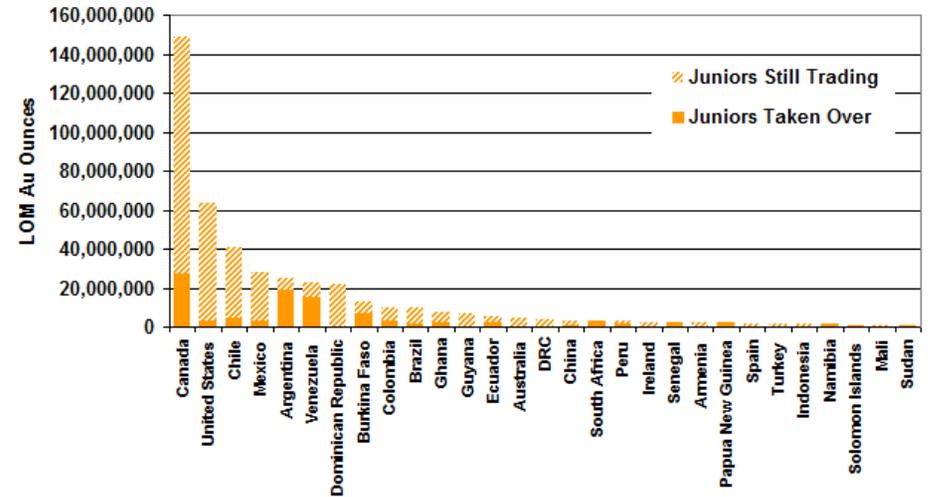
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October 2015

## Potential Primary LOM Gold Production

124 deposits for which PEA, PFS or BFS has been done since 2007

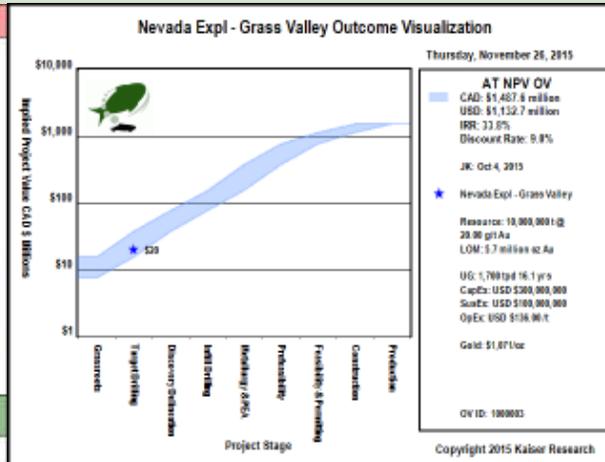
Annual oz:	28,600,000	LOM oz:	441,000,000
Taken Over:	7,500,000	Taken Over:	100,000,000
Juniors:	21,000,000	Juniors:	340,000,000



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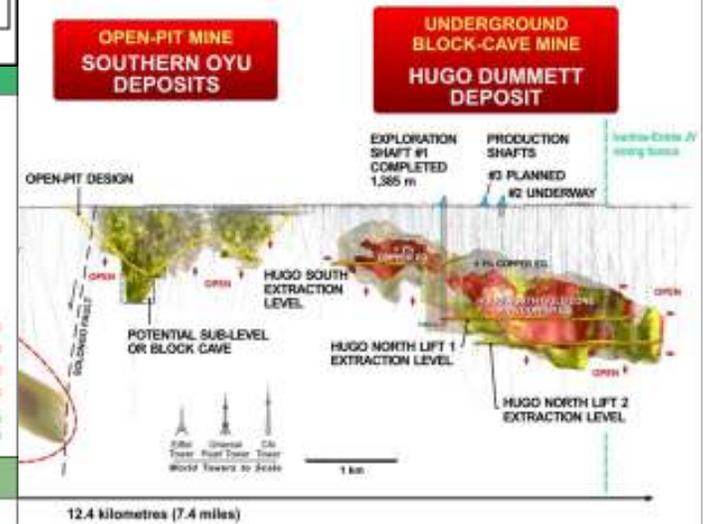
# Discovery Exploration: finding a deposit that is feasible at prevailing metal prices.



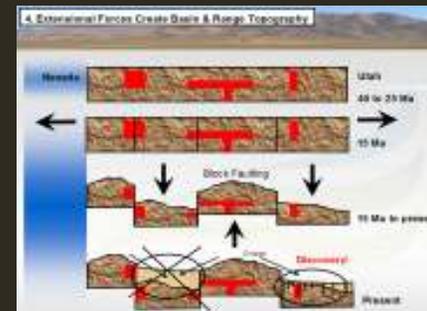
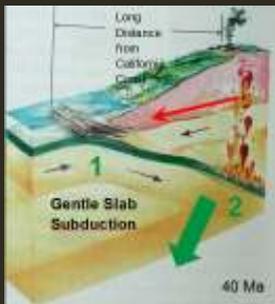
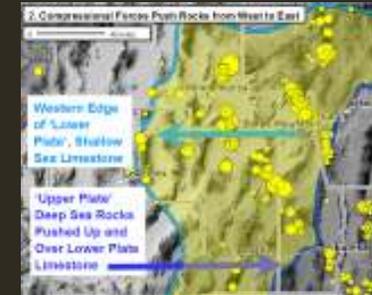
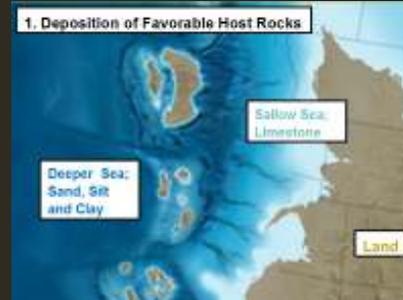
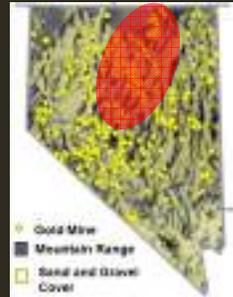
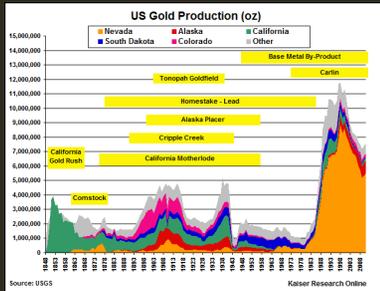
Juniors must return to discovering deposits that work with the metal prices we have. Marginal deposits are only interesting if a case can be made that the system has greater potential, such as Robert Friedland demonstrated at Oyu Tolgoi with the Hugo Dummett discovery.



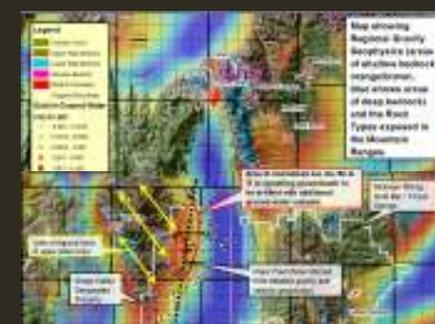
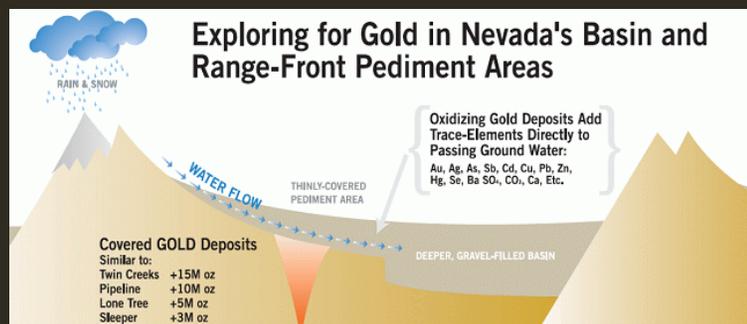
Trading at 35% discount to cash breakup because mandate is to find an advanced gold deposit!



# Example of a big picture story line for an exploration junior



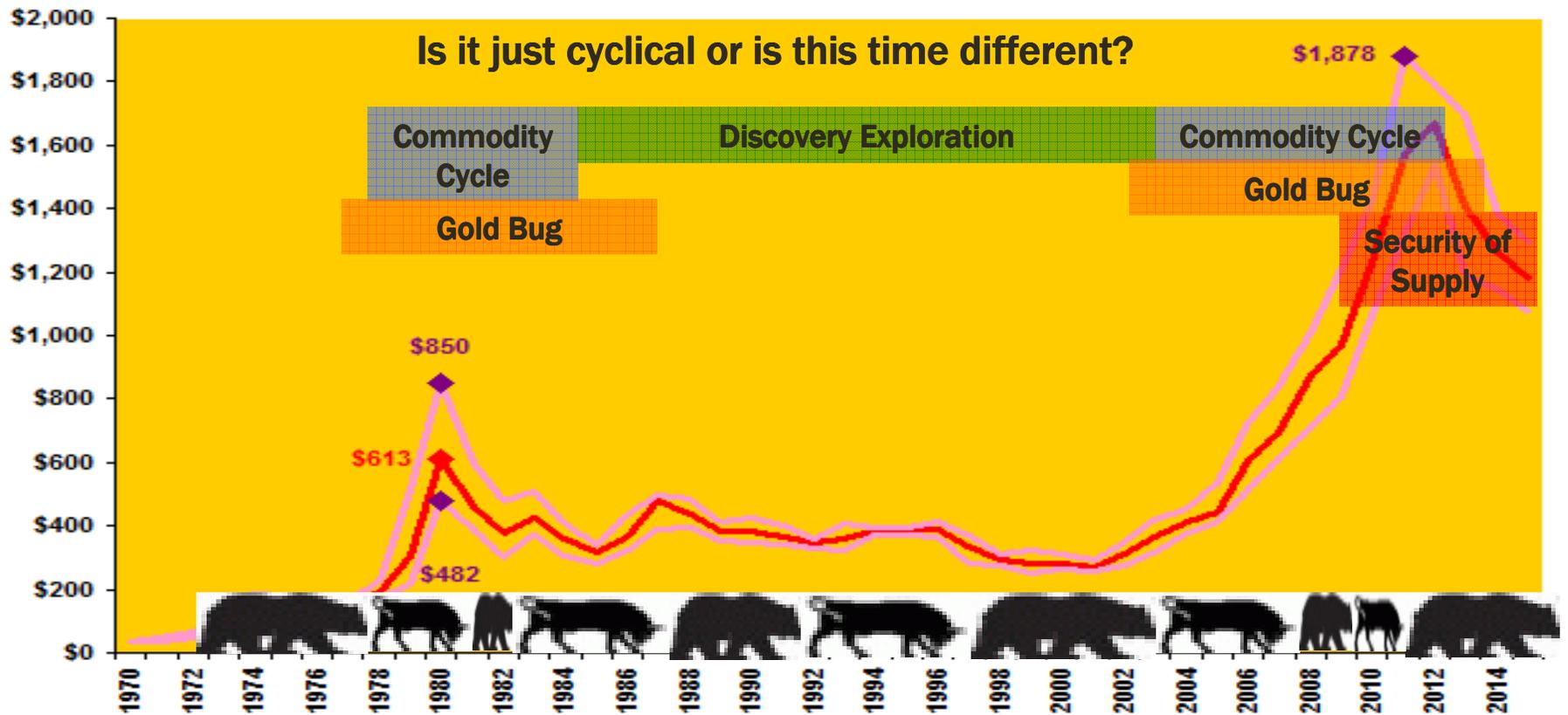
Exposed GOLD Deposits (before 1990):	
Gold Acres	<0.3Moz
Cortez Gold	2.0Moz
Horse Canyon	<0.2Moz
<b>Total Oz</b>	<b>2.5Moz</b>
Covered GOLD Deposits (since 1990):	
Pipeline	17.2Moz
Cortez Hills	15.0Moz
Goldrush	15.6Moz
<b>Total Oz</b>	<b>47.8Moz</b>



# Annual Average Gold Price with High-Low Range

— Average Gold Price

— Yearly Hi-Lo Range



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**The 2016 election will be pivotal in shaping America's future. Most outcomes will be beneficial for the resource sector narratives though for lamentable reasons in some cases.**

