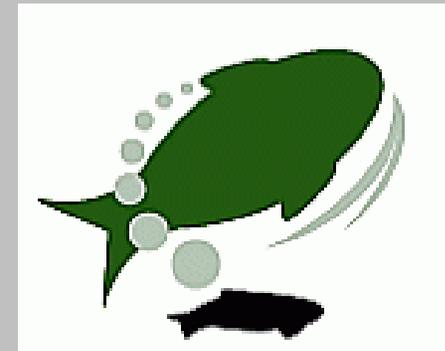


# PDAC 2012

Toronto, Canada

March 4, 2012

Presented by John Kaiser



**The Twinned Destiny of Gold and Copper**

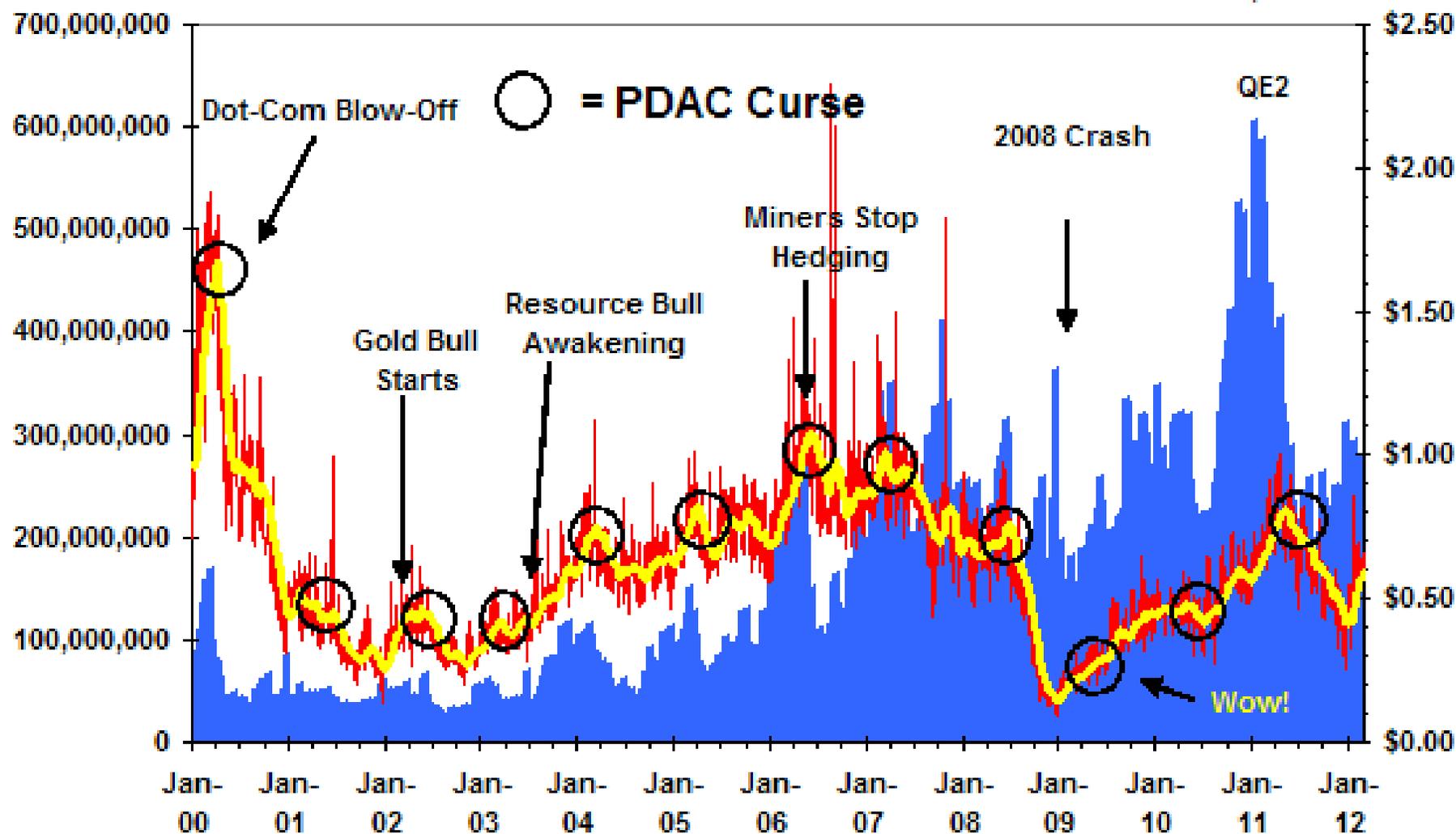
[www.KaiserResearch.com](http://www.KaiserResearch.com)

# Daily TSXV Volume and Average Trading Share Price



Volume — Average Share Price — 30 Day Average Price

March 2, 2012

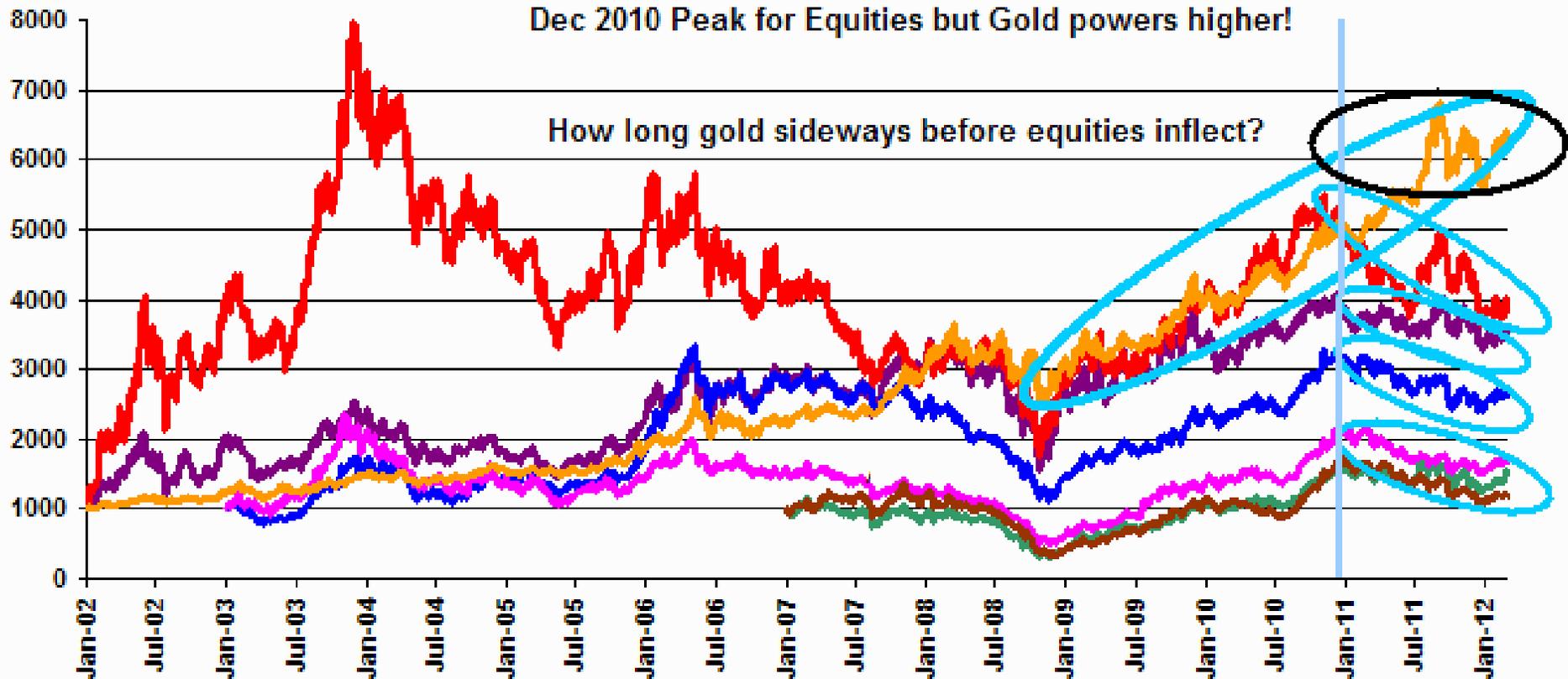


PDAC Curse: the tendency of the new year rally to fizzle right after the PDAC mining convention held annually in March in Toronto.

# KRO Gold Indices

Why are gold producers & near producers in a downtrend since Dec 2010?

March 2, 2012

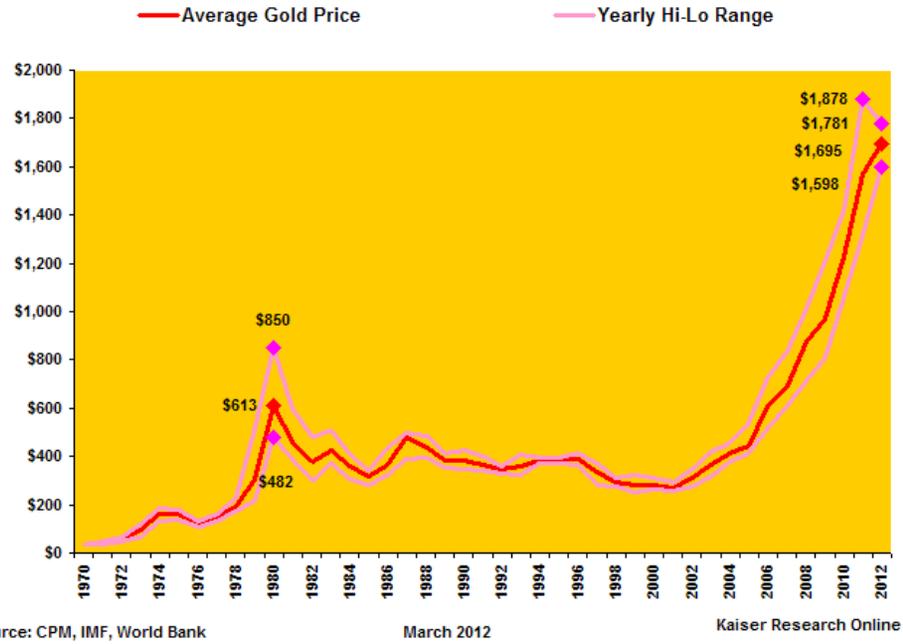


- KRO Major Gold Producer Index
- KRO Intermediate Gold Producer Index
- KRO Junior Gold Producer Index
- KRO Major Non-Producer Gold Index
- KRO Intermediate Non-Producer Gold Index
- KRO Junior Non-Producer Gold Index
- Gold \$278/oz normalized to 1000 on Jan 2, 2002



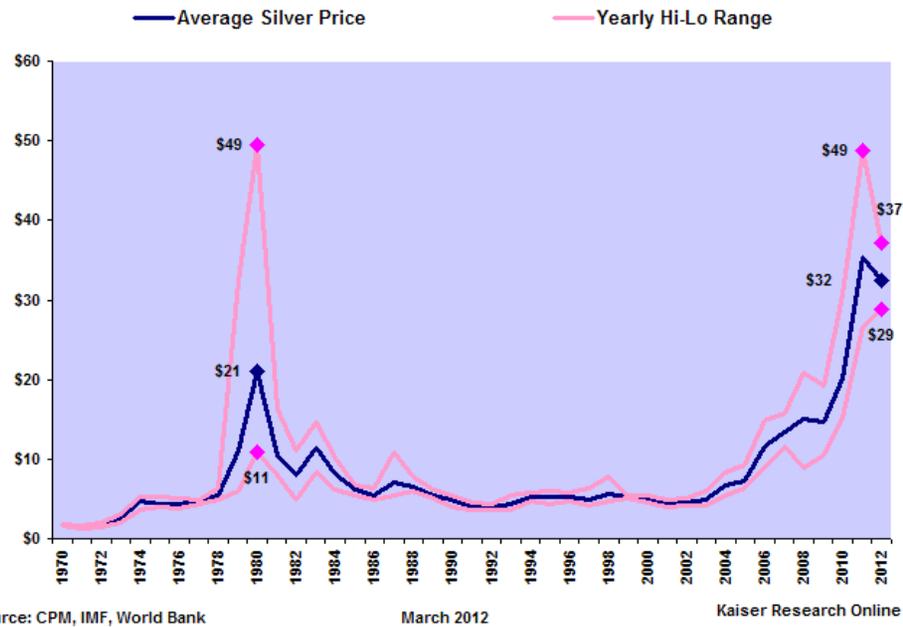
Copyright 2012  
Kaiser Research

### Annual Average Gold Price with High-Low Range



Is there a way we can look at these gold and silver charts without concluding that gold and silver bullion are in a dangerous bubble?

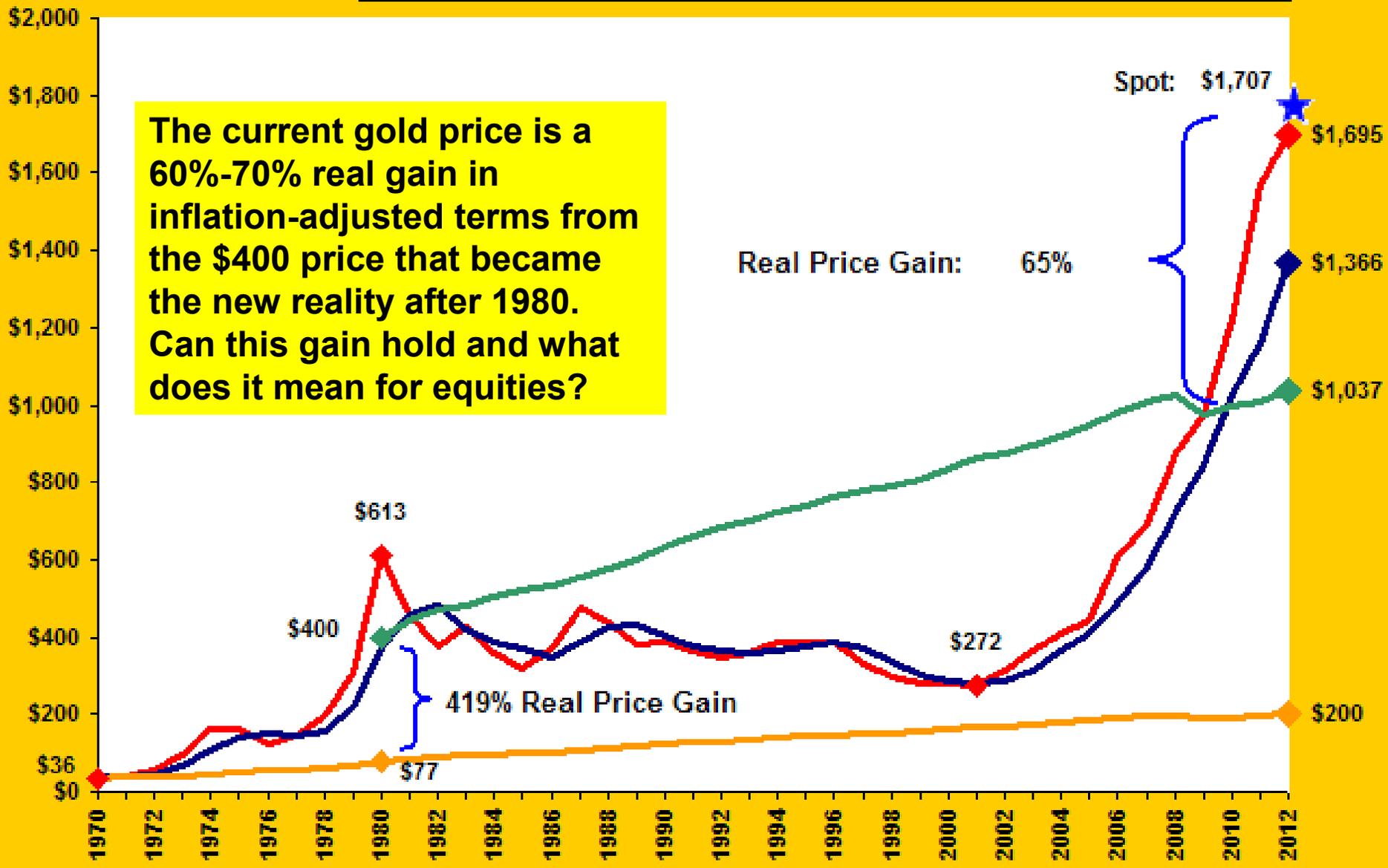
### Annual Average Silver Price with High-Low Range



# Gold

- Average Annual Gold Price \$/oz
- 3 year average - includes current year
- Gold Price US CPI inflation adjusted from 1980 base of \$400 per oz
- Gold Price US CPI inflation adjusted from 1970 base of \$36 per oz

The current gold price is a 60%-70% real gain in inflation-adjusted terms from the \$400 price that became the new reality after 1980. Can this gain hold and what does it mean for equities?



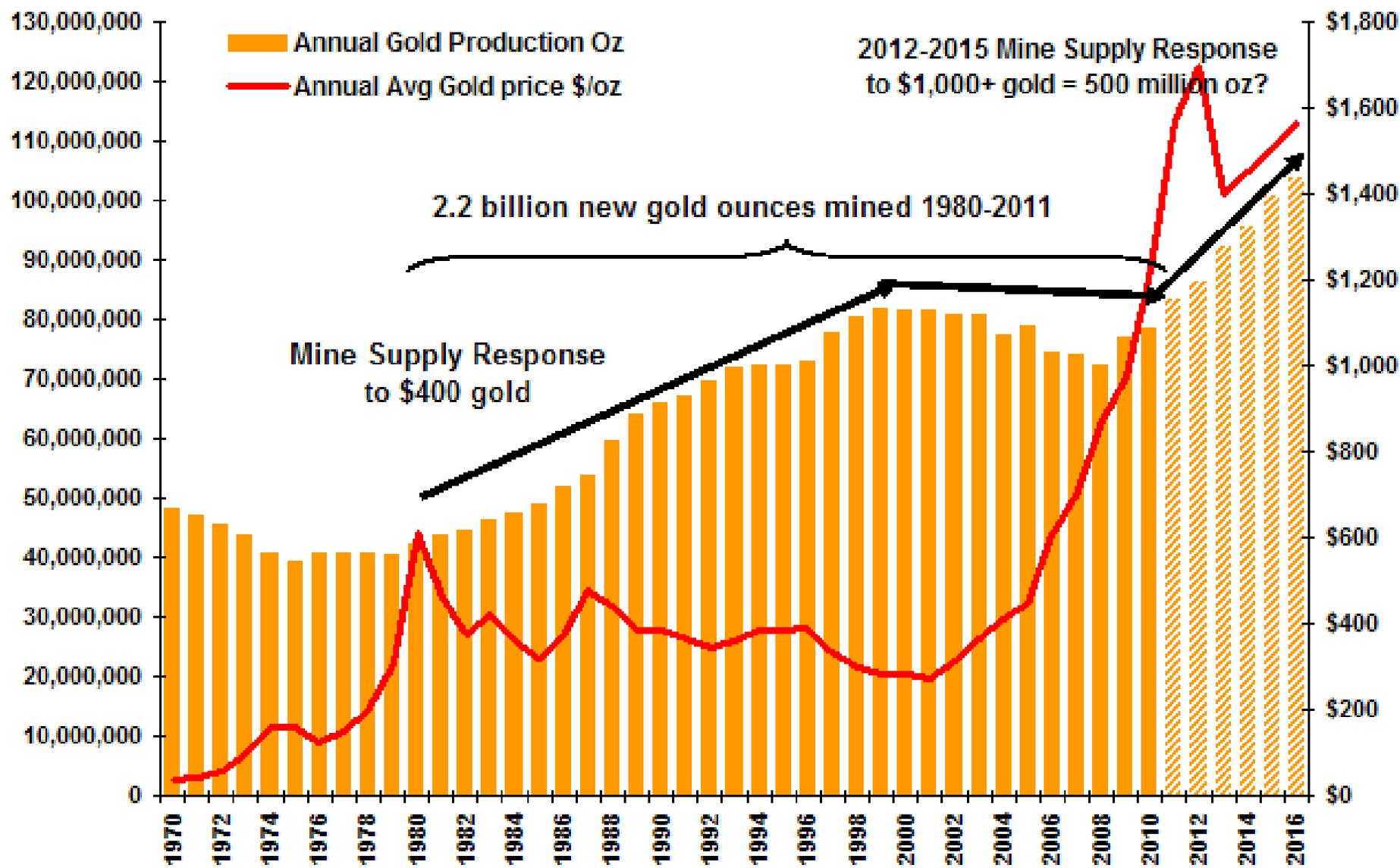
Real Price Gain: 65%

419% Real Price Gain

Spot: \$1,707

# Annual Mine Supply - Gold Ounces

(2.2 billion oz added to 3.2 billion oz stock from 1980-2011, 2011+ CPM projections)



Source: CPM

March 2012

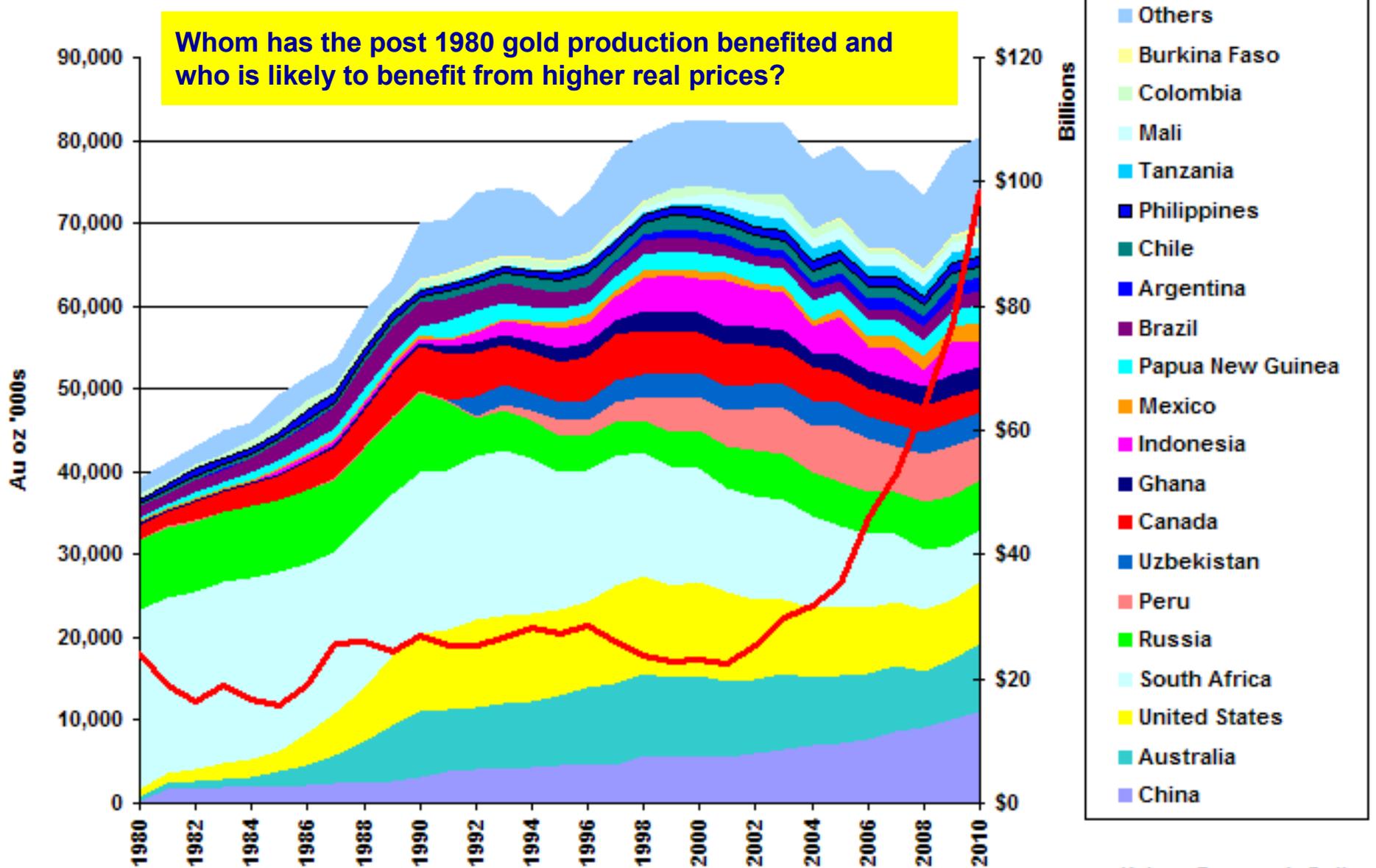
Kaiser Research Online



# Annual Gold Production

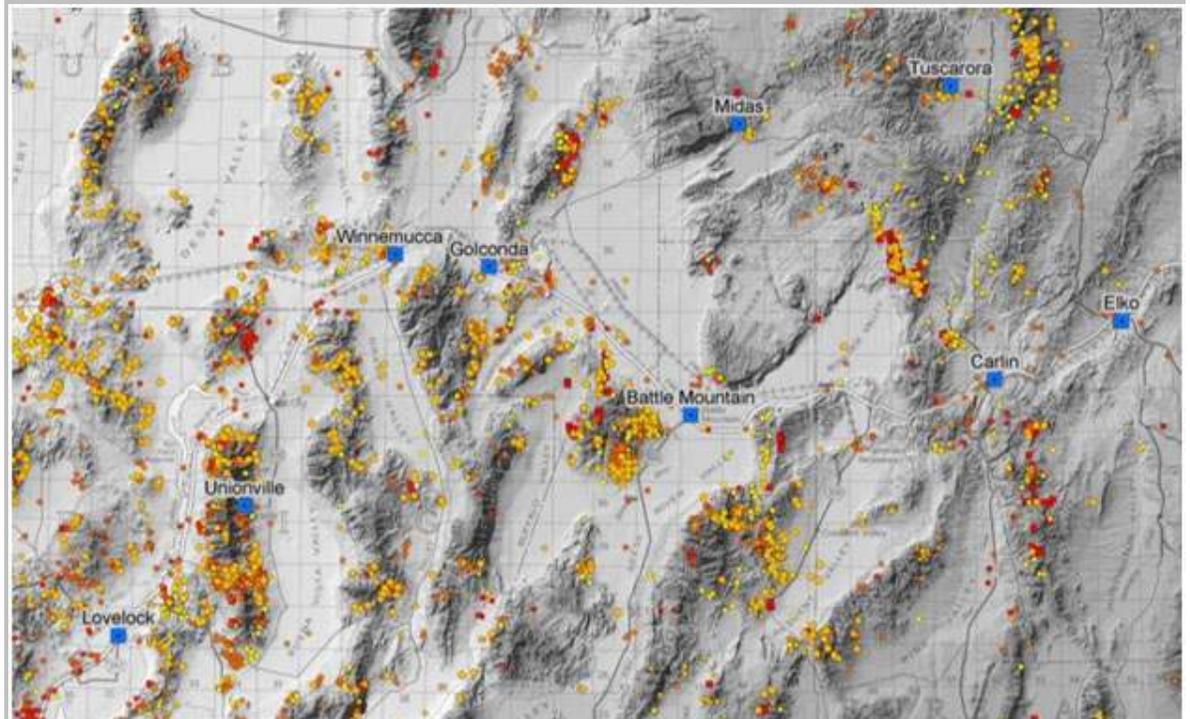
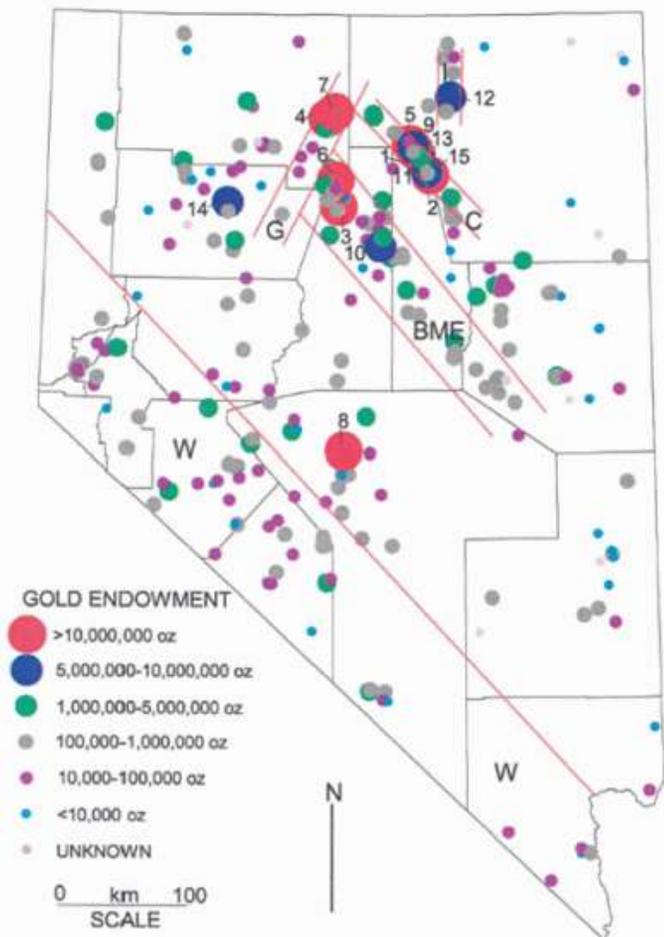
Production Data Source: USGS, CPM

Annual Production Value based on average annual gold price



# Nevada: host to one of the world's greatest gold endowments

More than half of Nevada's gold endowment remains to be found under the basin gravels.



# McEwen Mining Inc

2/22/2006 TO 3/2/2012



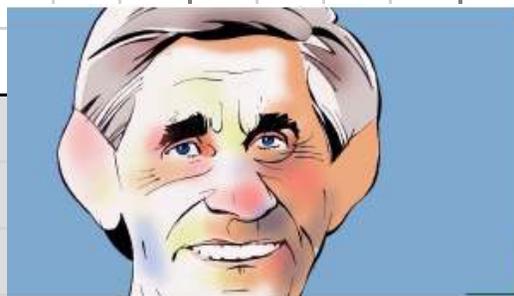
THE LUNCH

Rob McEwen: Mining magnate with a vision

GORDON PITTS

From Saturday's Globe and Mail

The next Barrick to emerge from Nevada?



\$10.00  
\$9.00  
\$8.00  
\$7.00  
\$6.00  
\$5.00  
\$4.00  
\$3.00  
\$2.00  
\$1.00  
\$0.00

8,000,000  
6,000,000  
4,000,000  
2,000,000

\$25,000,000  
\$12,500,000

Issued: 267,084,203

High: \$9.44 on 4/8/2011

Max Volume: 5,722,200 on 1/29/2008

Diluted: 267,084,203

Low: \$0.50 on 10/24/2008

Max Value: \$21,744,360 on 1/29/2008

# Nevada Exploration Inc

6/6/2008 TO 3/2/2012



Issued: 107,532,851

High: \$0.73 on 6/6/2008

Max Volume: 5,100,800 on 10/10/2008

Diluted: 122,445,551

Low: \$0.03 on 10/28/2008

Max Value: \$229,536 on 10/10/2008



KaiserBottomFish.com

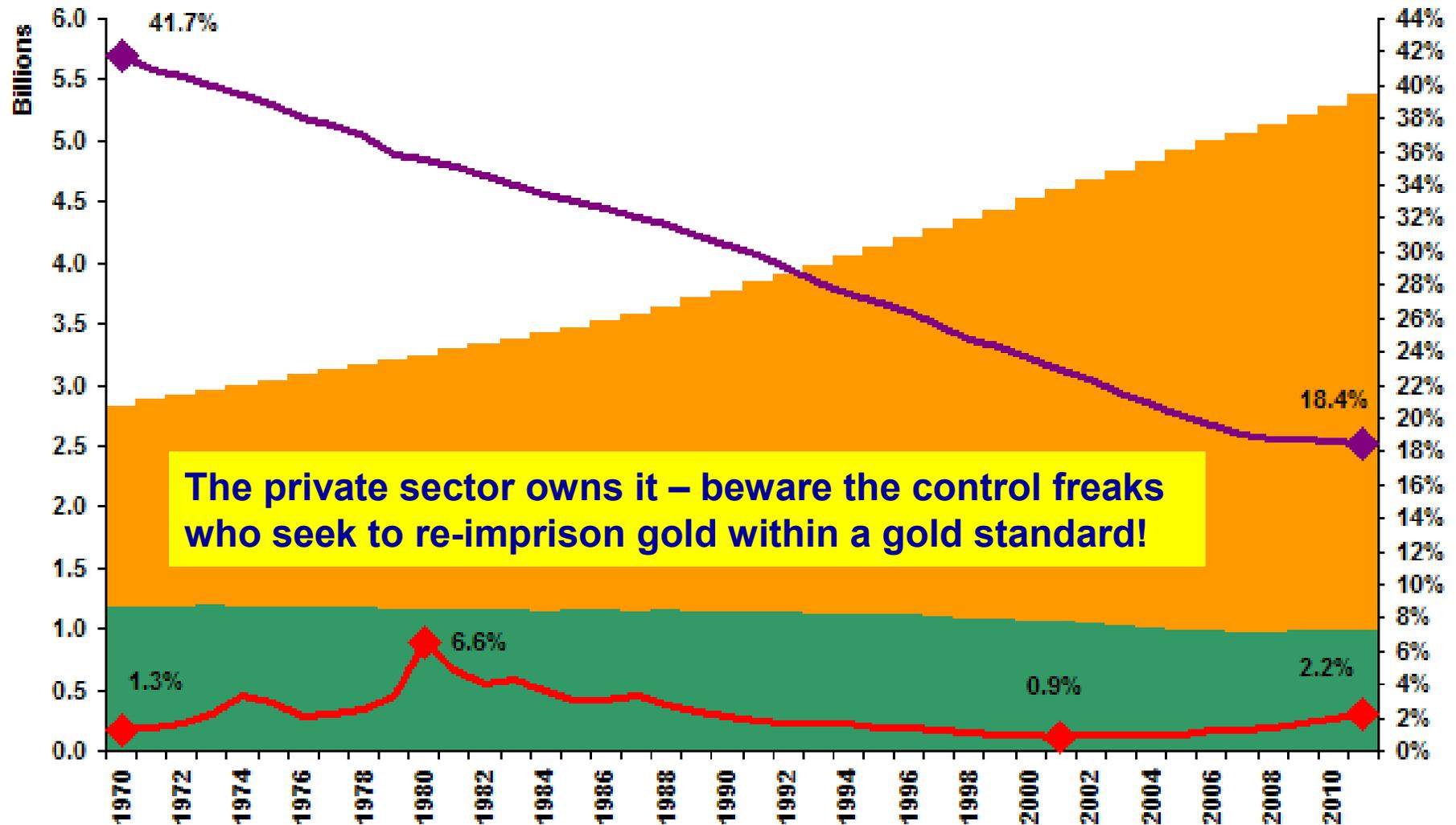
NGE - TSXV - CAD \$0.12

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## Trends in Official vs Private Sector Gold Holdings

(2011 GDP & Mine Supply estimated - Au \$1,570/oz Ag \$35/oz average)

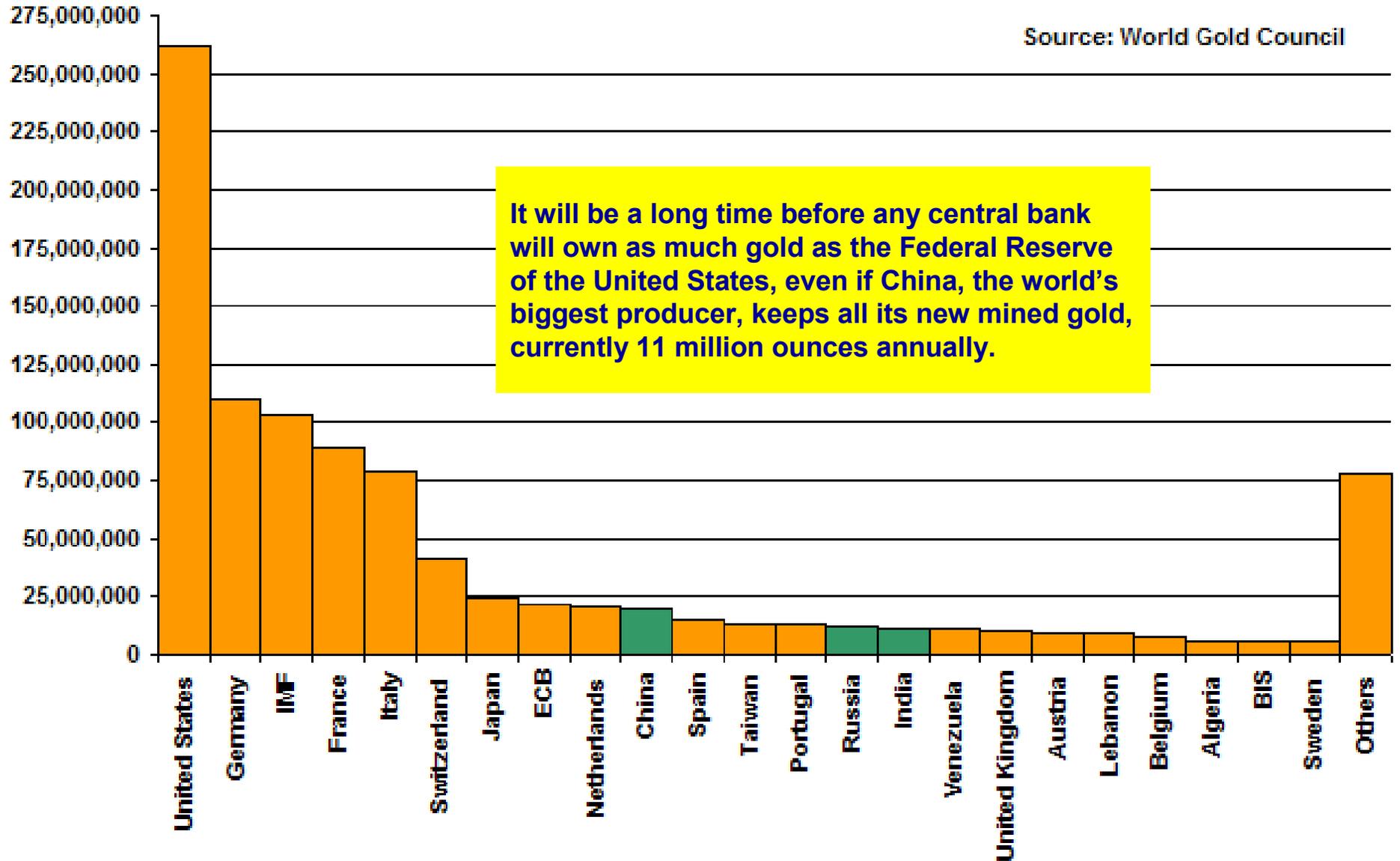
■ Official Sector Holdings Oz      ■ Private Sector Holdings Oz  
— Official Holdings Value as % of GDP      — Official Holdings as % of Total Gold



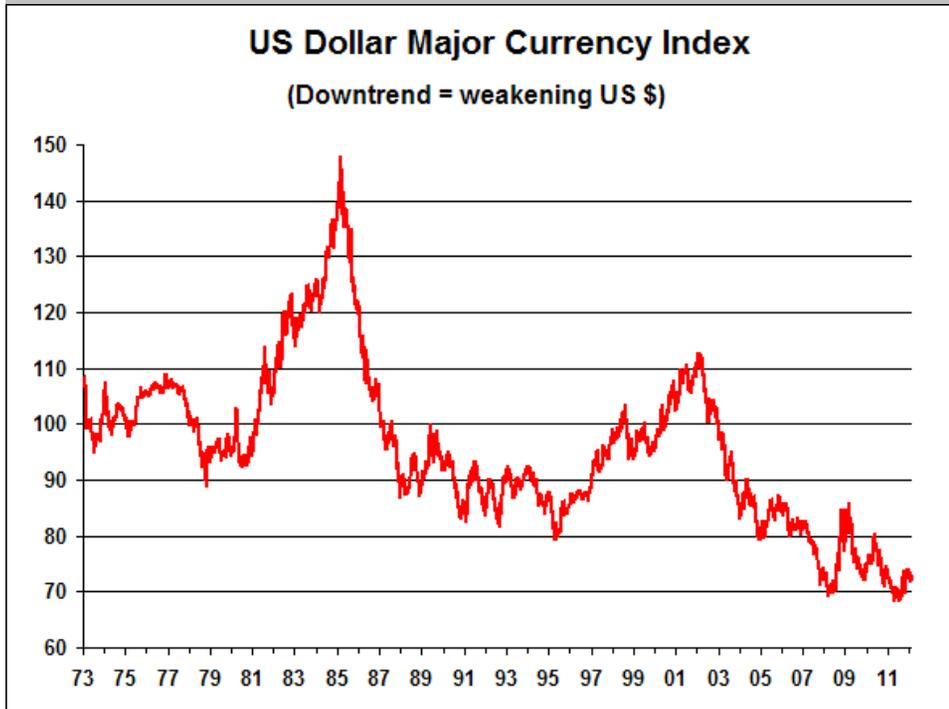
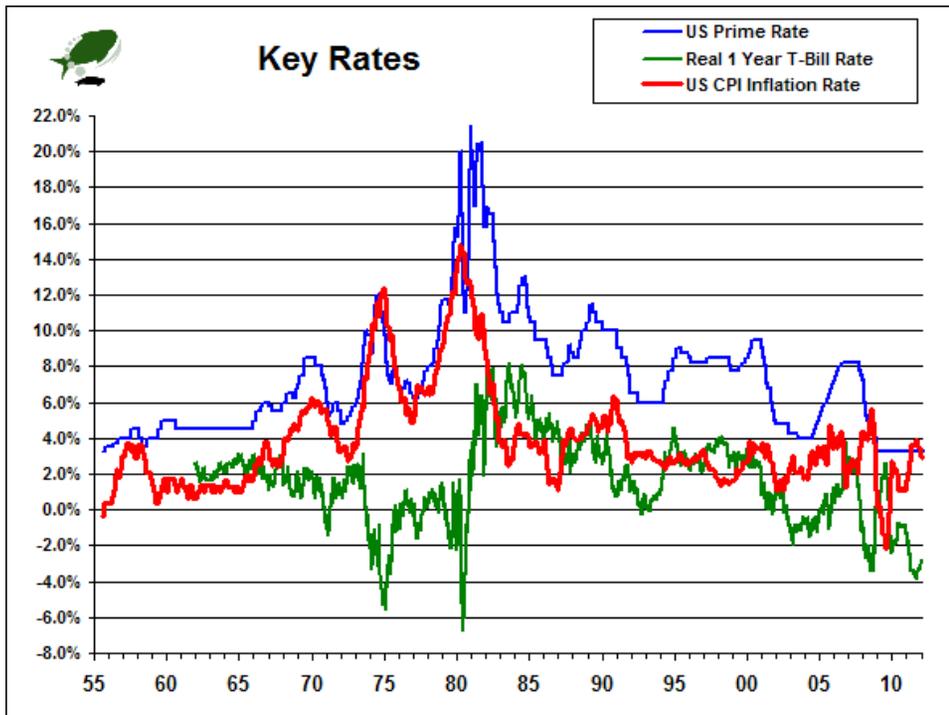
# Official Gold Holdings - Q3 2011

## 989 million ounces

Source: World Gold Council



Kaiser Research Online



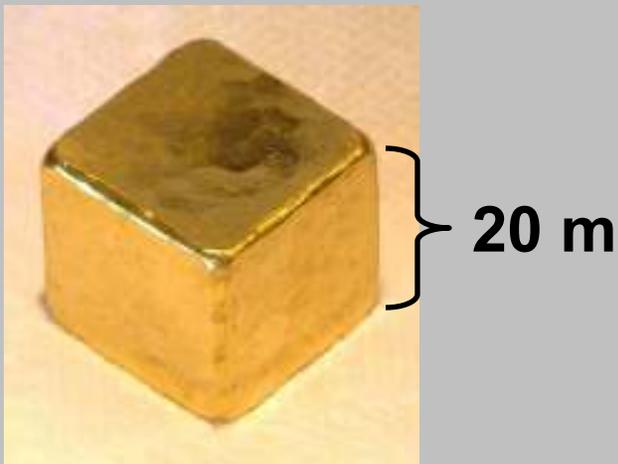
Is gold up because it is anticipating inflation which will wipe out the profit margin implicit in gold's real price gain?

Is gold up because the US dollar will massively decline against other currencies?

Neither the hyper-inflation nor currency debasement explanations for gold's strength are good for gold equities.

The apocalyptic gold bug narrative does nothing for the profitability of gold production, the basis on which equities get valued.

Money is an information system that facilitates economic exchange by keeping track of debits and credits: it is an abstract promise about the future whose existence does not require energy as an input. However, its integrity requires trust and a market.

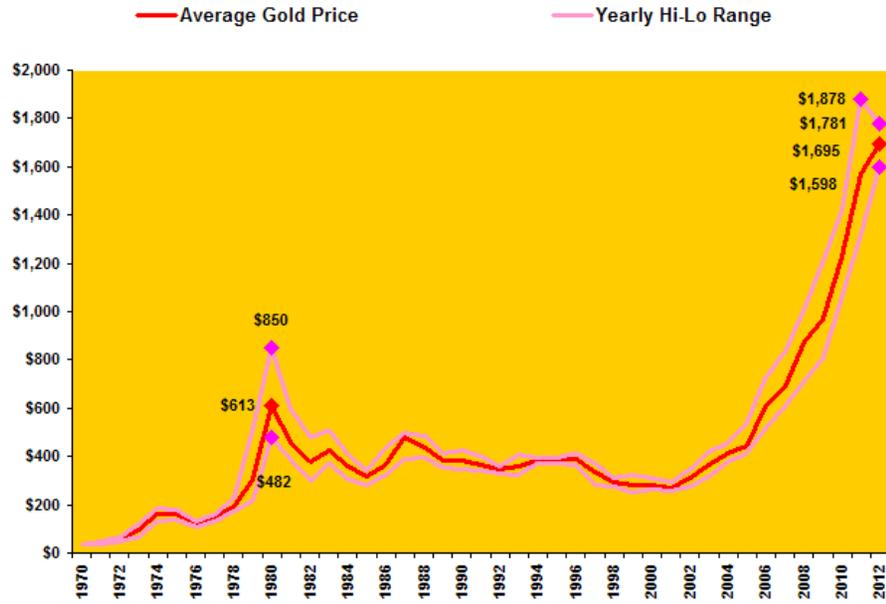


Gold is a tangible record of energy consumed: it is a relic that promises nothing. However, the energy stored in the above ground gold stock is an undeniable fact. So is its payload of human suffering.

Because gold has limited utility, the challenge is to recover the energy consumed in the production of bullion. So long as gold ownership does not become unfashionable, as it would if there were an **energy breakthrough** that facilitated boundless production, or if there were a breakthrough in **desalination** with gold as a recoverable by-product, it can serve as a tradeable asset class.

Gold's primary utility is as a private sector asset class that provides insurance against financial and geopolitical uncertainty.

### Annual Average Gold Price with High-Low Range

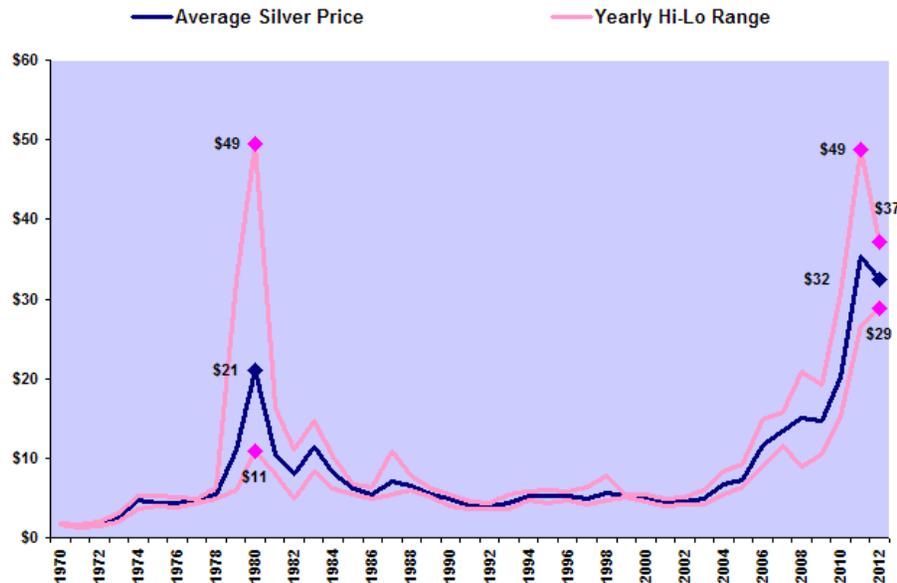


Source: CPM, IMF, World Bank

March 2012

Kaiser Research Online

### Annual Average Silver Price with High-Low Range



Source: CPM, IMF, World Bank

March 2012

Kaiser Research Online

**If it looks like a bubble, then how can it not be a bubble?**

It's not about the collapse of fiat currencies and the end of America.

It's about the relative, not absolute, decline entailed for America by a global economy whose growth is driven by emerging economies such as China.

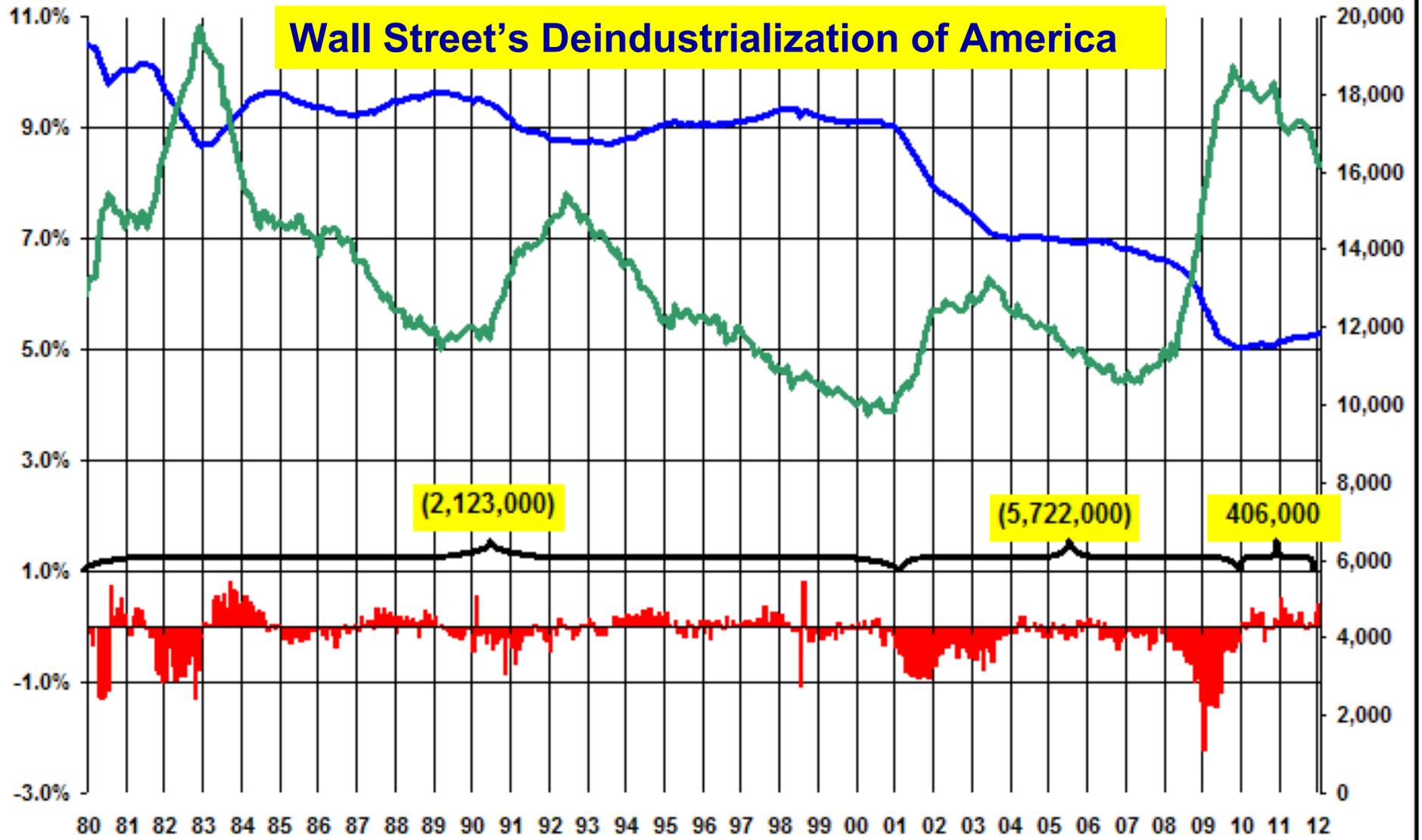
It's about fear over the instability that this transition will bring to the world.

Skyrocketing gold & silver reflect a looming crisis for global supply channels that requires us to think in terms of security of supply.

**Because it is a delayed adaptation to a new reality brought about by globalization and the end of the Cold War.**

# US Manufacturing Jobs

Monthly Job % Change    Total Jobs - '000s    Unemployment Rate %



Source: Bureau of Labor Statistics

Kaiser Research Online

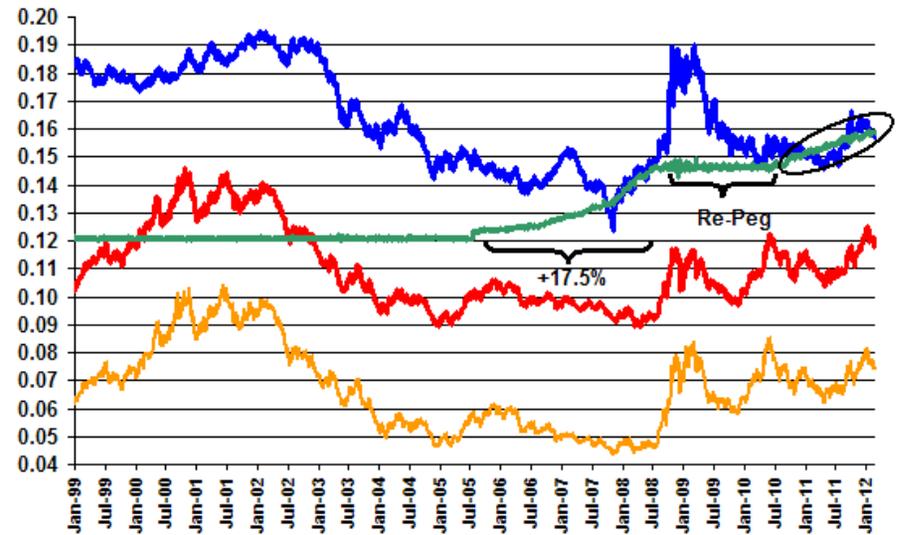
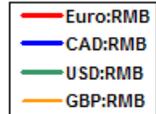
January 2012

# The Chinese Anomaly

- Hybrid central command economy with outsourced production
- Cheap Labor – urbanization of 1 billion rural Chinese unleashed by the end of orthodox communism
- No Health & Safety for Workers
- No environmental emission controls
- No Unions to secure medical or pension benefits
- US Dollar Peg: the devil’s bargain of maintaining an undervalued renminbi by bankrolling the US trade deficit through the accumulation of US treasury debt
- FDI: foreign direct investment and technology transfer

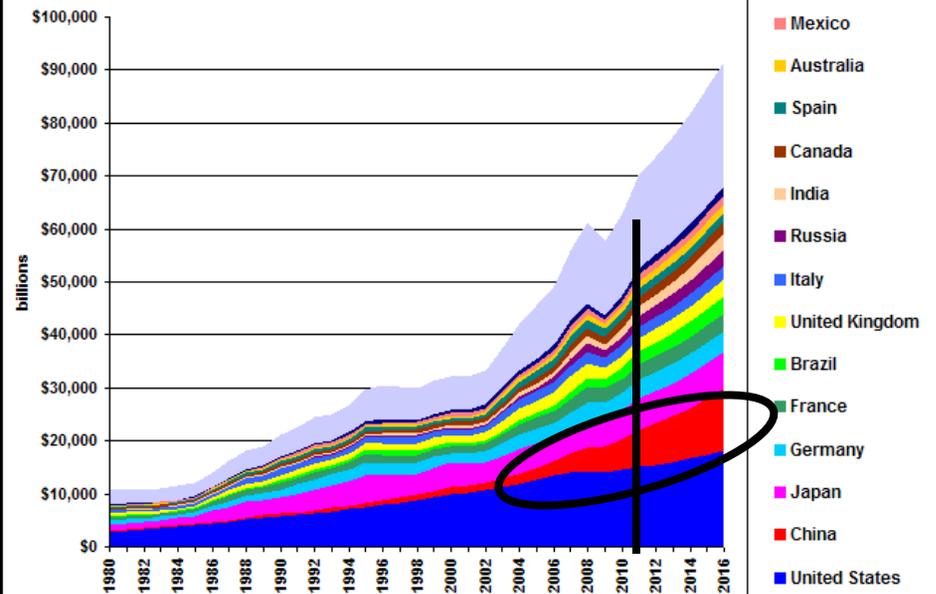
## Currency Exchange Rates

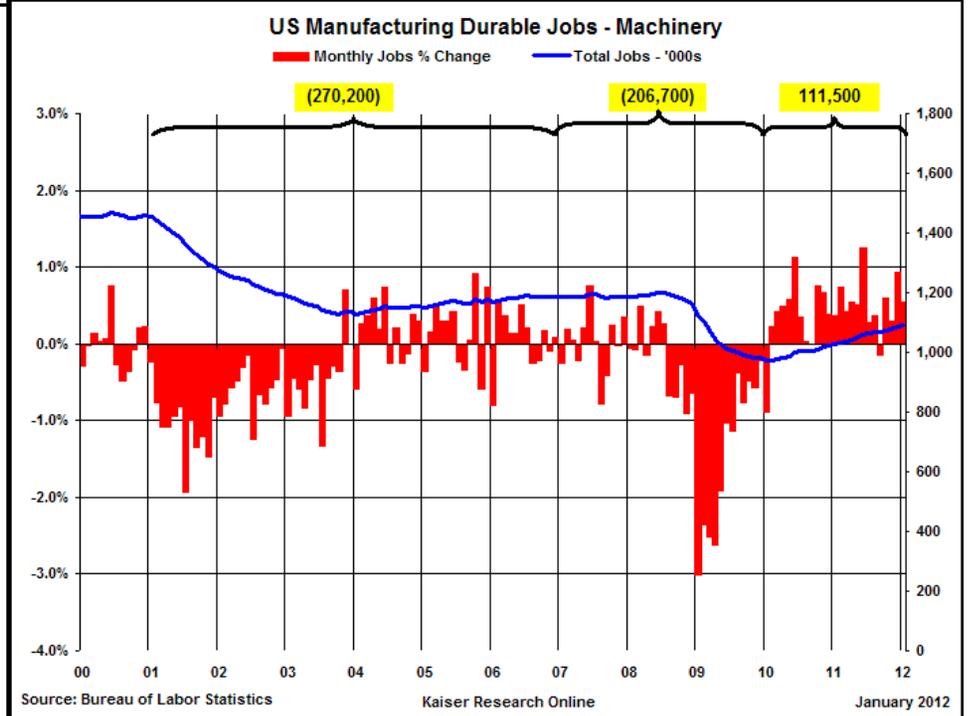
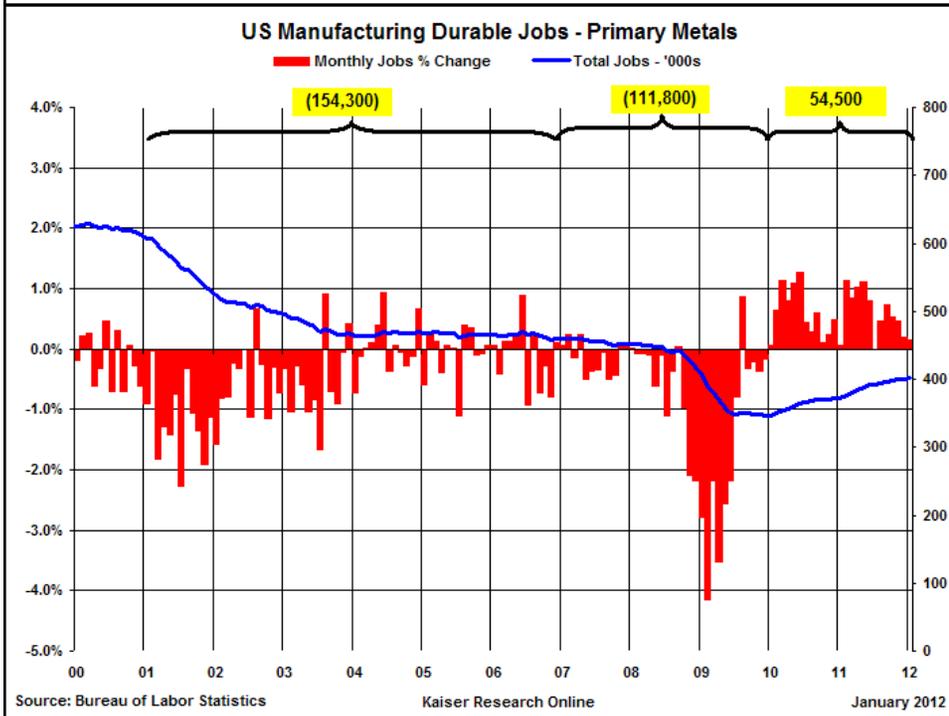
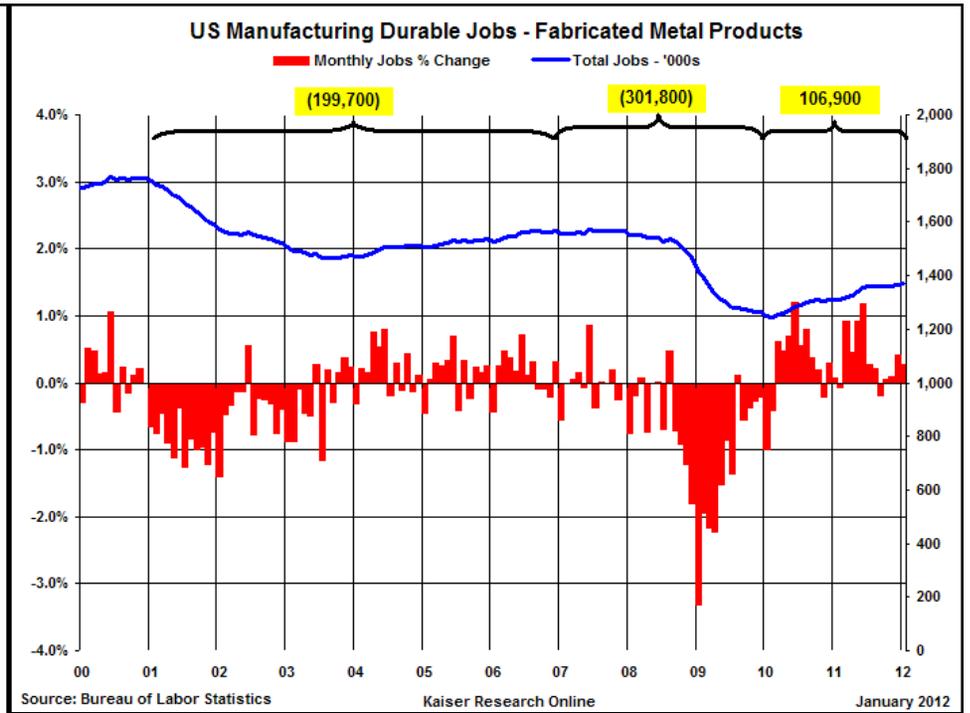
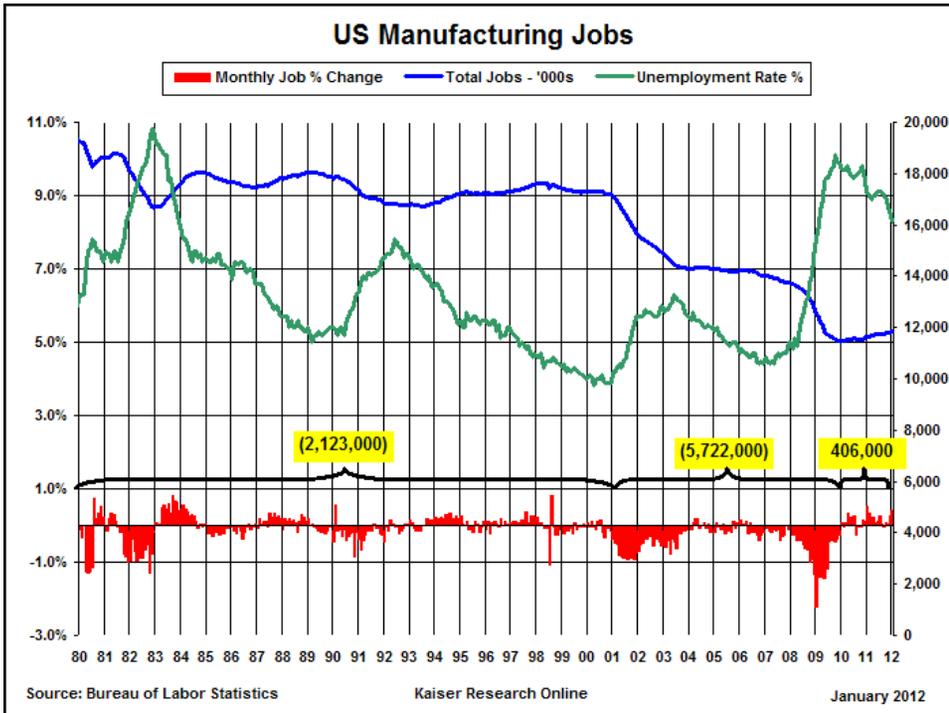
Per Chinese Renminbi (Yuan)  
(Downtrend = weakening RMB)

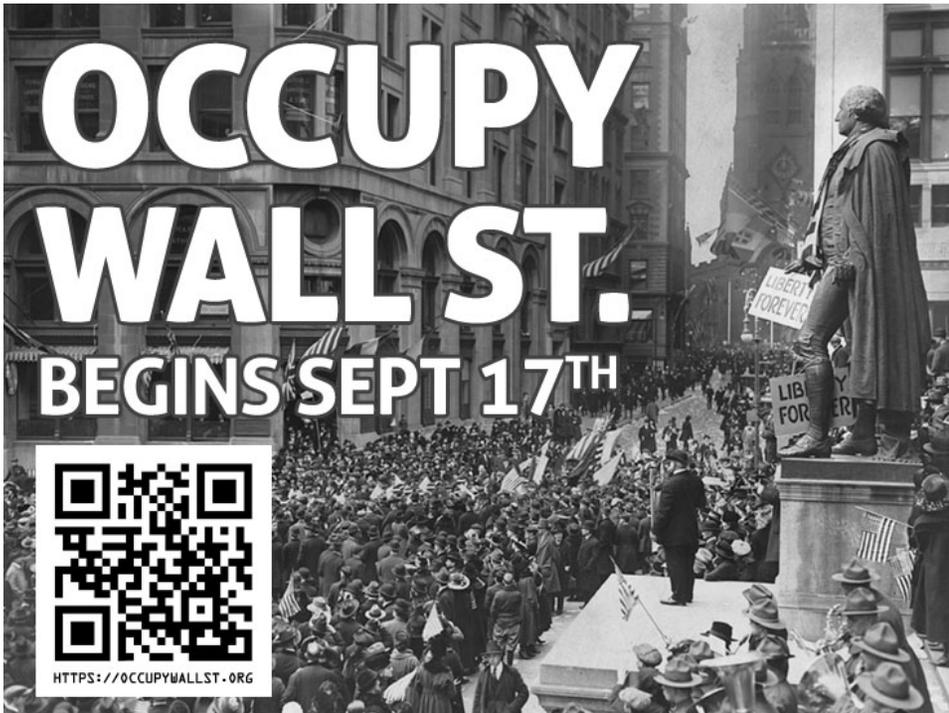


## Global GDP Current Dollars

IMF forecasts 2011-2016 (September 2011 WEO)





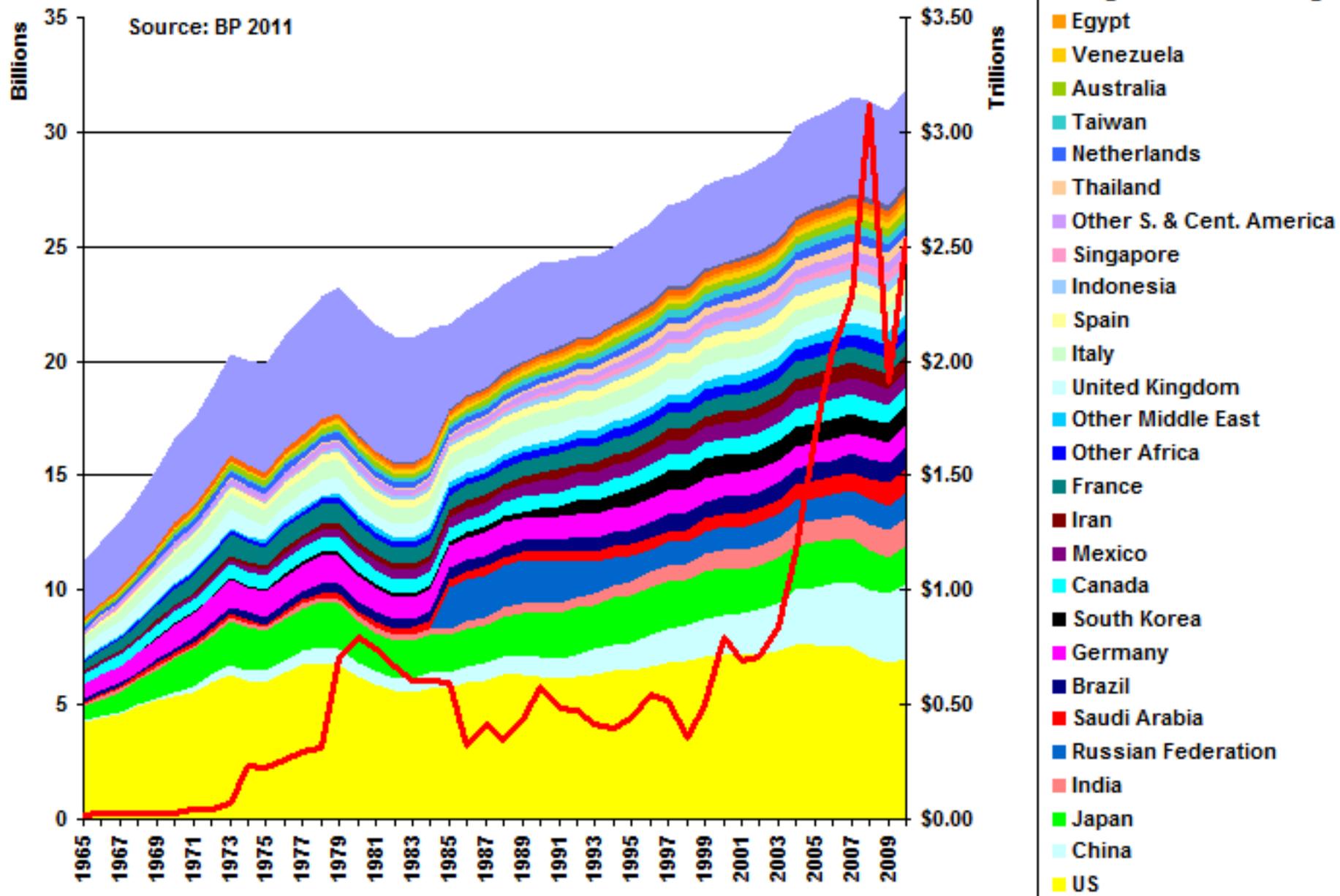


Are you willing to pay the total cost?

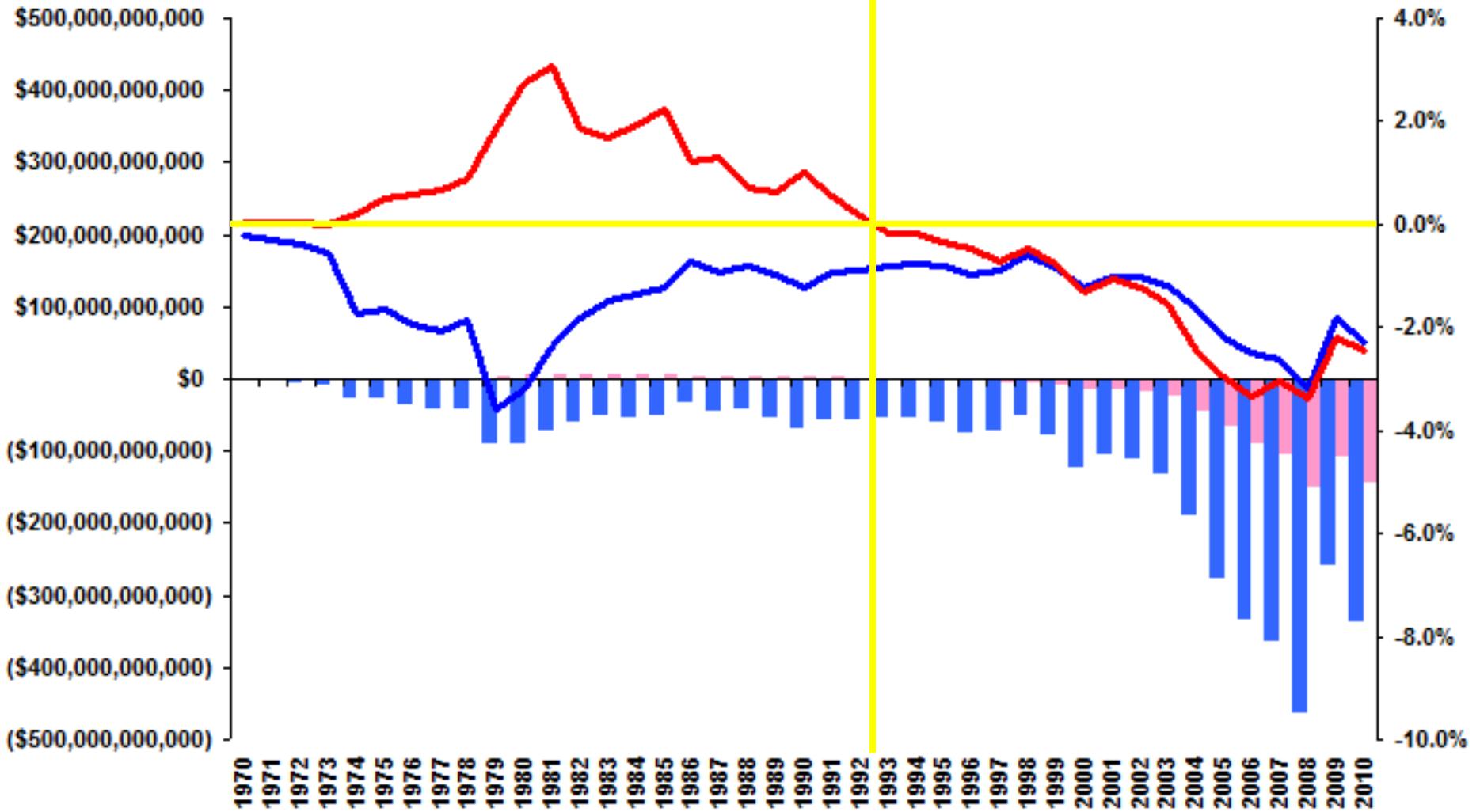


Or are you a Cost Dumper?

# Oil Consumption- barrels per year



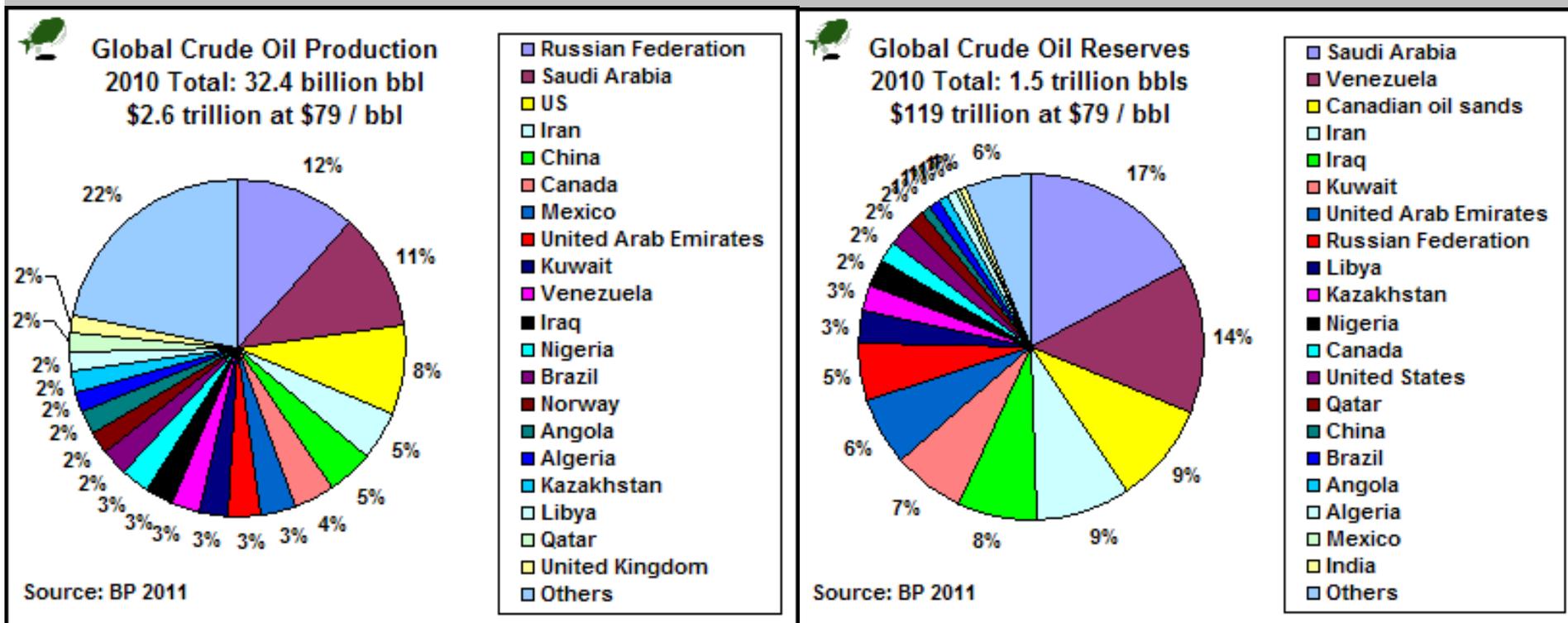
# US and China Oil Import Dependency



Source: BP 2011

Kaiser Research Online

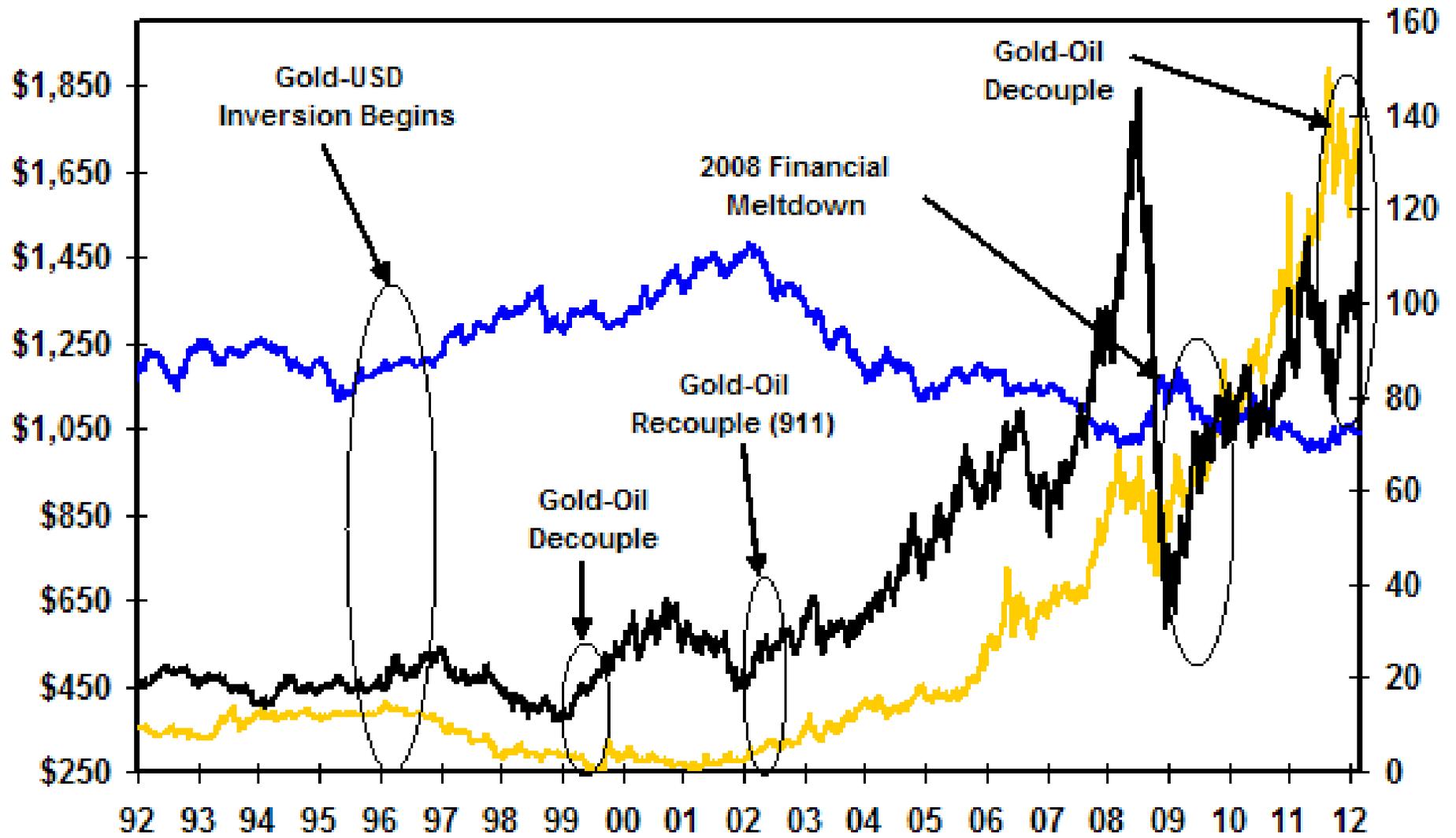
Will the Arab Spring boost the flow of crude oil for the whole world, spawn Islamic agenda driven supply allocation strategies, or provide China with easier access once the petrodollar recycling dictators are gone? Can the global economy sustain an oil shock arising from a decision to “neutralize” Iran’s nuclear ambitions?





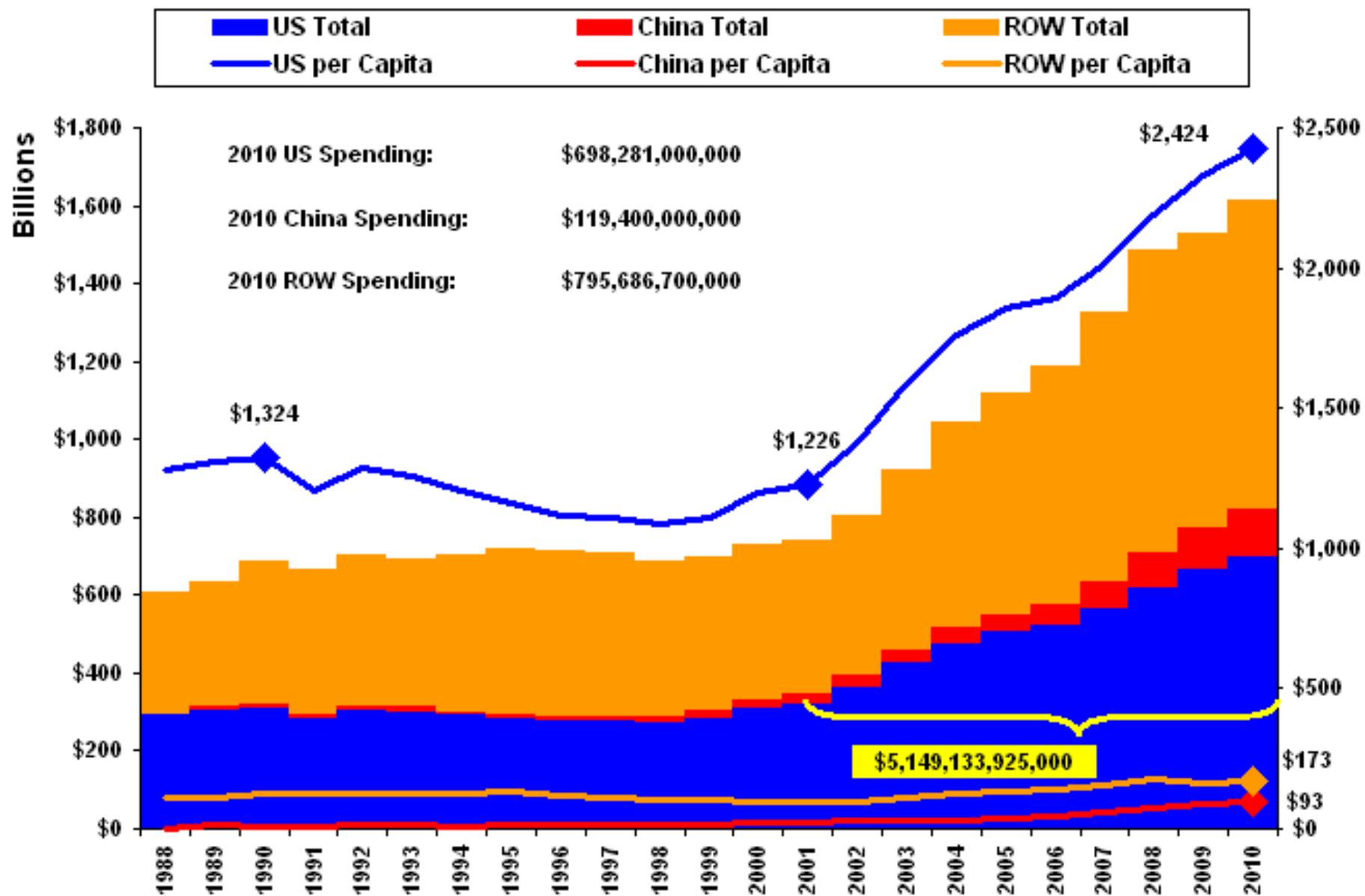
## Gold vs US\$ Index vs Oil

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



# Annual Military Spending

(US figures do not include veterans spending - \$100 billion in 2010)



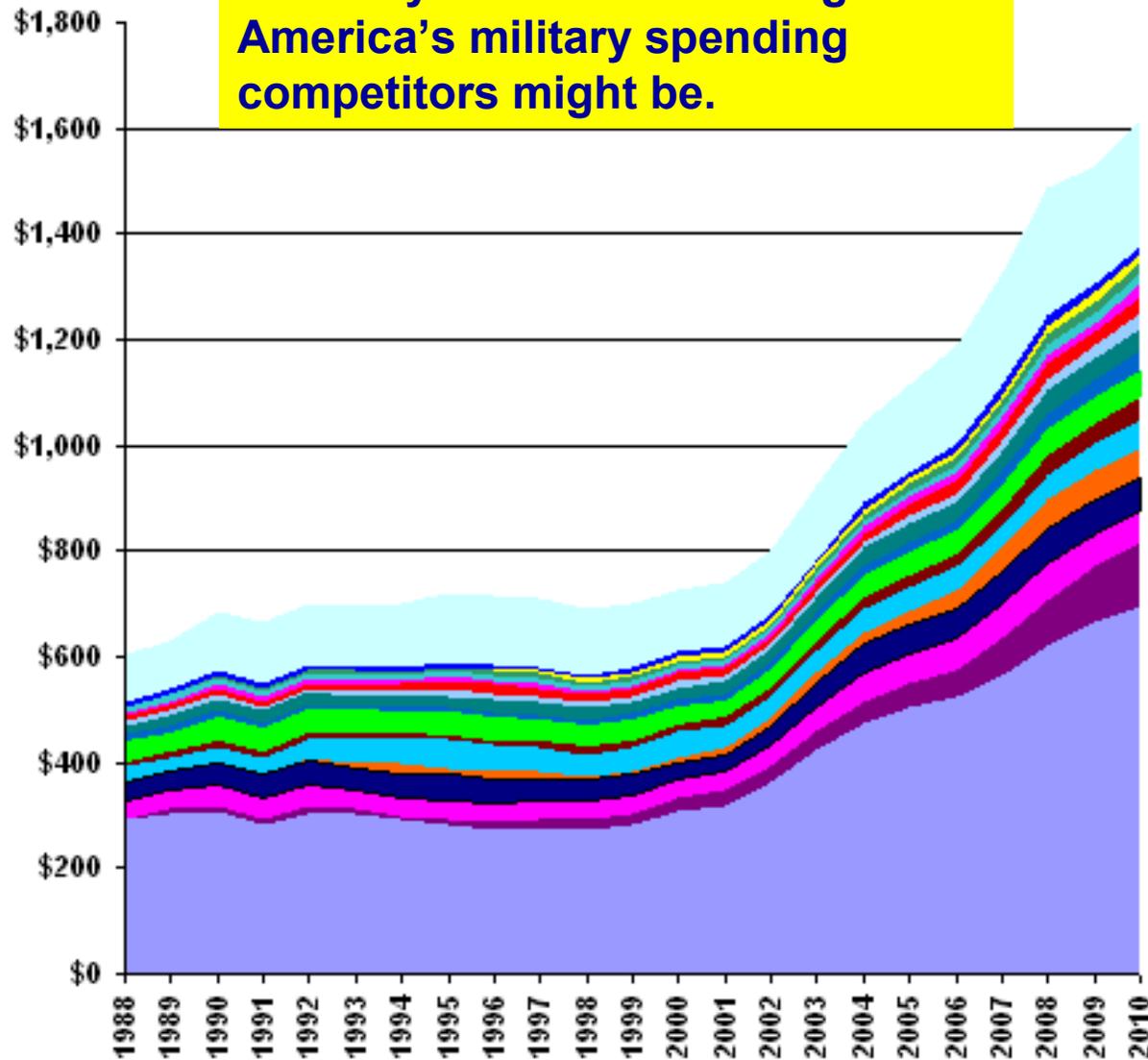
2010 US Spending: \$698,281,000,000  
 2010 China Spending: \$119,400,000,000  
 2010 ROW Spending: \$795,686,700,000

\$5,149,133,925,000

# Global Military Spending - billions USD

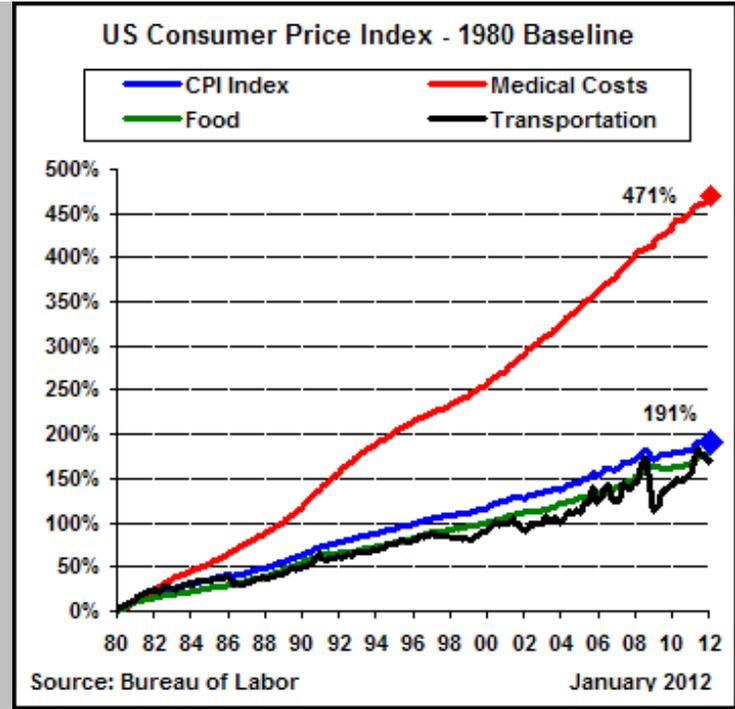
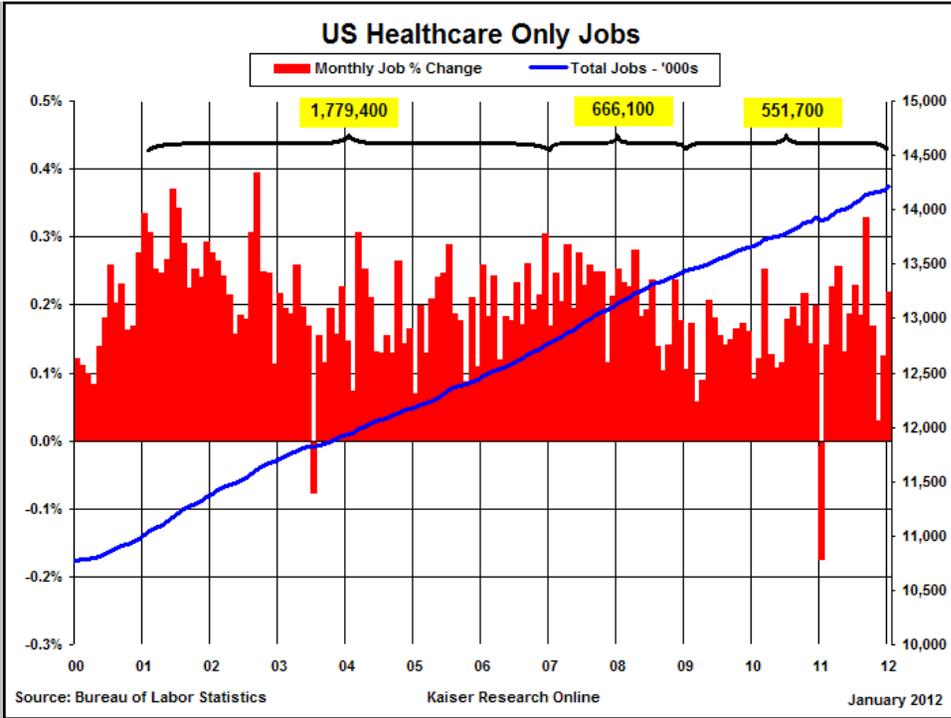
(\$1.6 trillion in 2010)

In case you were wondering who America's military spending competitors might be.

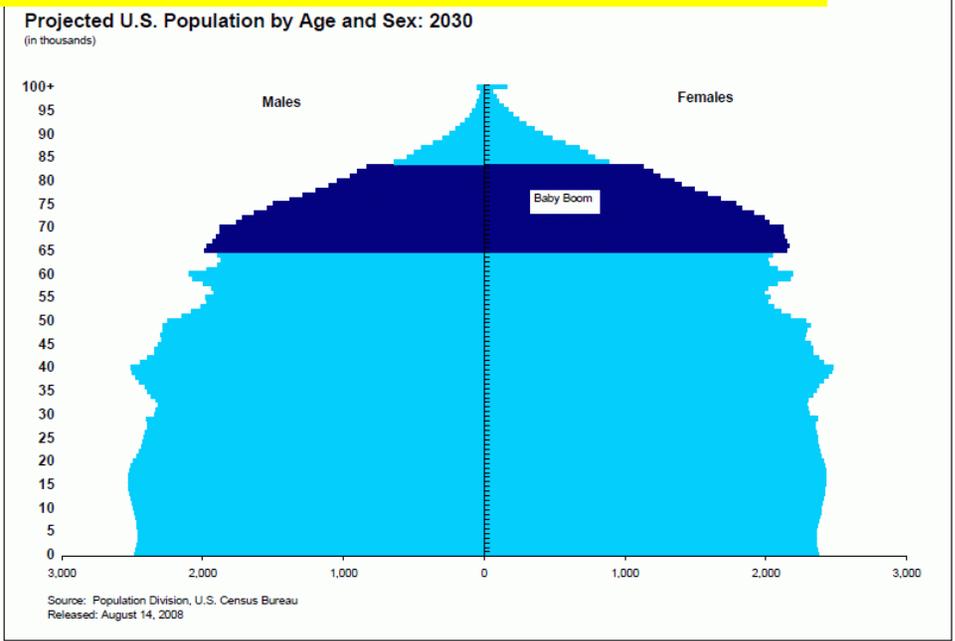
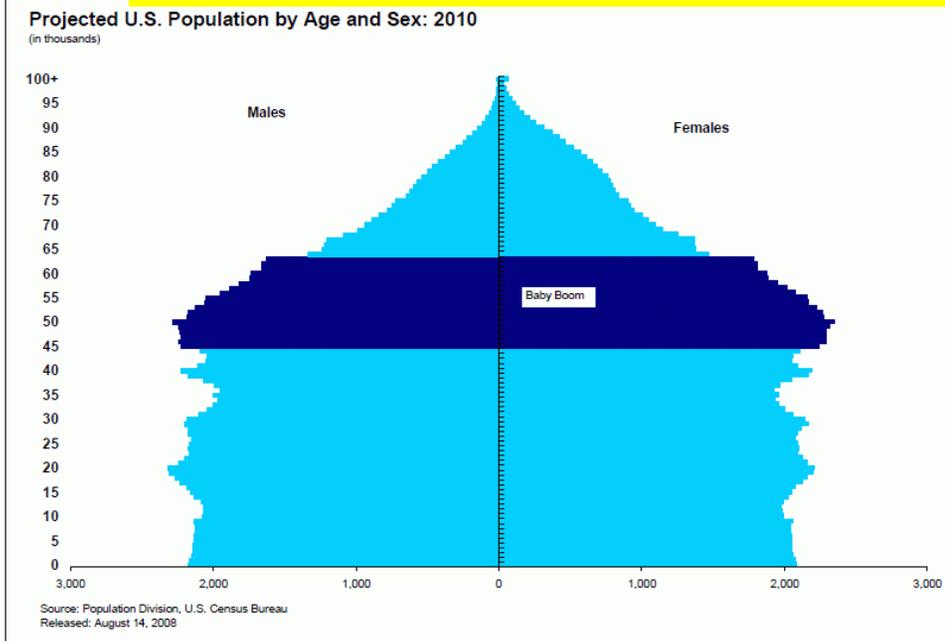


- Rest of World
- Spain
- United Arab Emirates
- Turkey
- Canada
- Australia
- Korea
- Brazil
- Italy
- India
- Germany
- Saudi Arabia
- Japan
- Russia
- France
- United Kingdom
- China
- United States

Source: IMF, SIPRI - current dollars

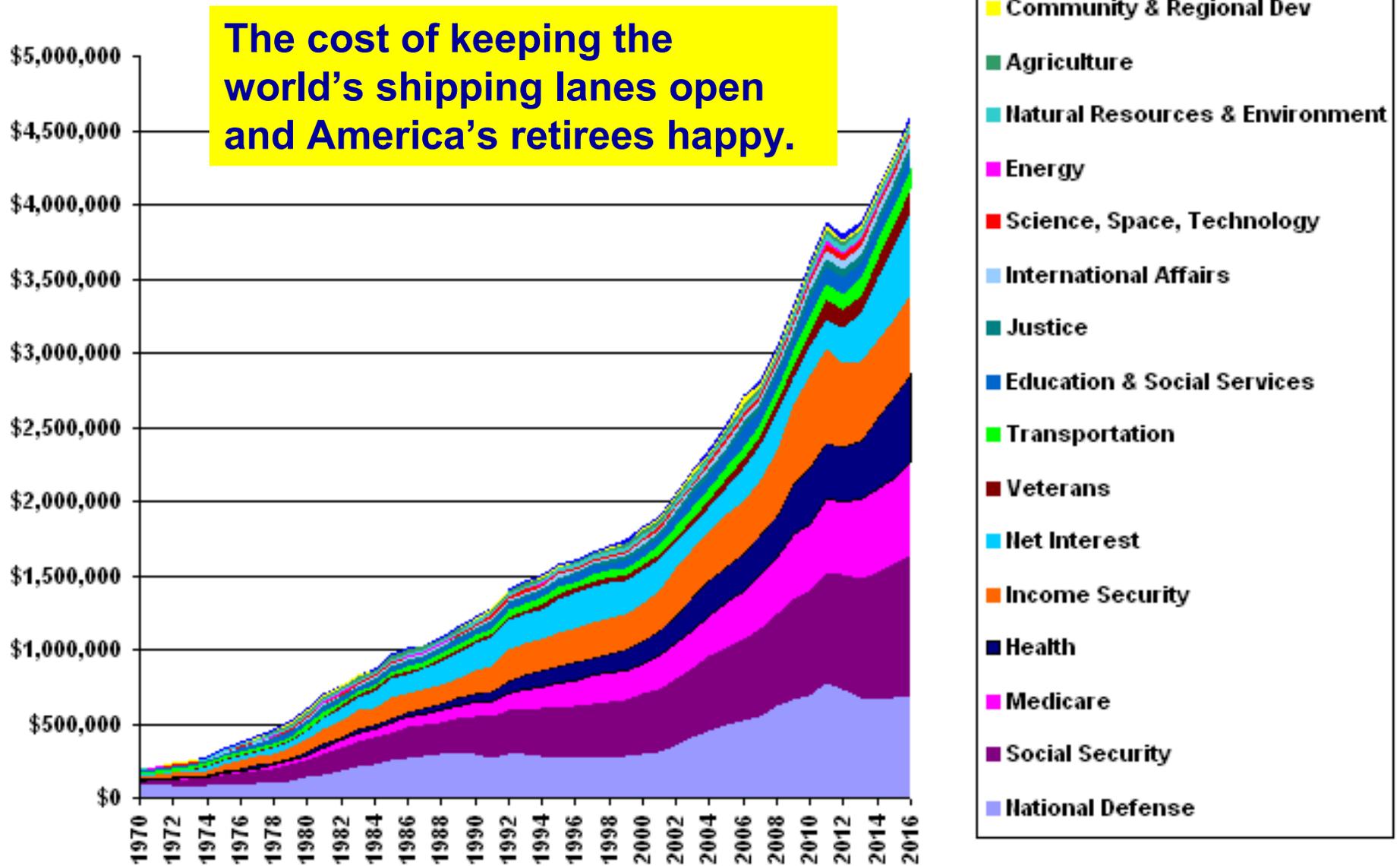


## America's Key Problem: the Boomer Bulge & Health Care



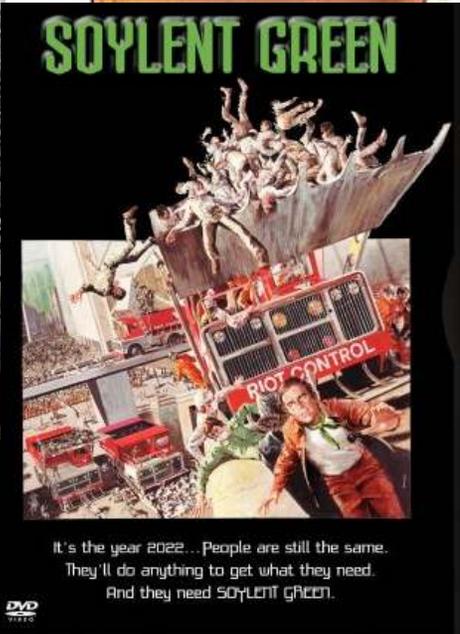
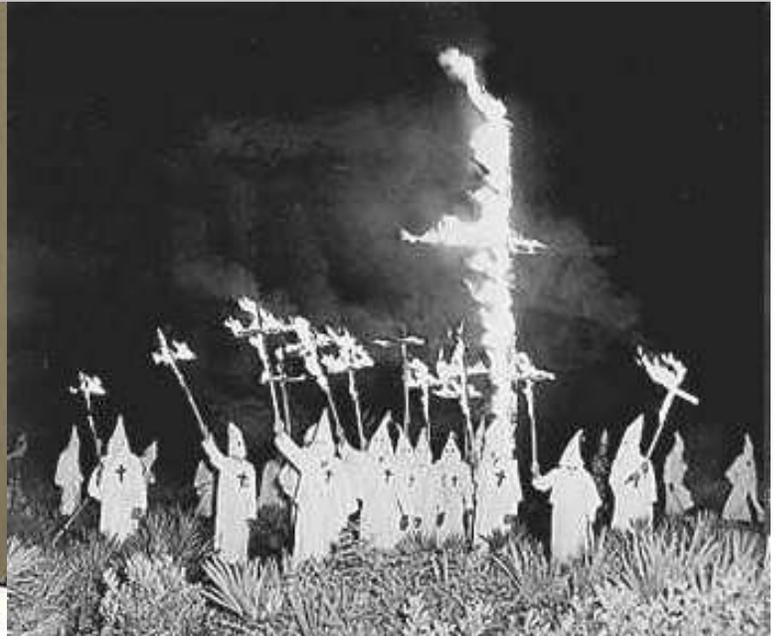
# US Federal Outlays - millions

(Estimates for 2011-2016)



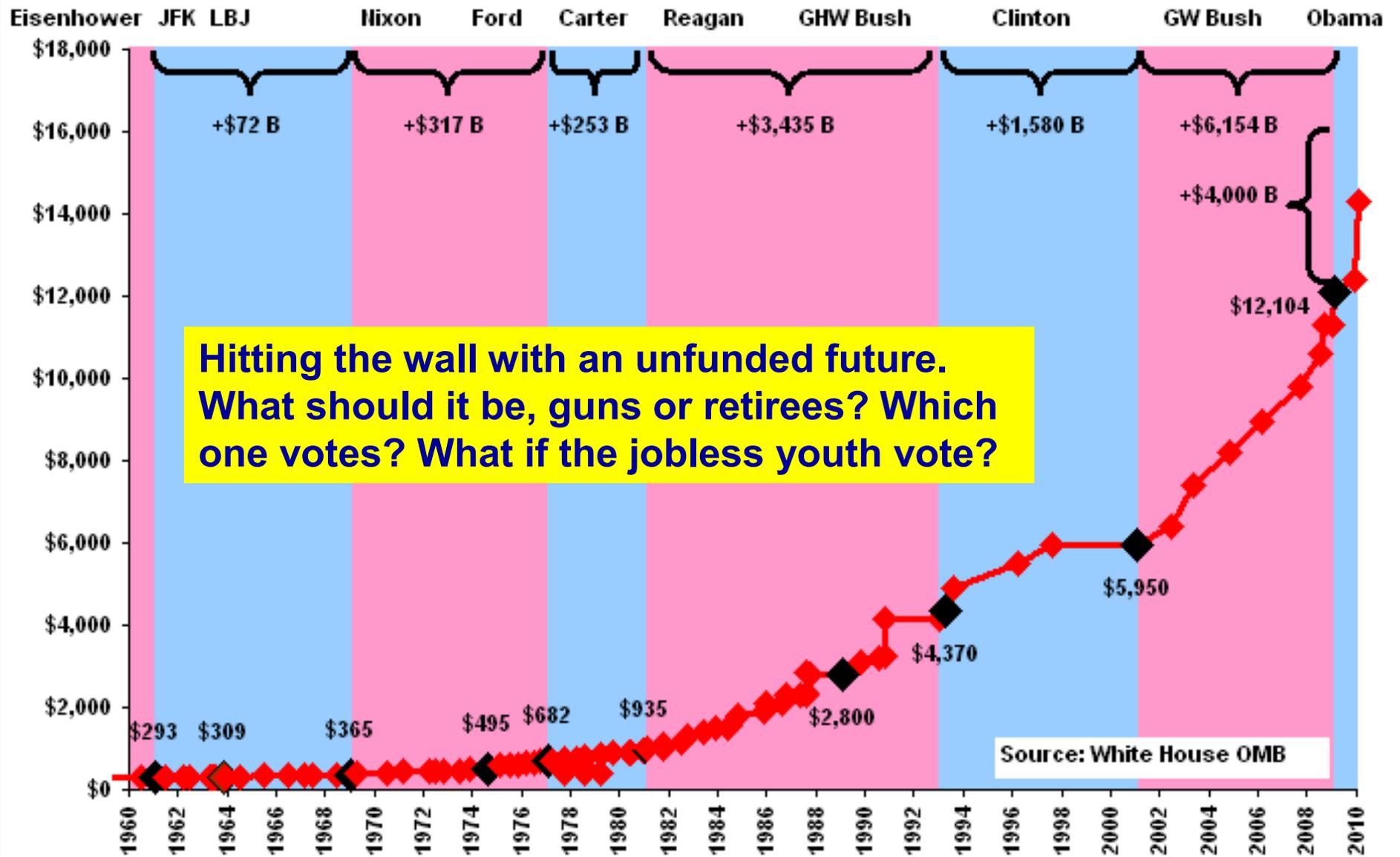
Source: Office of Management & Budget

# Will be welcomed by our children?



# US Debt Ceiling Increases

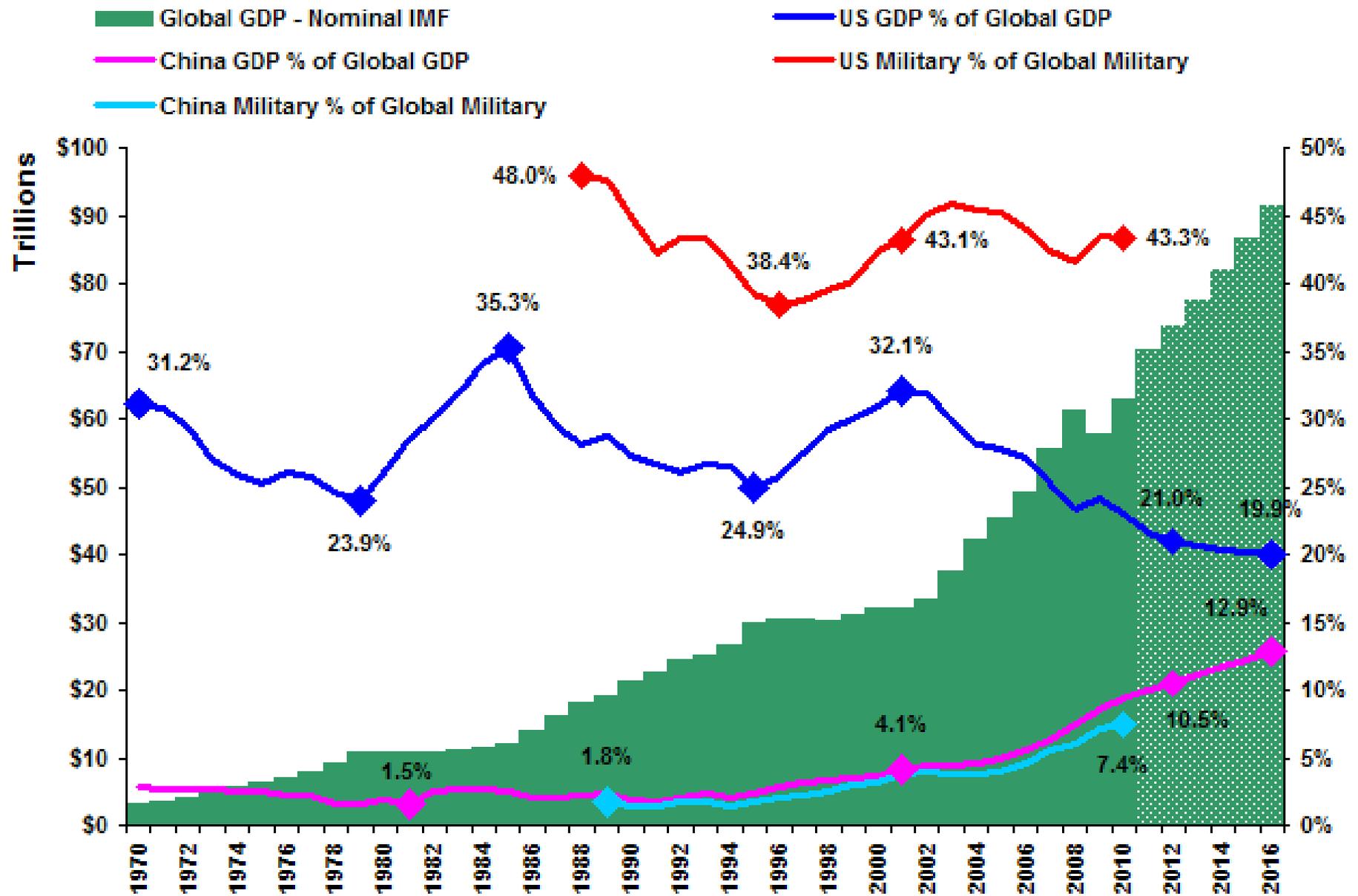
■ Republican President 
 ■ Democrat President 
 ◆ Debt Ceiling



**Hitting the wall with an unfunded future.  
 What should it be, guns or retirees? Which  
 one votes? What if the jobless youth vote?**

## US & China Relative Percentage of Global GDP & Military Spending

(2011-2016 GDP estimates by IMF)

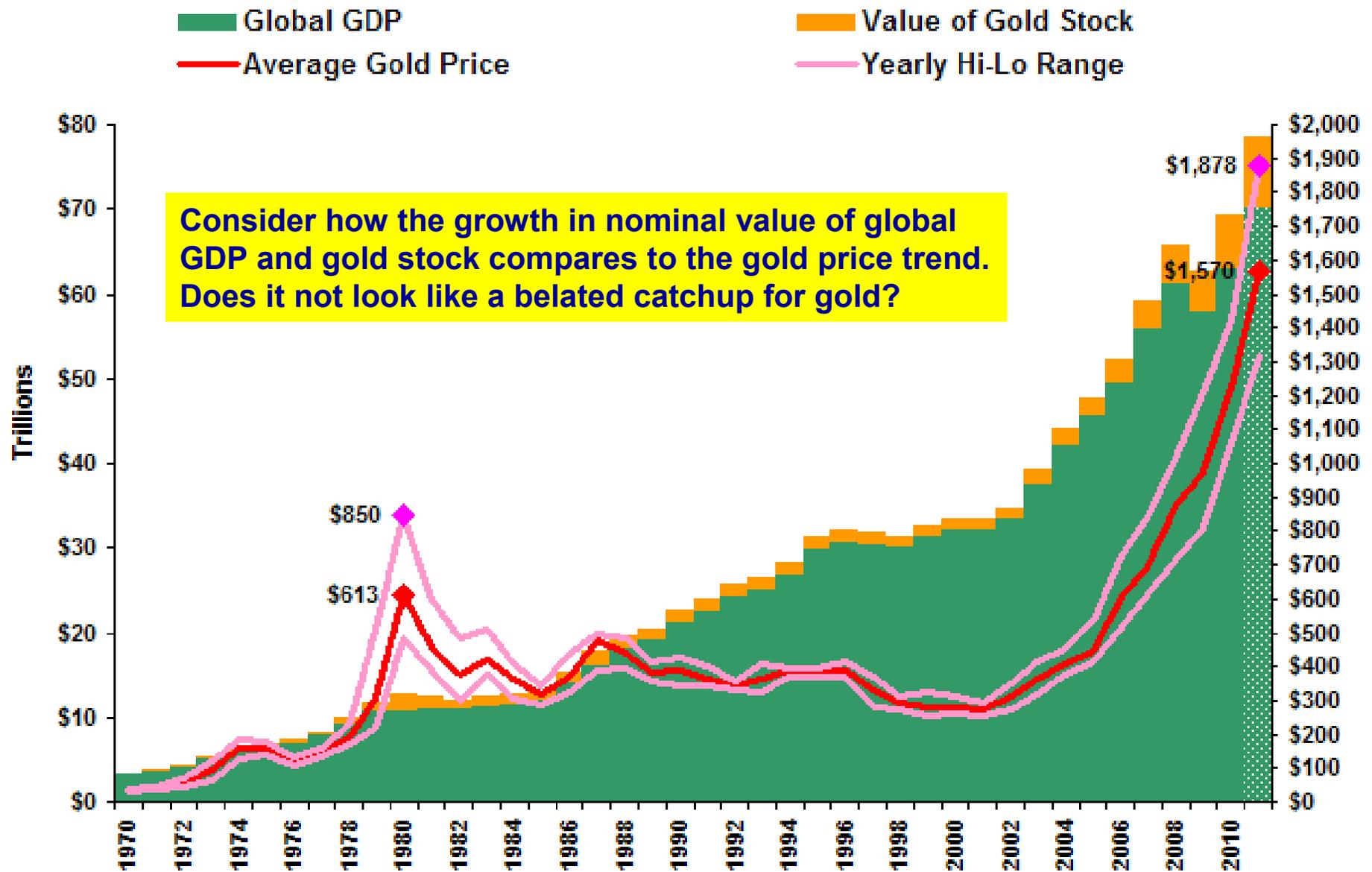


Source: IMF, SIPRI, World Bank

March 2012

Kaiser Research Online

## Relationship between Global GDP and Value of Existing Gold Stock (2011 GDP & Mine Supply estimated - \$1,553/oz average)

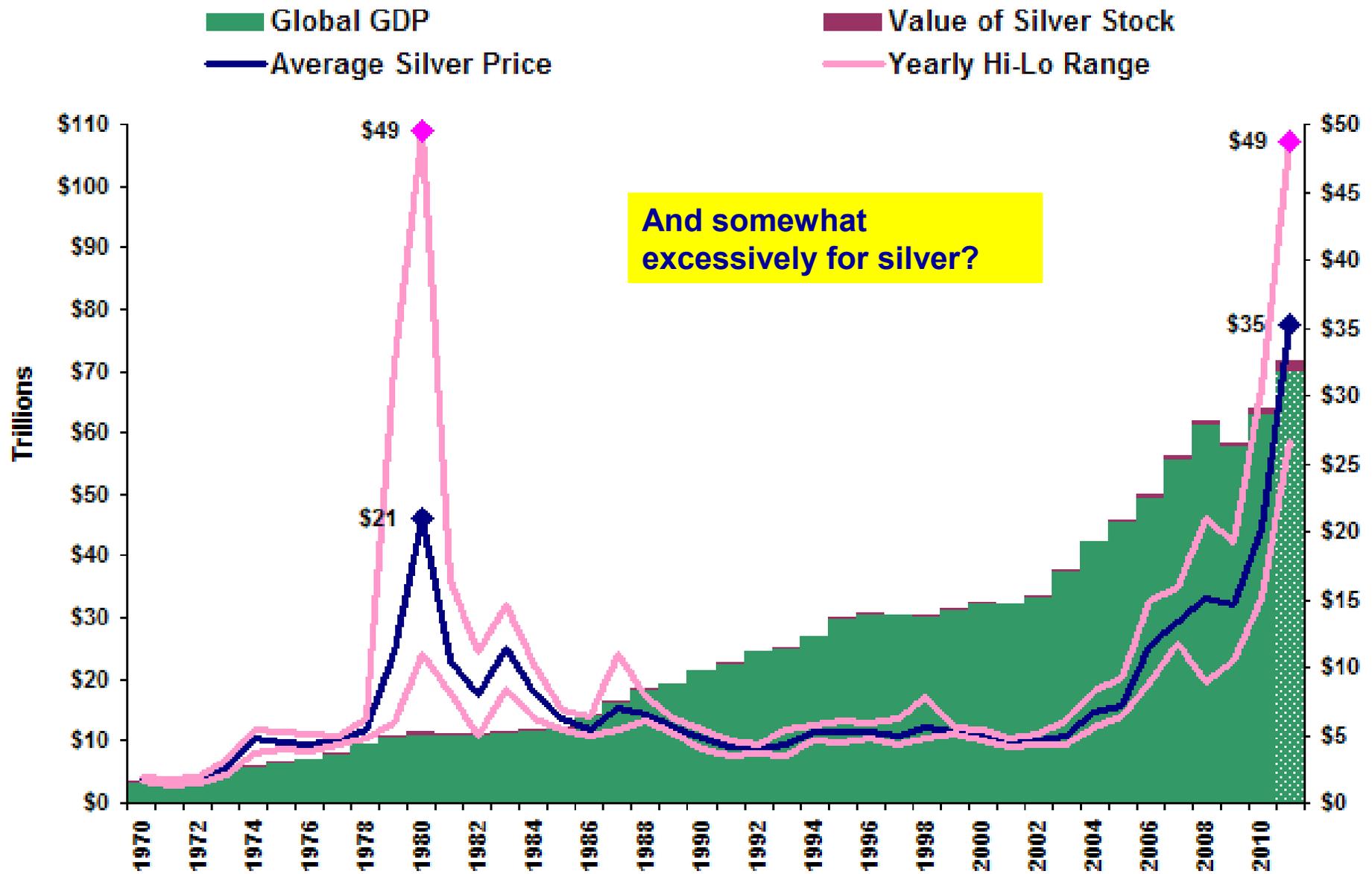


Source: CPM, IMF, World Bank

March 2012

Kaiser Research Online

## Relationship between Global GDP and Value of Existing Silver Stock (2011+ GDP & Mine Supply estimated)



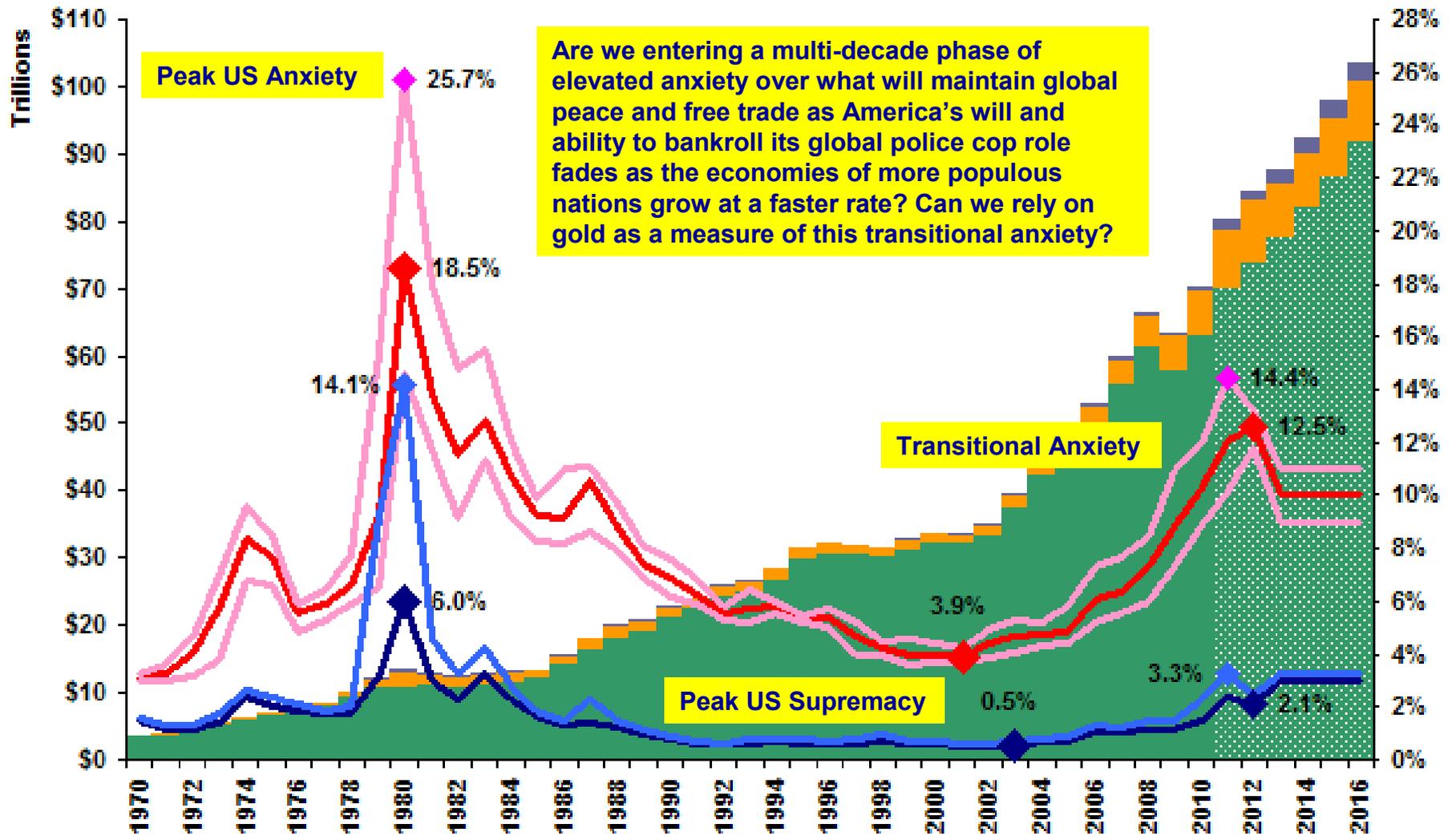
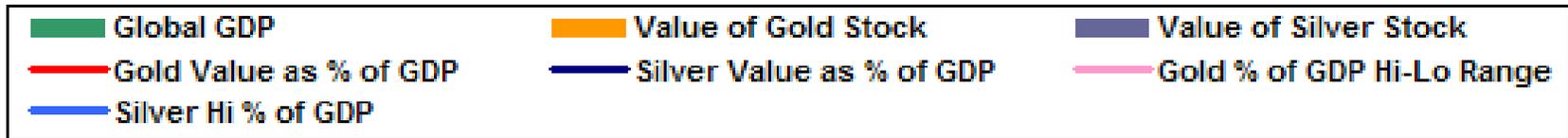
Source: CPM, IMF, World Bank

March 2012

Kaiser Research Online

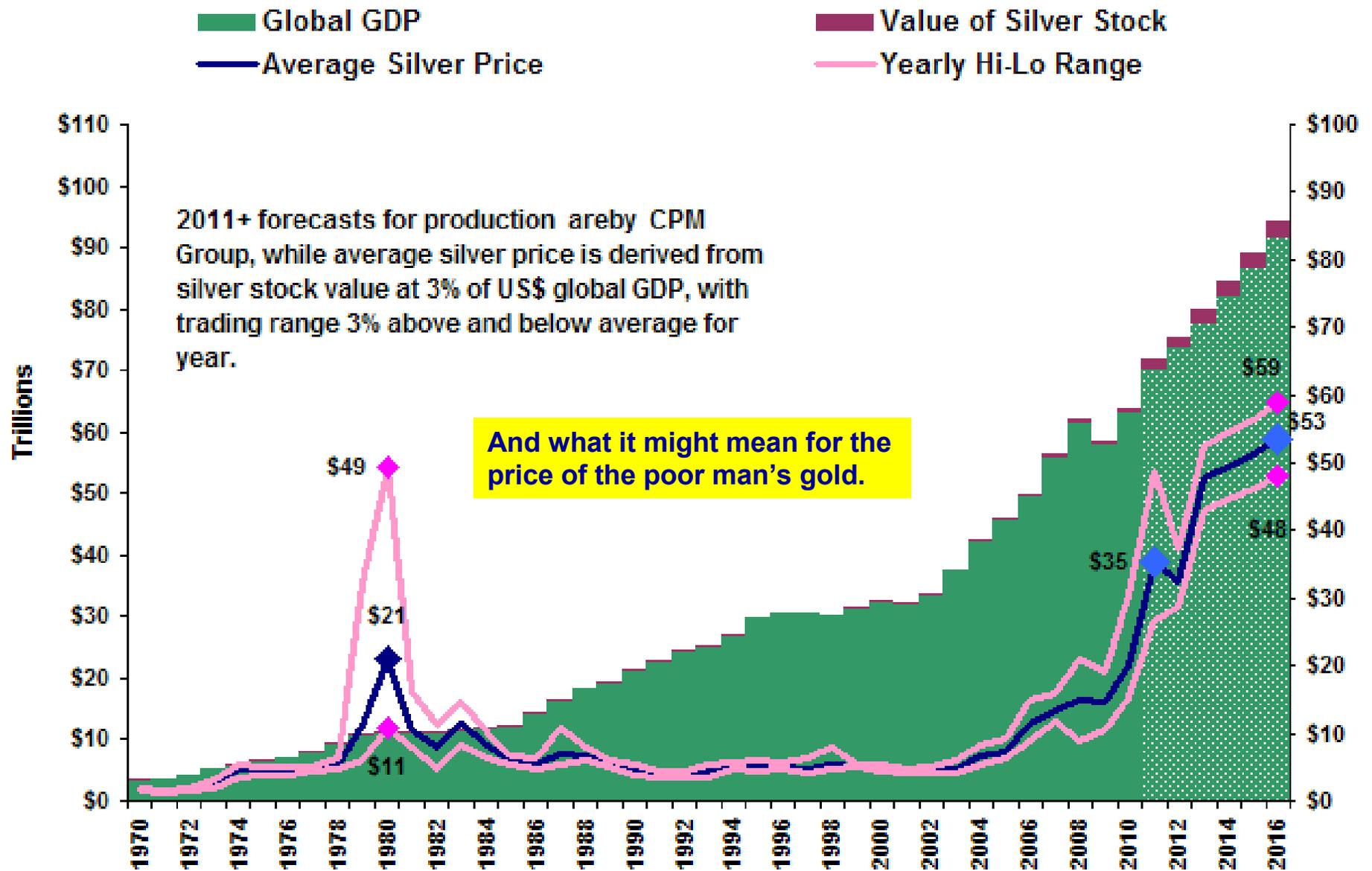
## Relationship between Global GDP and Value of Existing Gold & Silver Stock

(2011 GDP & Mine Supply estimated - Au \$1,570/oz Ag \$35/oz average)





## Relationship between Global GDP and Value of Existing Silver Stock (2011+ GDP & Mine Supply estimated)



Source: CPM, IMF, World Bank

March 2012

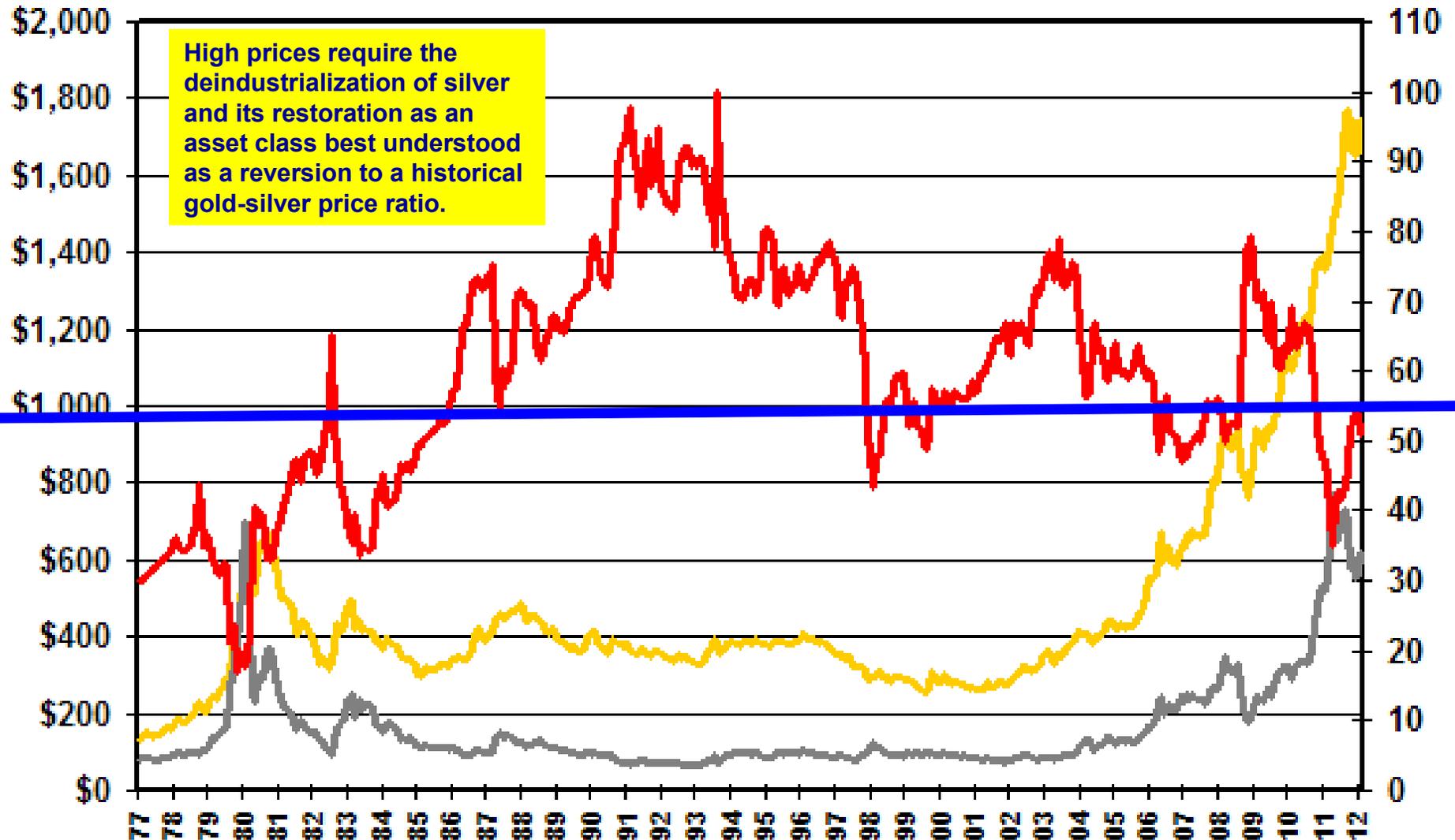
Kaiser Research Online



# Gold:Silver Ratio

*Au:Ag Ratio & Ag \$ share right*

- Gold Monthly Average
- Silver Monthly Average
- Gold:Silver Price Ratio

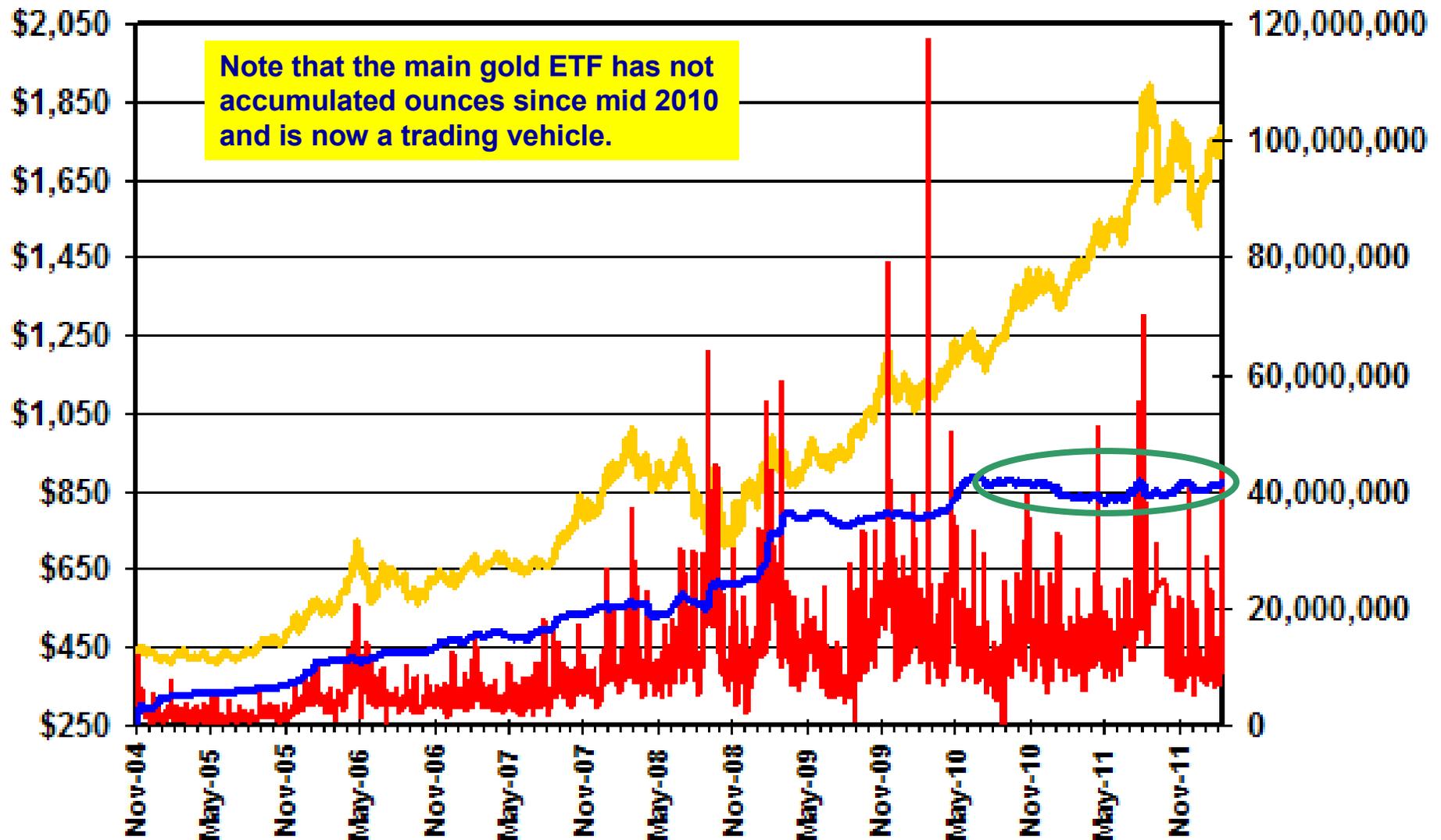




## SPDR Gold Trust GLD - NYSE

(1 GLD share = ~ 1/10th oz allocated gold)

- Gold London Fix \$ per oz
- GLD shares traded
- Ounces held by Gold Trust

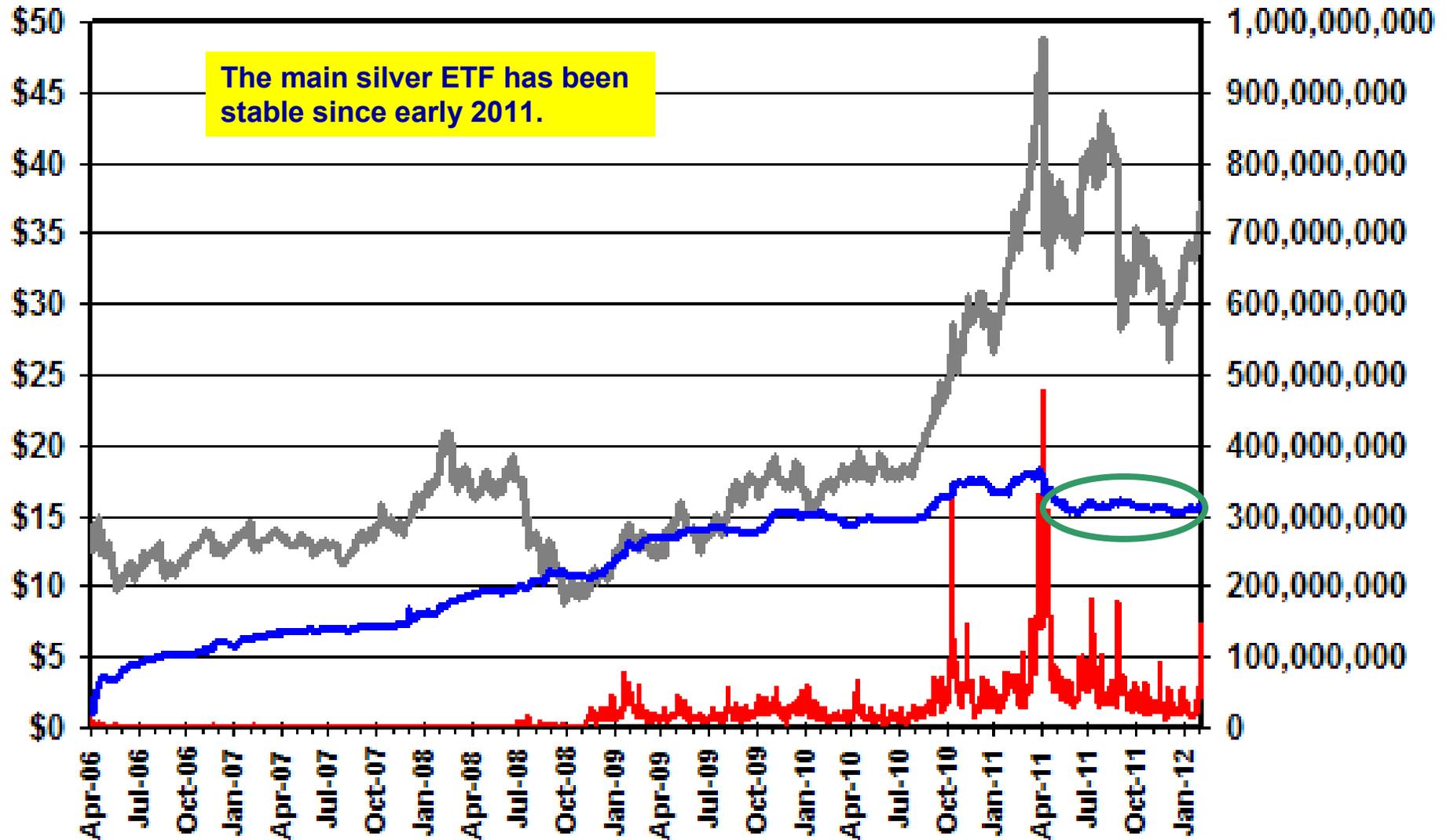




# iShares Silver Trust SLV - NYSE

(1 SLV share = ~ 10 oz allocated silver)

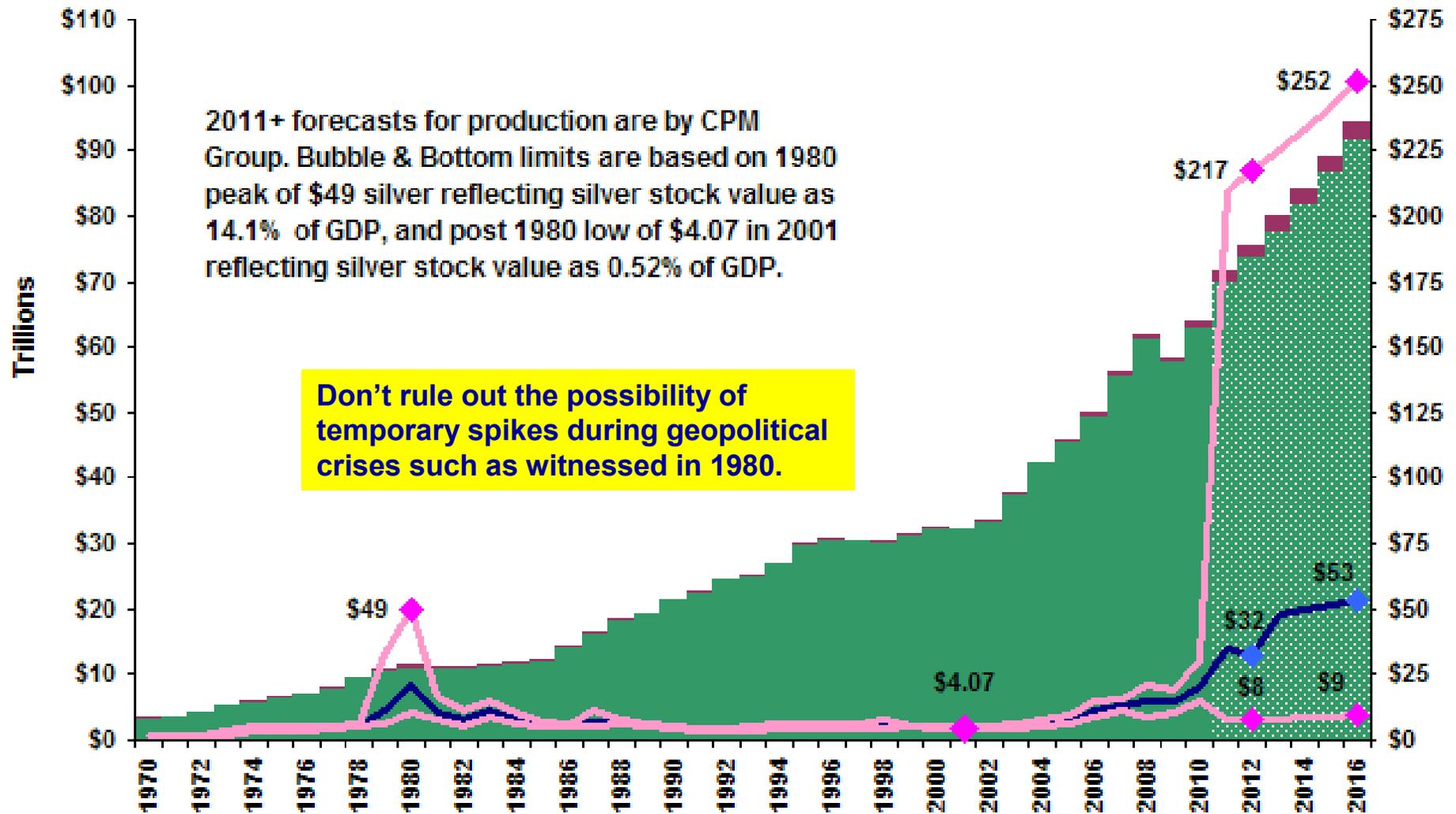
- Silver London Fix \$ per oz
- SLV implied ounces traded
- Ounces held by Silver Trust



# Past Peak & Bottom Based Bubble & Bear Limits for Silver

(2011+ GDP & Mine Supply estimated)

■ Global GDP  
— Average Silver Price  
■ Value of Silver Stock  
— Yearly Hi-Lo Range

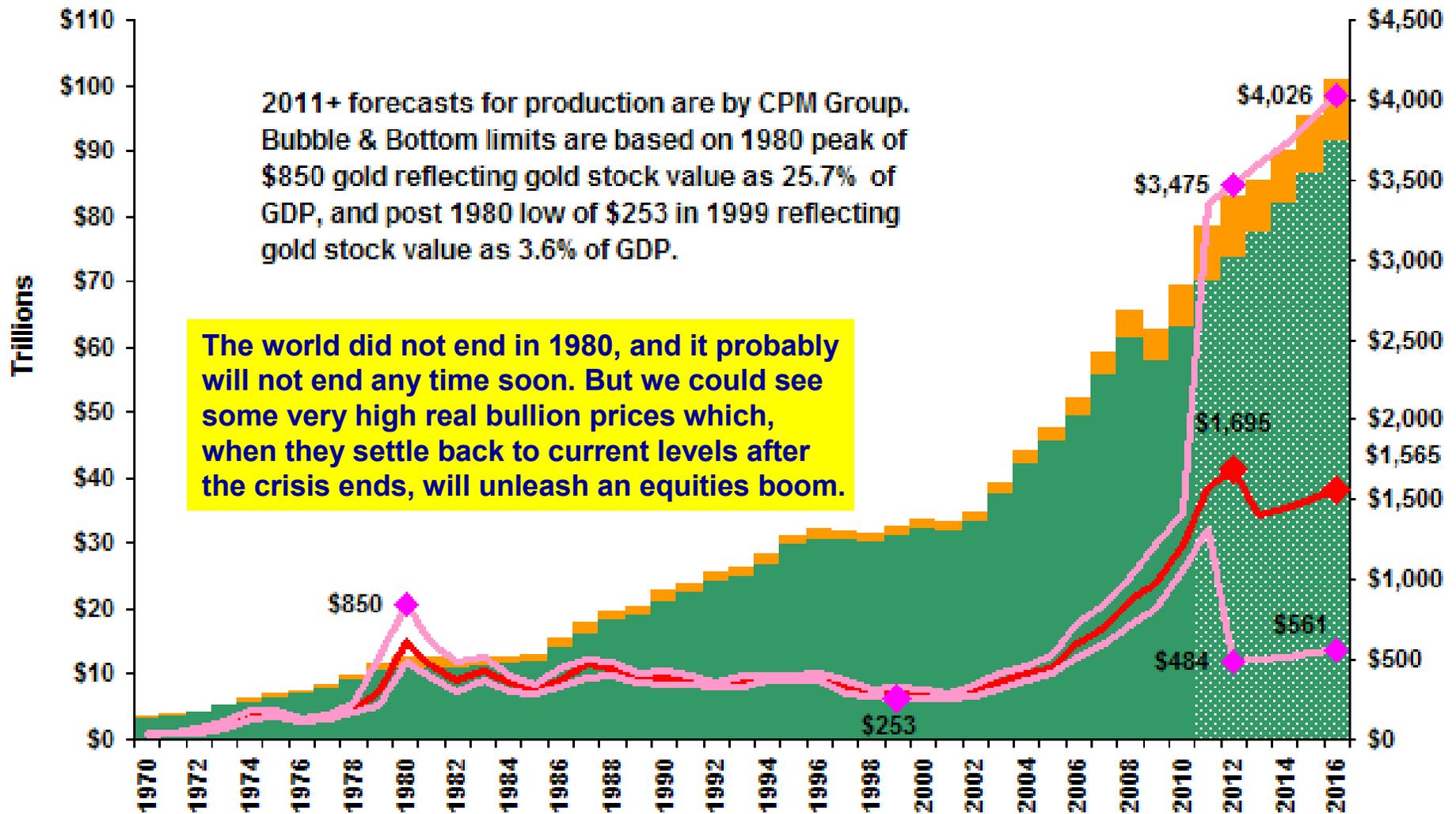


Don't rule out the possibility of temporary spikes during geopolitical crises such as witnessed in 1980.

# Past Peak & Bottom Based Bubble & Bear Limits for Gold

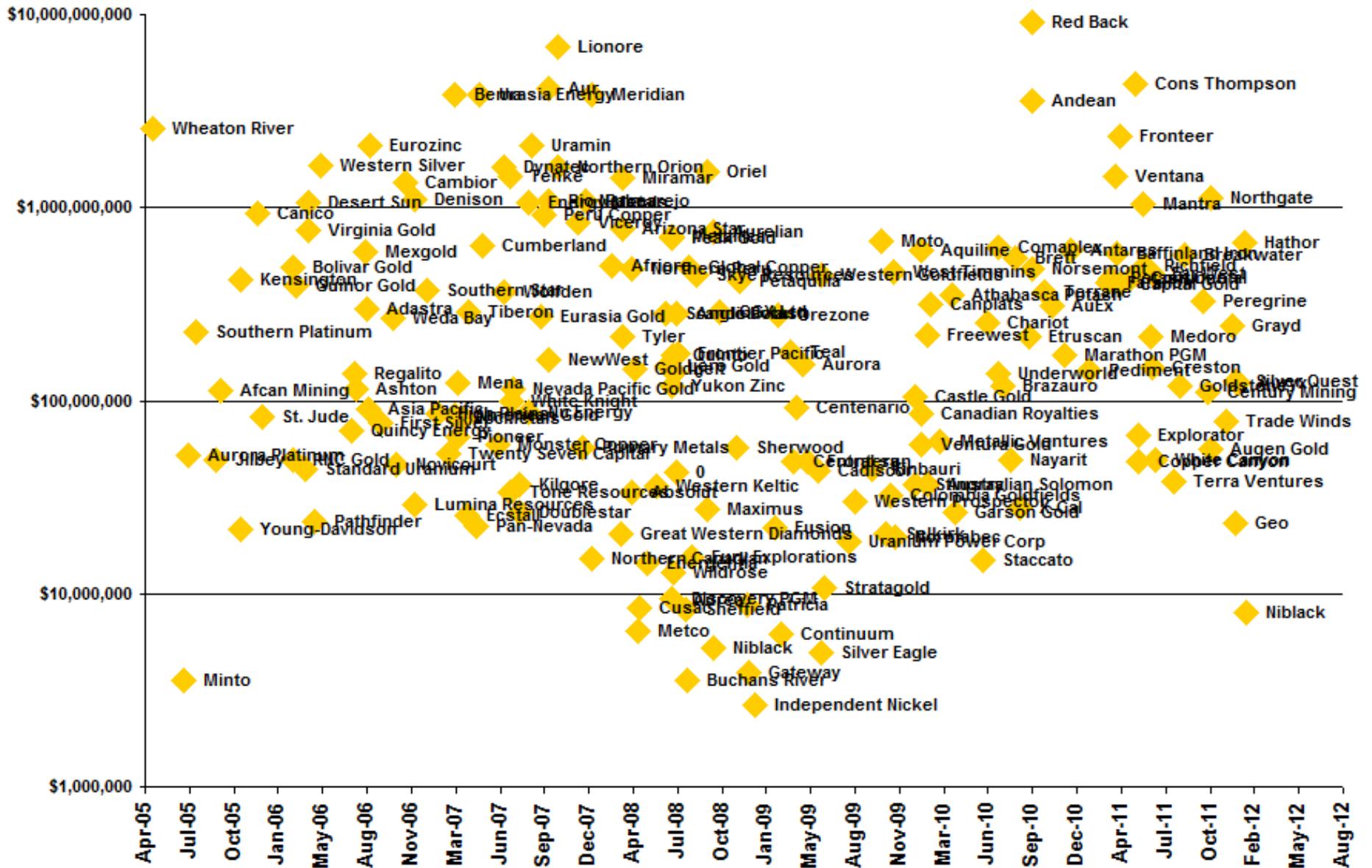
(2011 GDP & Mine Supply estimated - \$1,570/oz average)

- Global GDP
- Value of Gold Stock
- Average Gold Price
- Yearly Hi-Lo Range



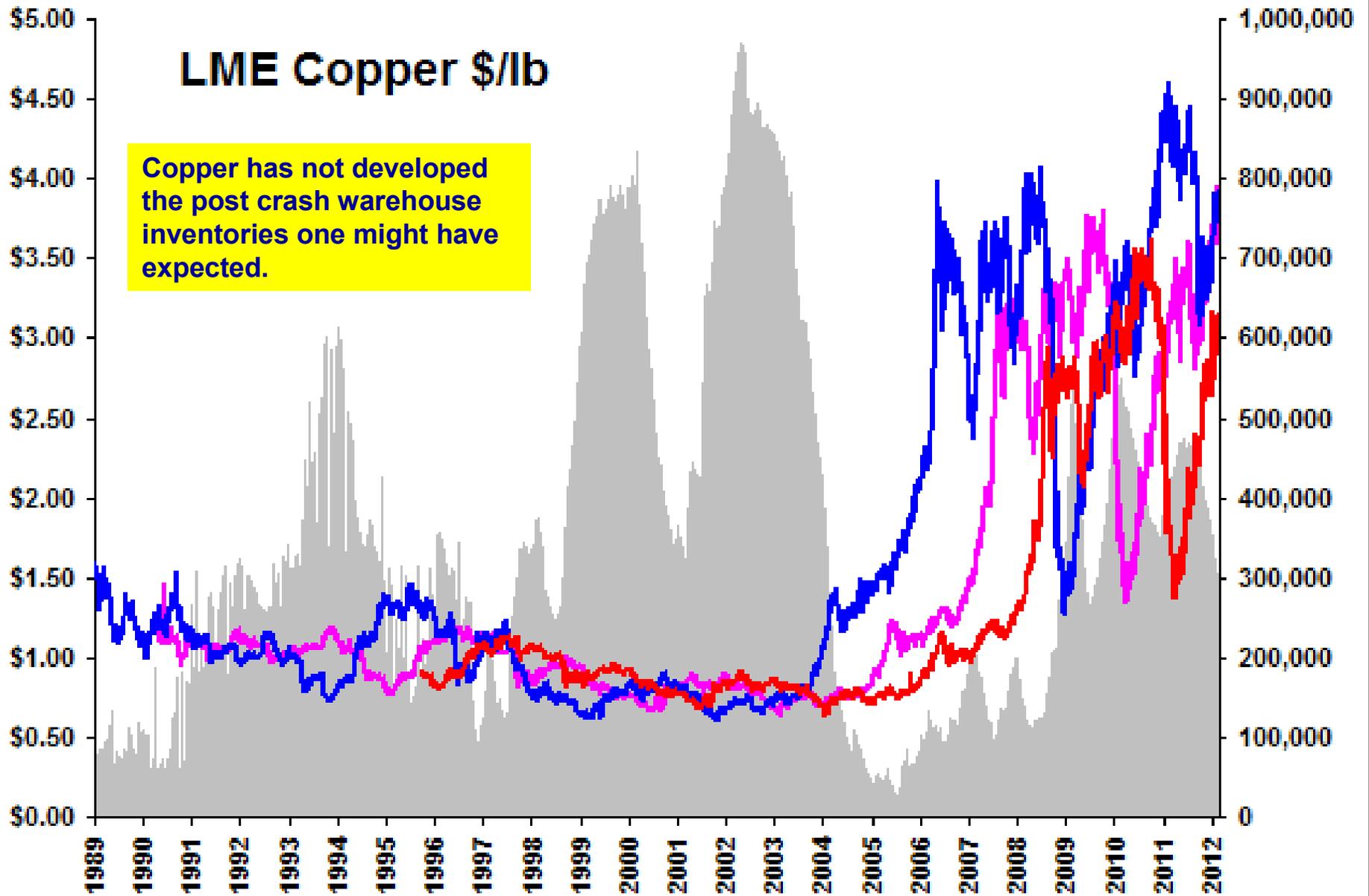
## Value of Takeover Bids - \$100 billion - 185 Juniors (2005-2011)

### \$38 billion 78 juniors (2009-2011)



# LME Copper \$/lb

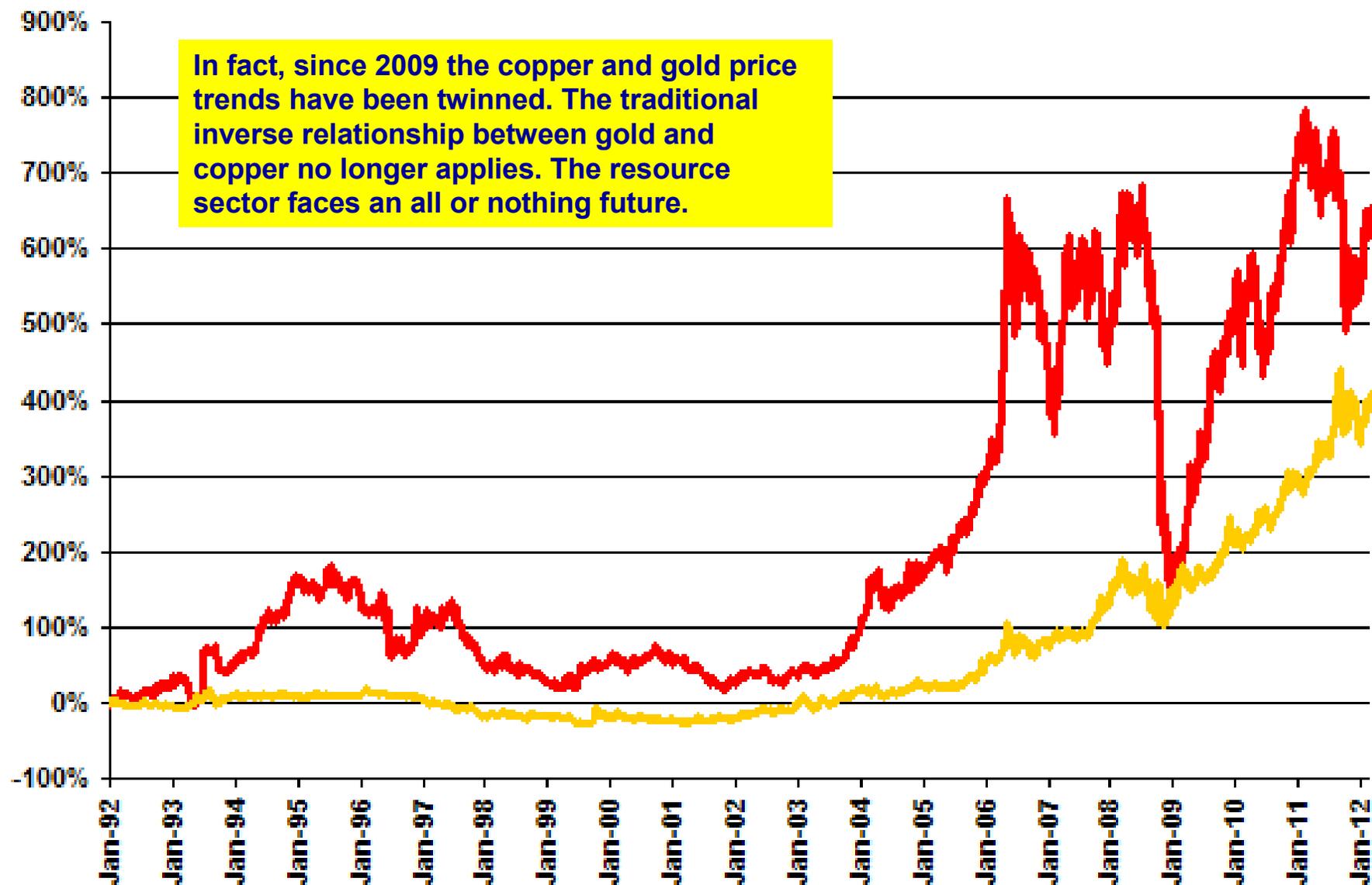
Copper has not developed the post crash warehouse inventories one might have expected.



# Gold-Copper Relative Performance

Jan 2/92 Base: \$0.52/lb Cu \$360/oz Au

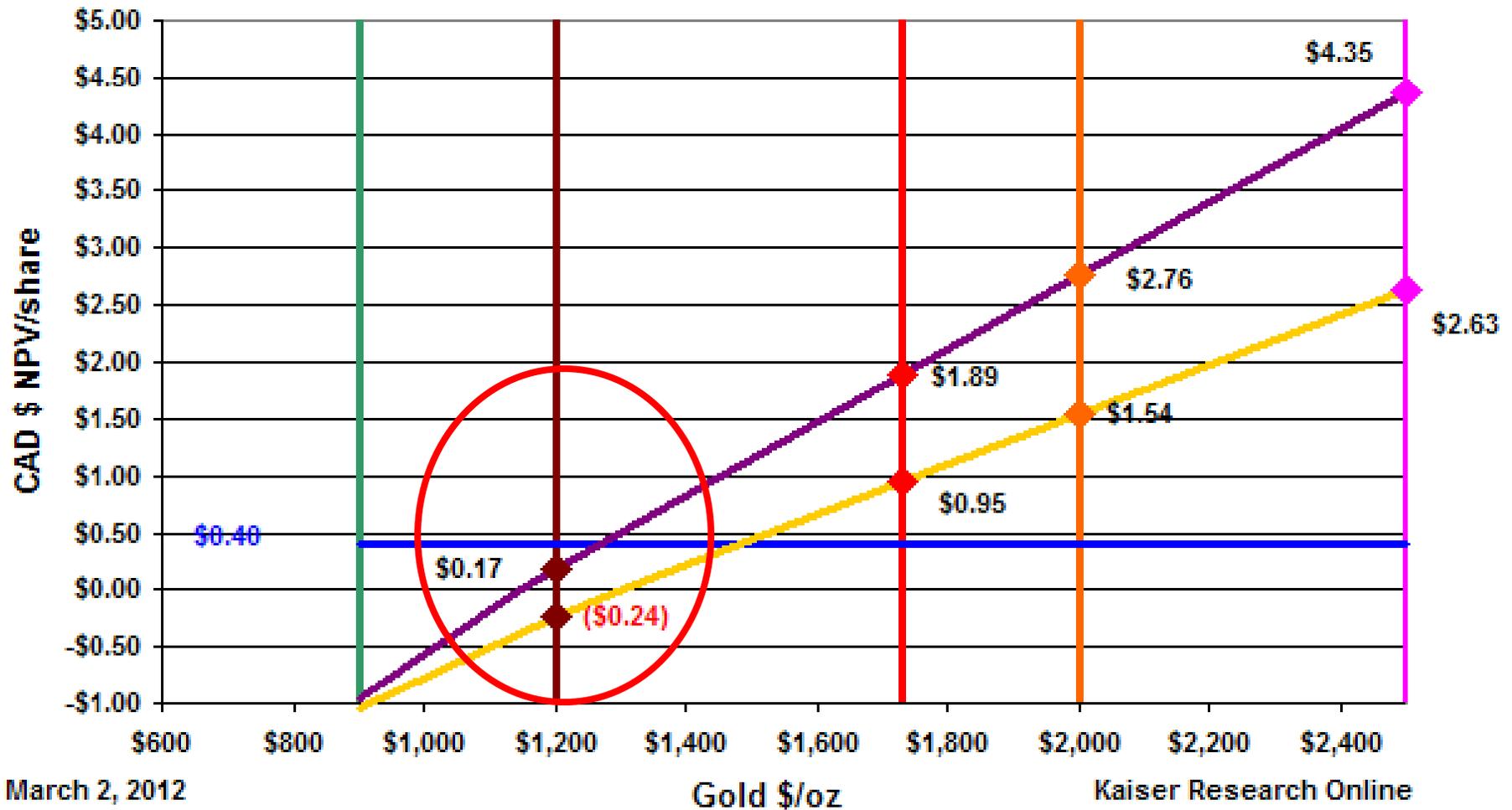
Copper  
Gold



## Geologix - Tepal - After Tax NPV Sensitivity

- Pessimistic - \$900/oz Au
- Base Case - \$1,200/oz Au
- Current - \$1,730/oz Au
- Optimistic - \$2,000/oz Au
- Fantasy - \$2,500/oz Au
- Current Stock Price - \$0.40
- Share vs \$/oz Au at 10% Disc Rate
- Share vs \$/oz Au at 5% Disc Rate

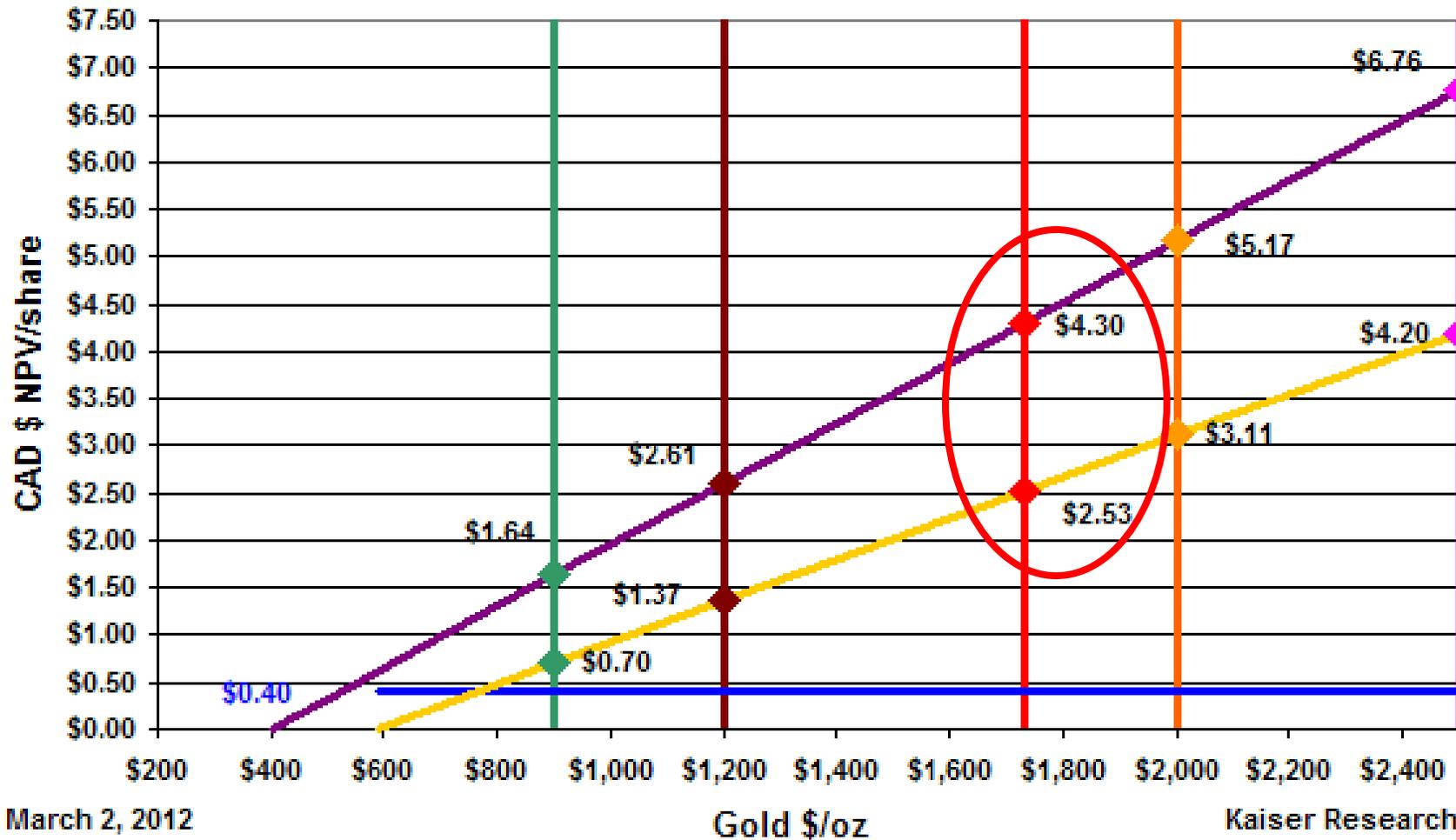
2011 PEA: - 22,700 tpd OP Flotation, 6,700 tpd OP Heap leach  
 CapEx \$346 M, OpEx \$8.17/t (not incl transport & smelting)  
 North-South Sulphide & Oxide - 97 MT 0.24% Cu 0.41  
 Tizate Sulphide & Oxide - 57 MT 0.18% Cu 0.2 g/t Au  
 145 M fully diluted, 28% Tax, exch 1:1 USD:CAD  
 Copper \$2.00/lb, Silver \$16/oz - "China is a Mirage"



## Geologix - Tepal - After Tax NPV Sensitivity

- Pessimistic - \$900/oz Au
- Base Case - \$1,200/oz Au
- Current - \$1,730/oz Au
- Optimistic - \$2,000/oz Au
- Fantasy - \$2,500/oz Au
- Current Stock Price - \$0.40
- Share vs \$/oz Au at 10% Disc Rate
- Share vs \$/oz Au at 5% Disc Rate

2011 PEA: - 22,700 tpd OP Flotation, 6,700 tpd OP Heap leach  
 CapEx \$346 M, OpEx \$8.17/t (not incl transport & smelting)  
 North-South Sulphide & Oxide - 97 MT 0.24% Cu 0.41 g/t Au  
 Tizate Sulphide & Oxide - 57 MT 0.18% Cu 0.2 g/t Au  
 145 M fully diluted, 28% Tax, exch 1:1 USD:CAD  
 Copper \$3.50/lb, Silver \$30/oz - "Asia drives the Future"



March 2, 2012

Gold \$/oz

Kaiser Research Online

# Geologix Explorations Inc

6/6/2008 TO 3/2/2012



Issued: 135,790,887

High: \$2.32 on 6/9/2008

Max Volume: 21,874,600 on 1/27/2012

Diluted: 145,298,893

Low: \$0.10 on 2/24/2009

Max Value: \$6,562,380 on 1/27/2012



KaiserBottomFish.com

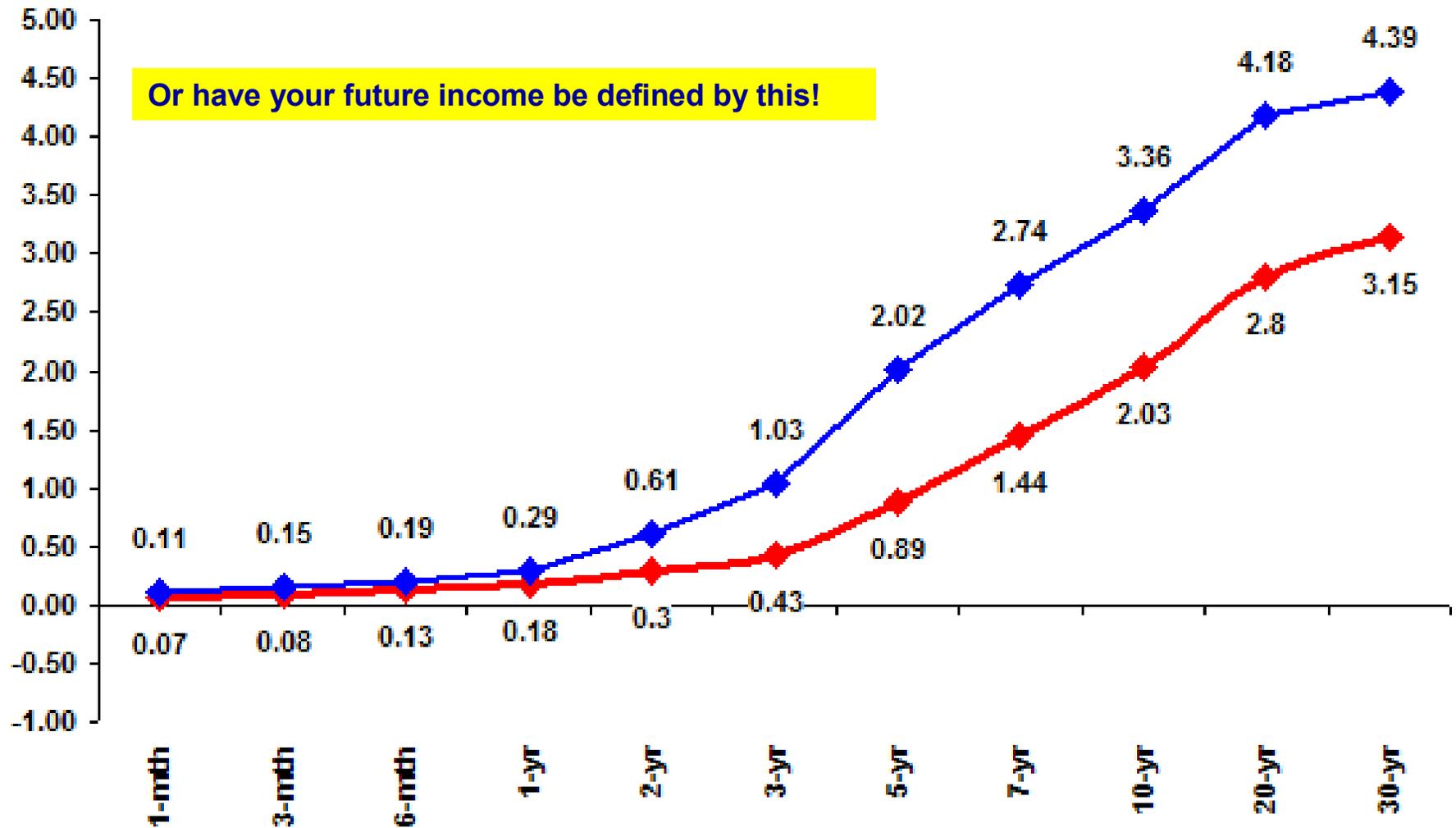
GIX - TSX - CAD \$0.40

Copyright 2012 Kaiser Research

# US T-Bill % Yield Curve

◆ March 1, 2012

◆ January 3, 2011



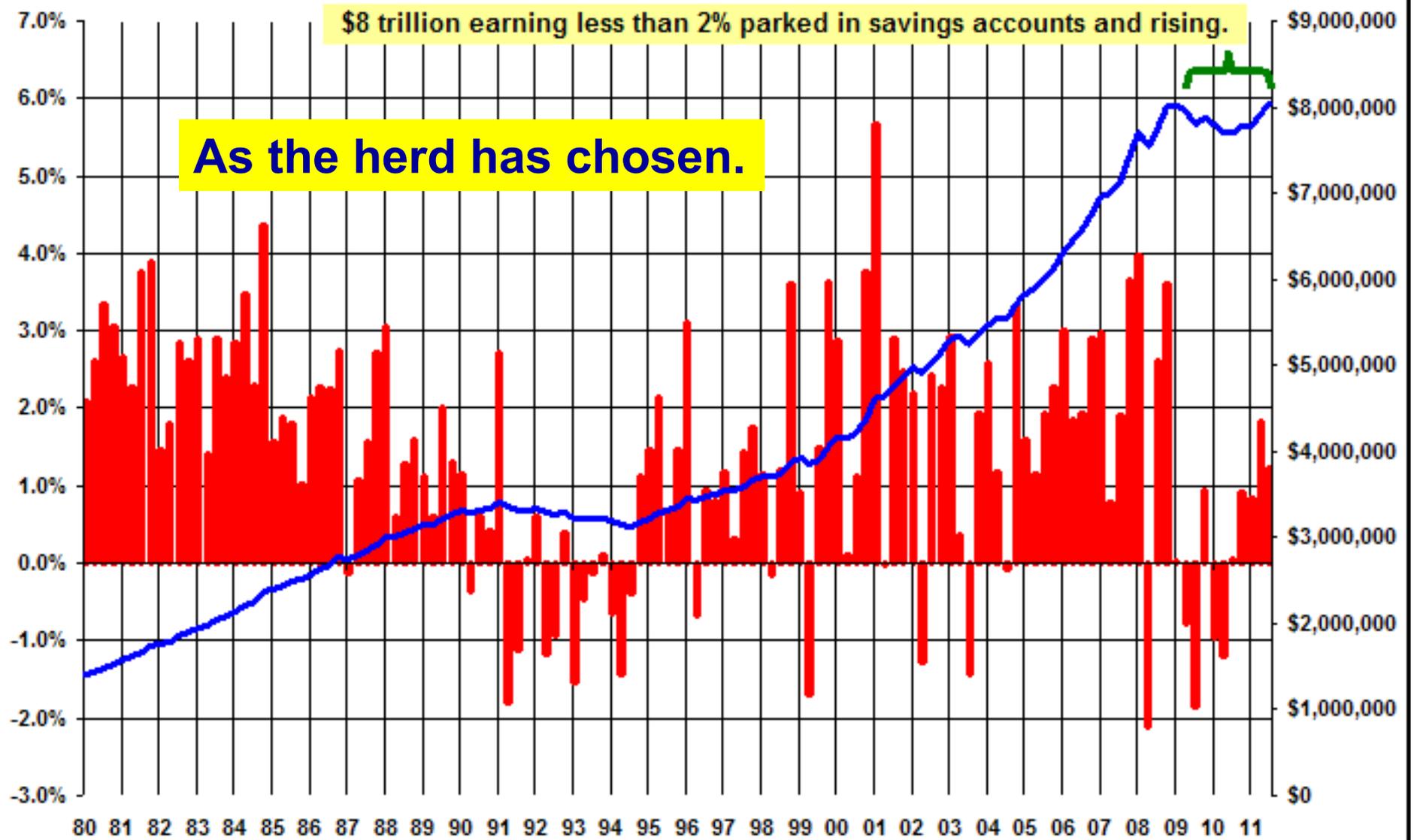
Source: Federal Reserve

Kaiser Research Online

# US Household Savings Deposits

Quarterly % Change

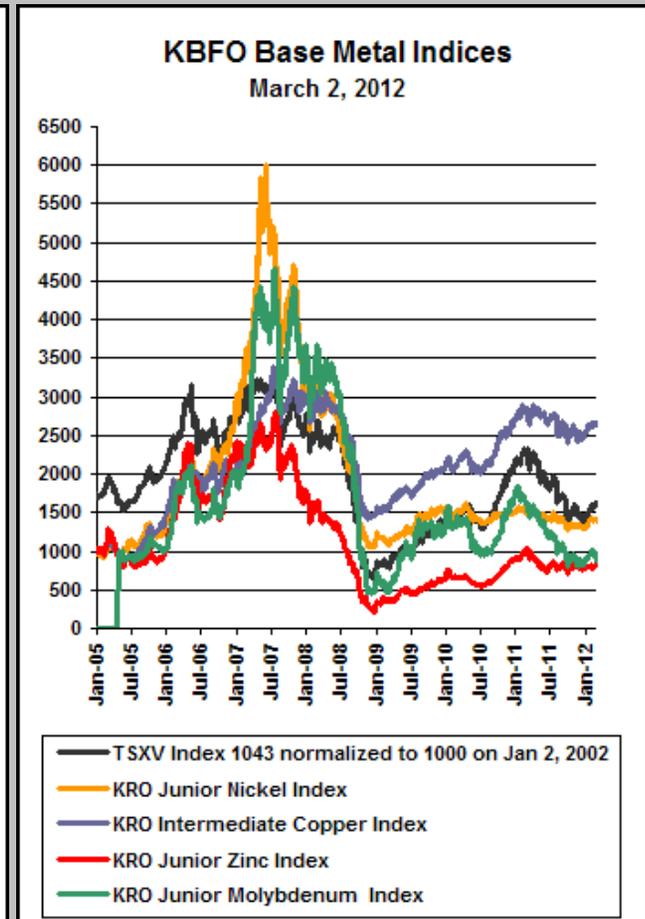
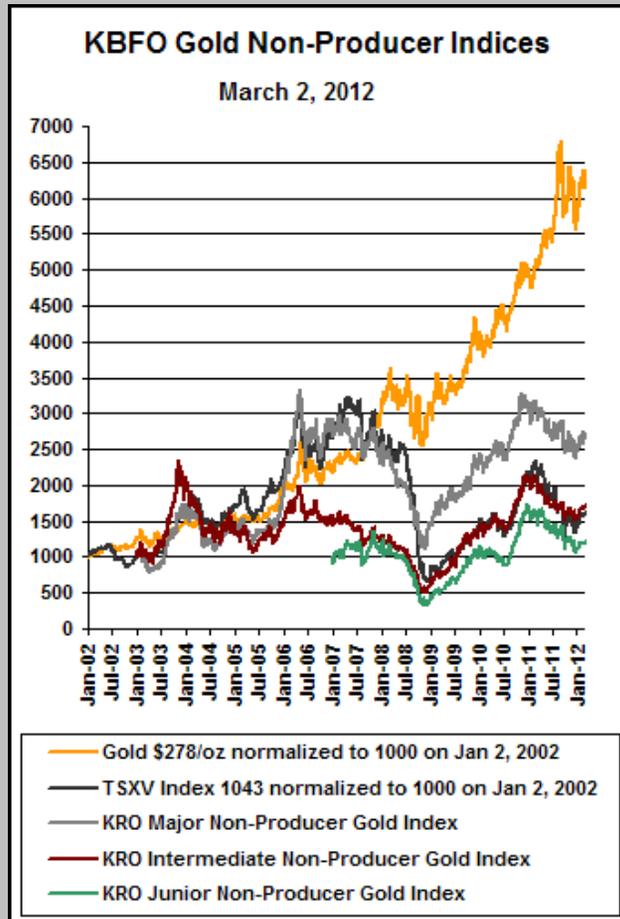
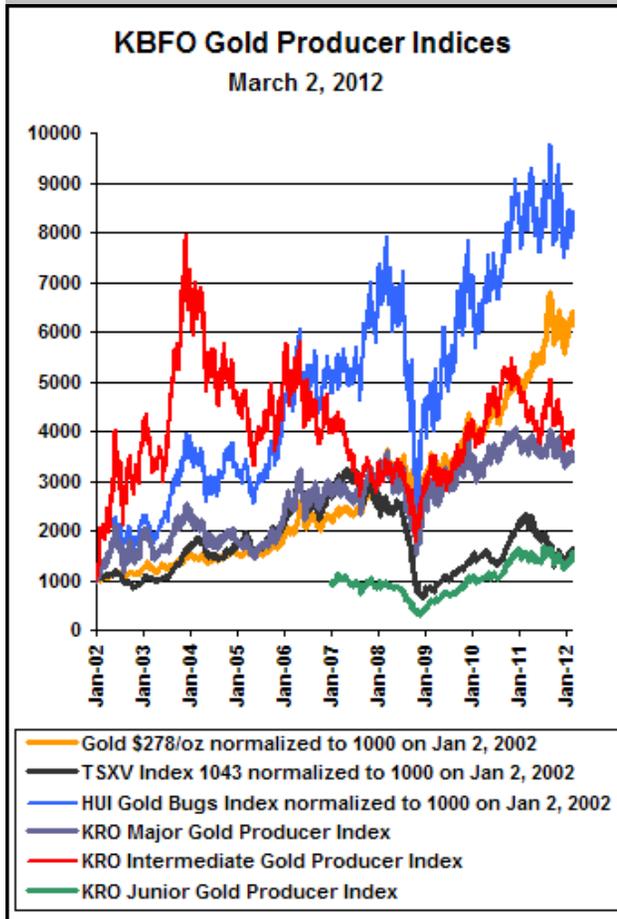
Savings Deposits - '000s



Source: Federal Reserve

Q3 of 2011

# Despite strong metal prices we have an equity valuation disconnect.



Perhaps it is time to say goodbye to the apocalyptic gold bug narrative and its moralistic baggage?



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DAILY NEWS Dec 7, 2011 11:02 AM - 0 comments

## An alternative narrative for gold and silver

By: John Kaiser

2011-12-07

TEXT SIZE

Gold and silver companies, be they producers or ounce-in-the-ground developers, have lagged the recent rise in gold and silver bullion prices to record levels, confounding expectations of a long-awaited precious metals equity market boom. Cash-flow multiples are low for producers as though current cash-flow levels are not sustainable, and development juniors are trading at discounted cash-flow-based valuations that reflect significantly lower three-year trailing average bullion prices currently at US\$1,246 per oz. for gold and US\$24 per oz. for silver. What underlies the market's reluctance

### Photos



Larger photo & full caption

File size: 16.1 KB (655px X 493px)

Caption: Figure 1: The recent 64% real gain in the price of gold...

US & China Relative Percentage of Global GDP & Military Spending  
(2011 and 2010 estimates by IMF)

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