

# Cambridge Vancouver 2008

January 20, 2008

Presented by John Kaiser

**Is the long awaited rapture just  
around the corner?**

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# The Wall of Worry

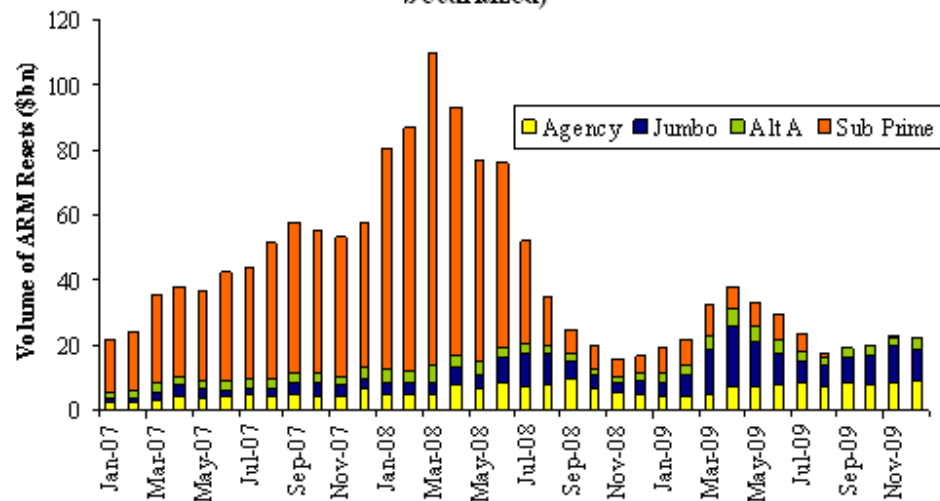
- Securitized Mortgage Paper
- Subprime Defaults
- Asset Backed Commercial Paper
- Liquidity Crunch
- Foreclosure
- Real Estate Collapse
- Reverse Wealth Effect
- Bankruptcy
- Globalization
- OECD Deindustrialization
- Energy Costs
- Derivative Collapse
- Collapsing US Dollar
- Stock Market Collapse
- Minneapolis Bridge Collapse
- Republican White House
- Clinton White House
- Iraqi Quagmire
- Pakistan and Iran
- Osama bin Laden
- Implosion of China
- Resurgence of Russia
- Creationism
- Pandemic
- Global Warming
- Food Price Inflation
- Base Metal Price Bust
- Recession
- Depression
- Apocalypse

**Did I miss anything else that could go wrong?**

# When was the last time the consensus outlook correctly anticipated the future?

Crisis is the trigger for radical change.

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



# **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 a collective footprint that flattens the planet we must change what makes us happy**

# The need for a new economic model

- **Ecology vs neoliberal globalization: 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 Renewal of the West

- **Transformative 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**

# **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**
- **Green Church, Spirituality and Faith: many paths to the peak vs religion as a coercion system that exploits us-them polarization**

**Get ready for a raw  
materials bull market like  
you have never seen  
before!**

What you are witnessing is just a pause.



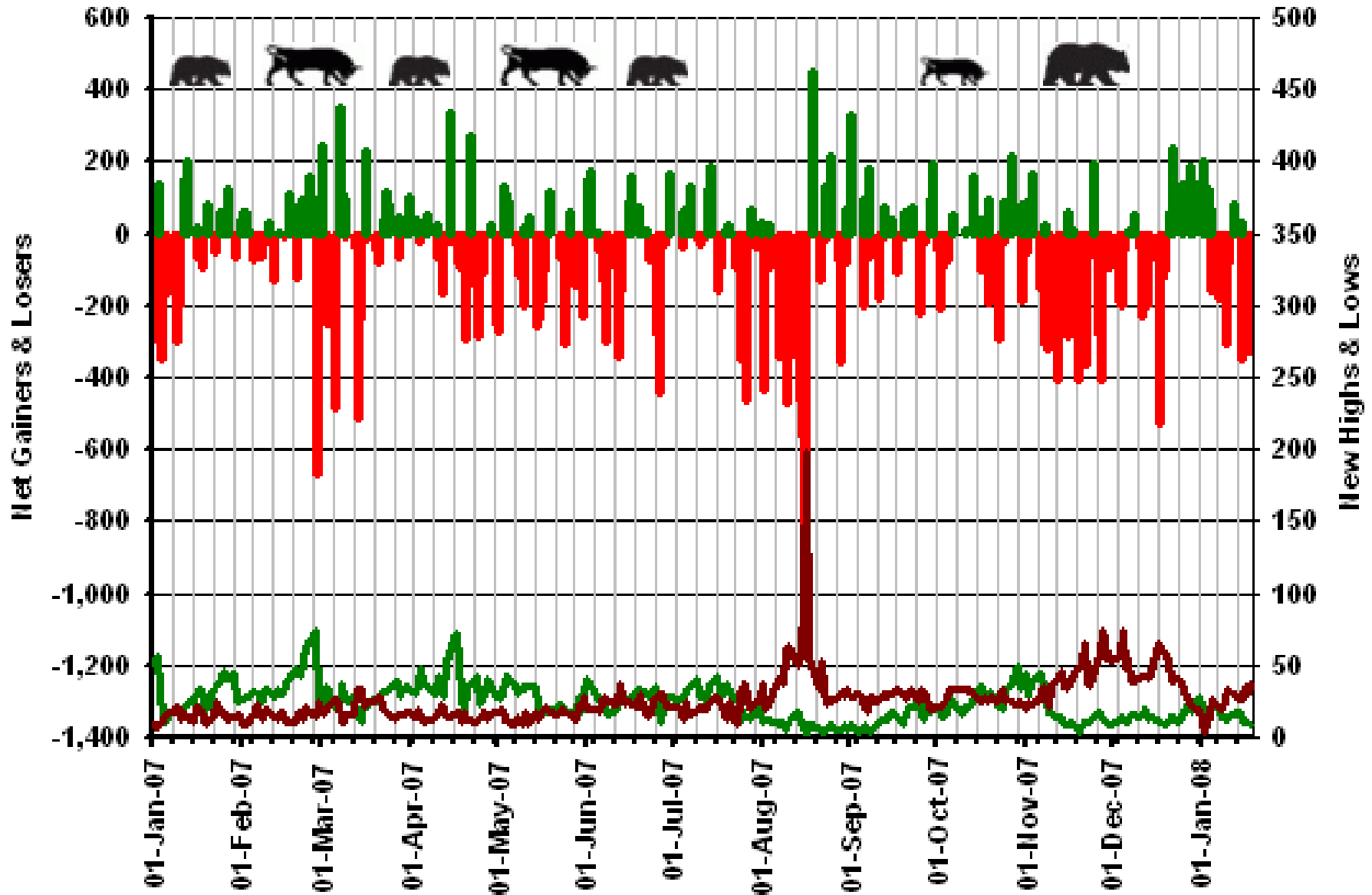
# Daily TSXV Market Trends - Very Short Term



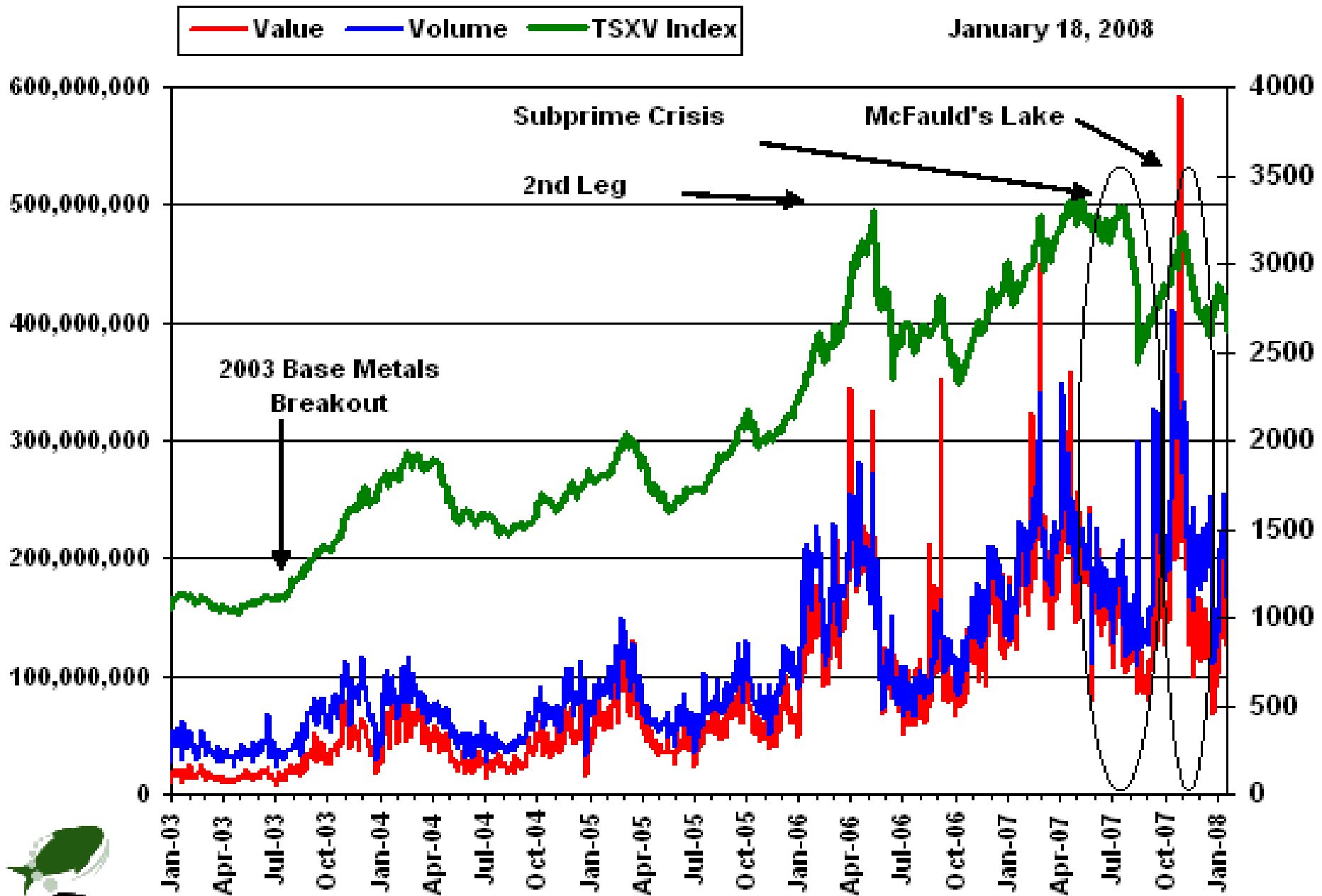
Net Gainers (green) & Losers (red) - bars

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

January 18, 2008



# Daily TSXV Volume & Value Traded

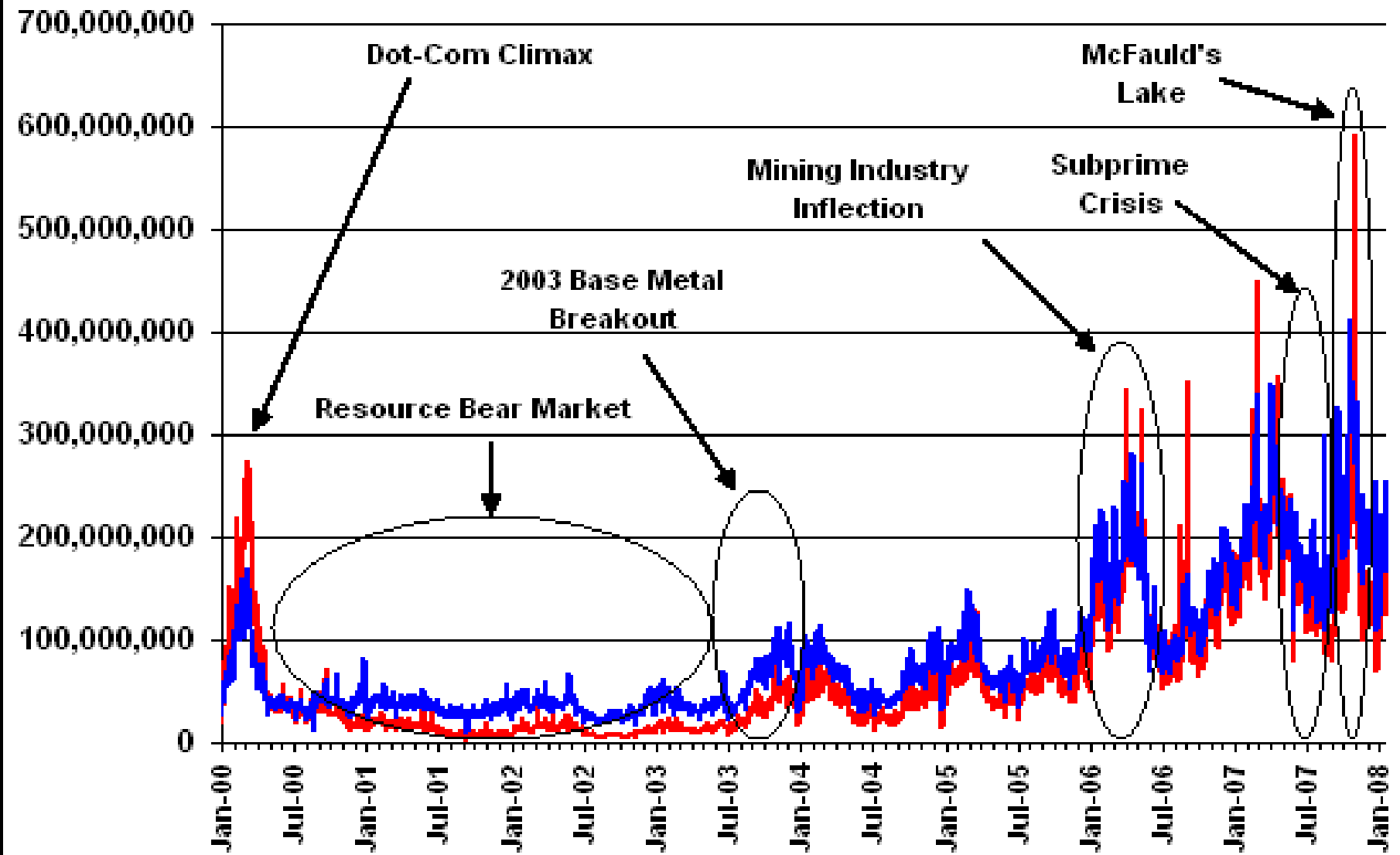




# Daily TSXV Volume & Value Traded

— Value — Volume

January 18, 2008

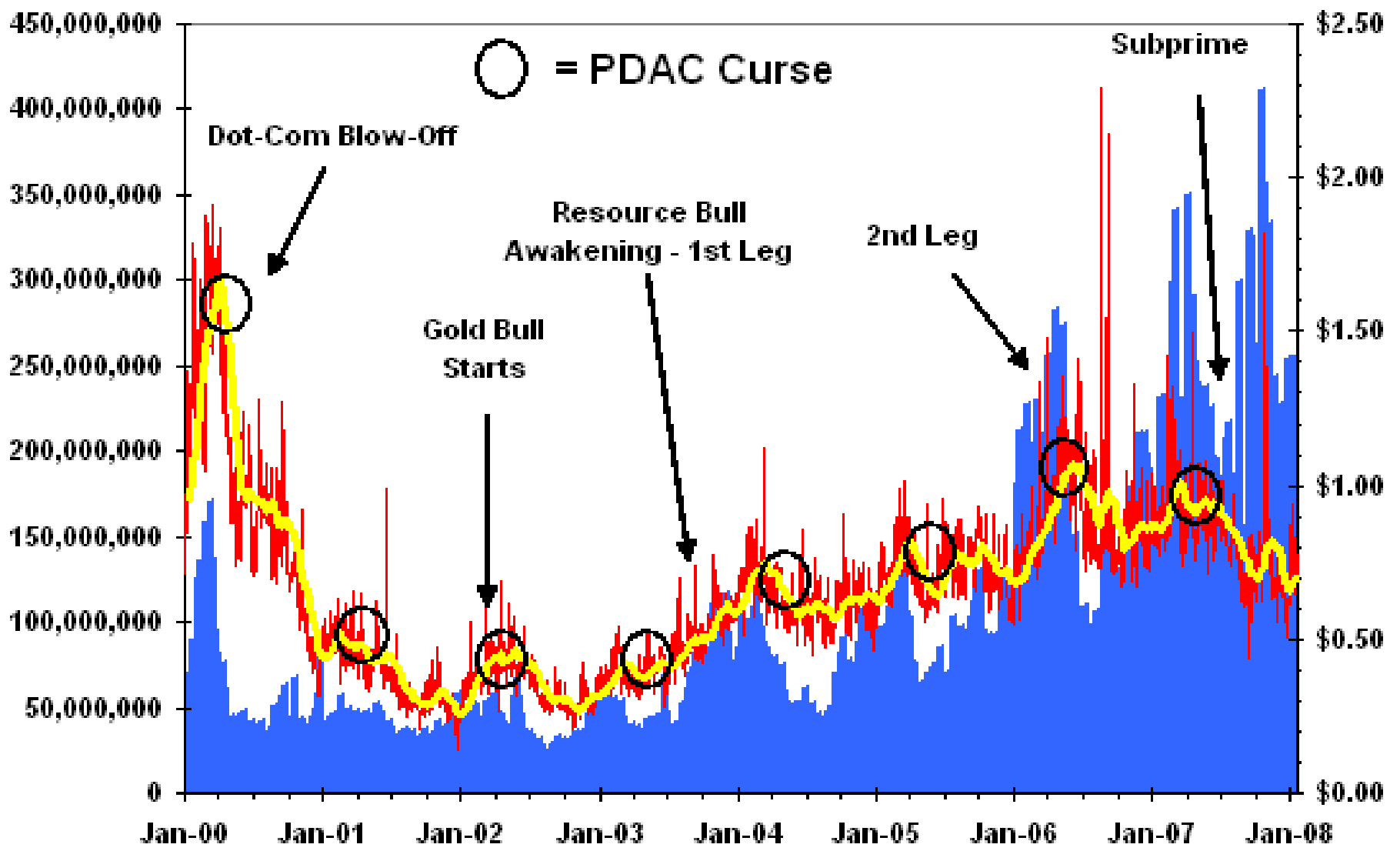


# Daily TSXV Volume and Average Trading Share Price



January 18, 2008

Volume    Average Share Price    30 Day Average Price

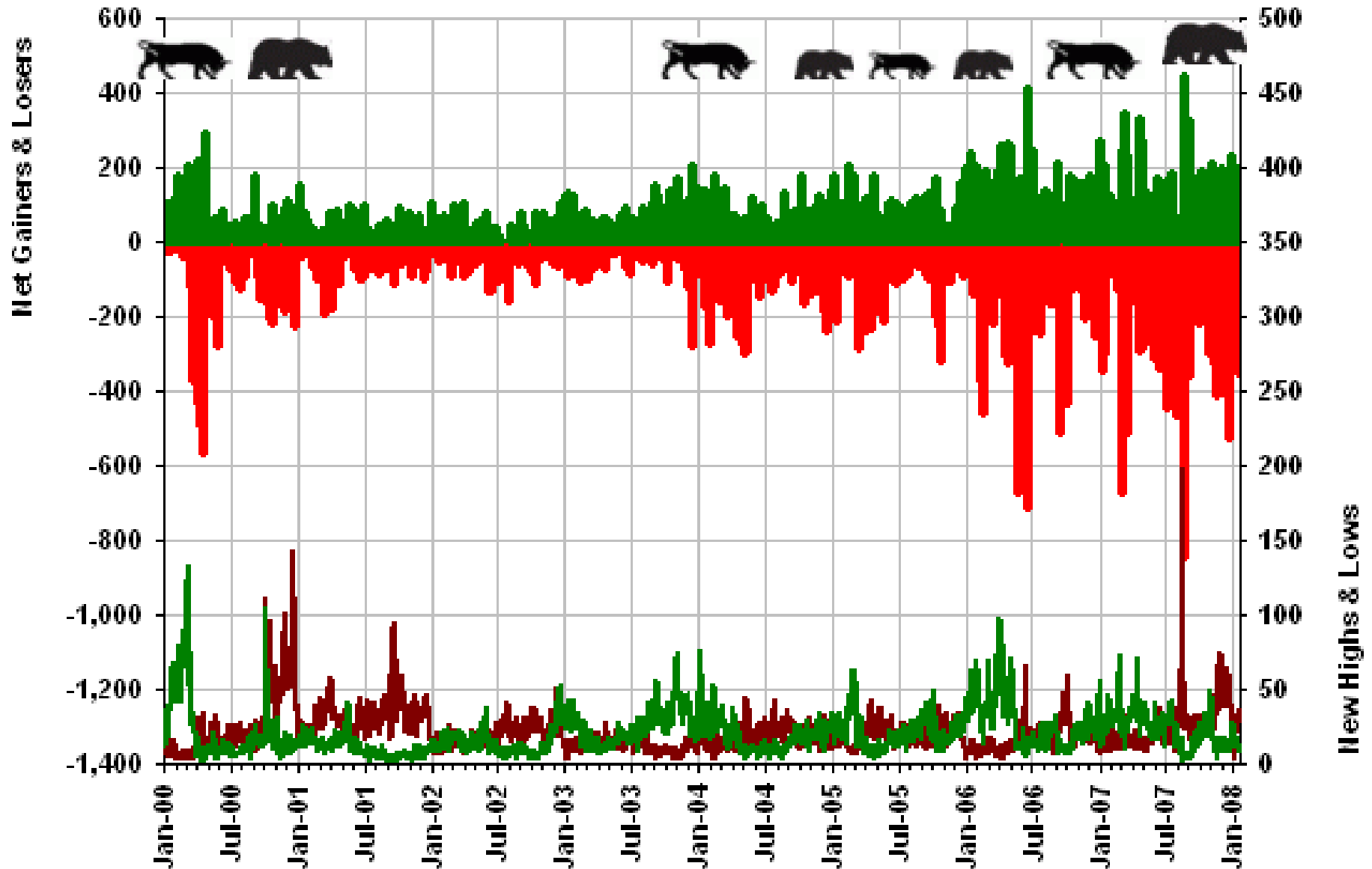


# Daily TSXV Market Trends - Long Term



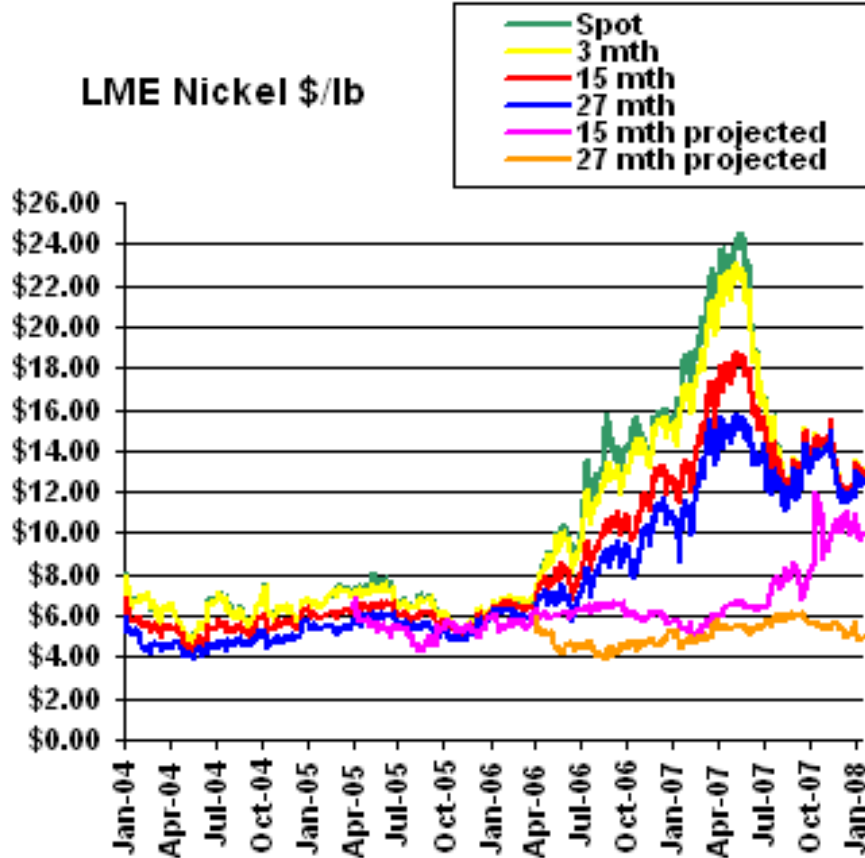
Cyclical Bears vs Structural Bulls

January 18, 2008

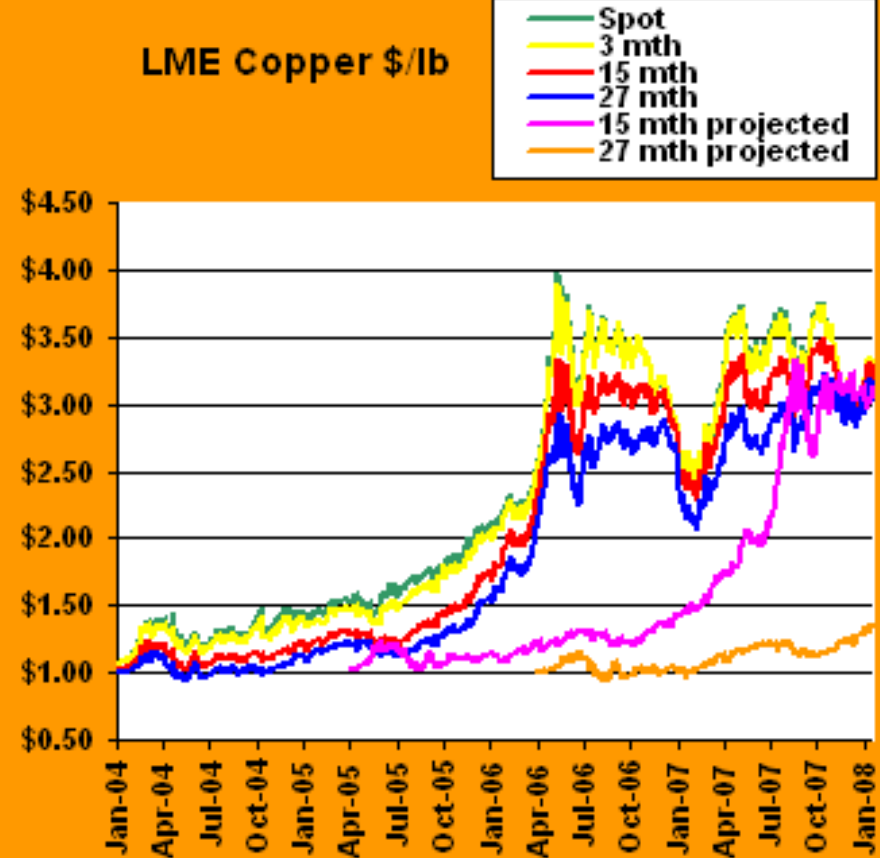


# Cyclical Bears have enjoyed many small victories while continuing to lose the war with the Secular Bulls

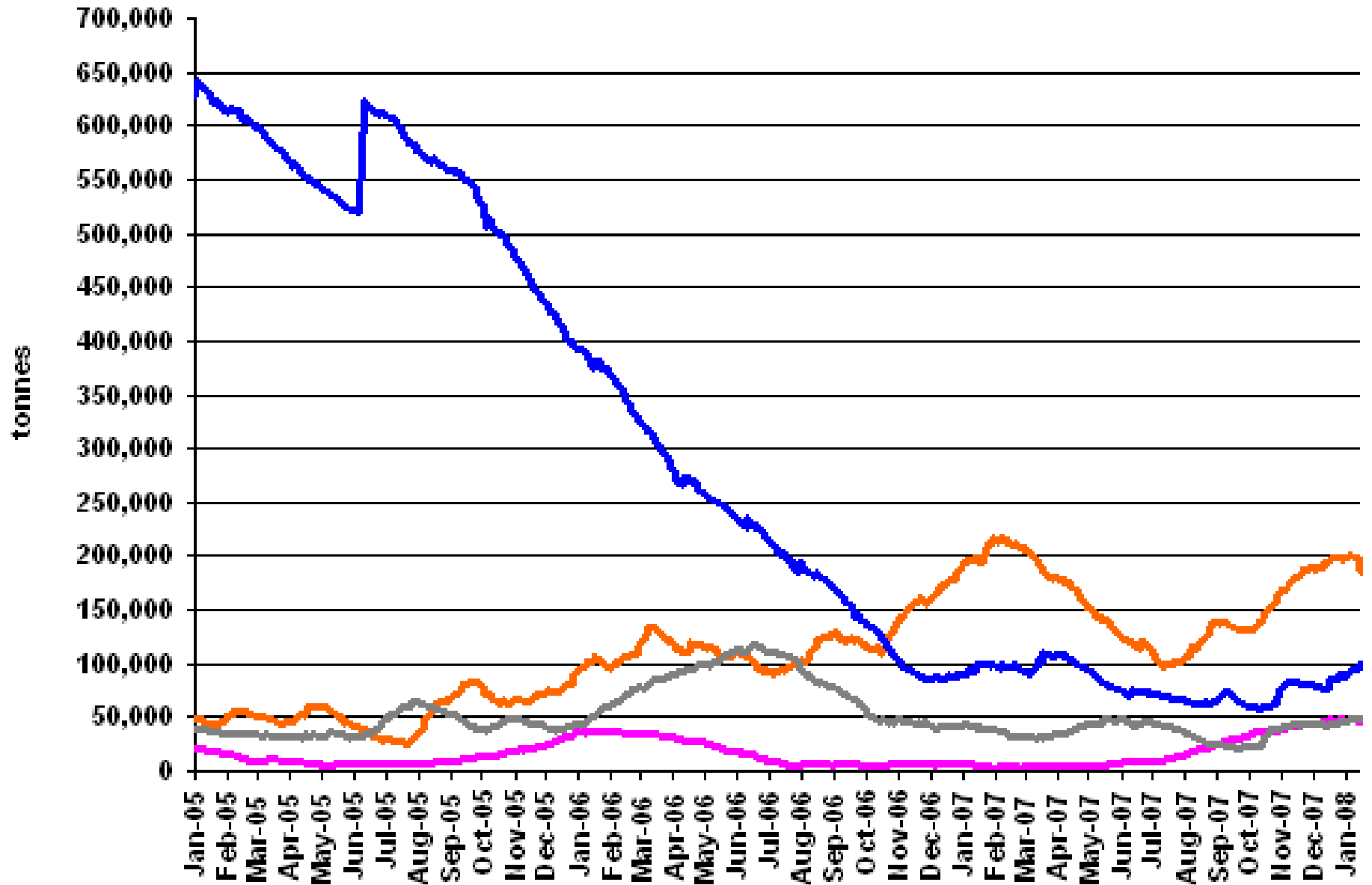
LME Nickel \$/lb



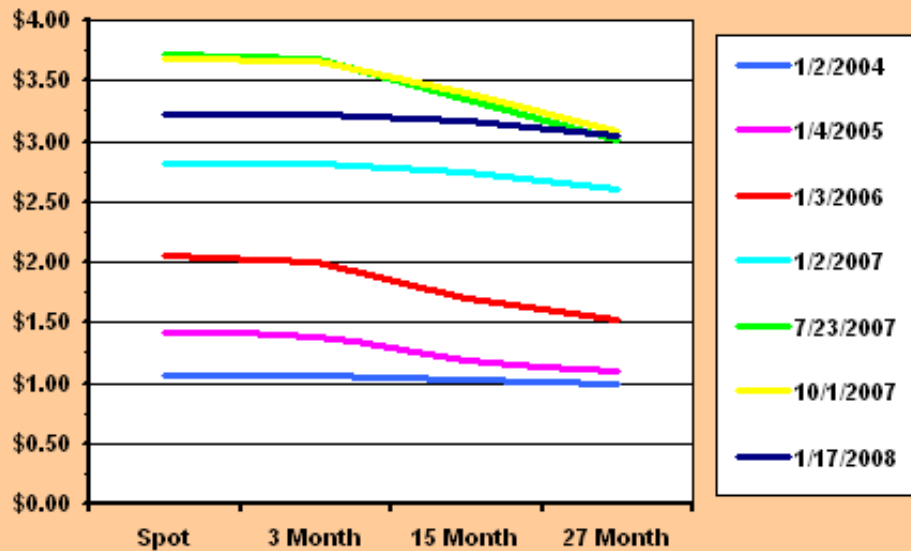
LME Copper \$/lb



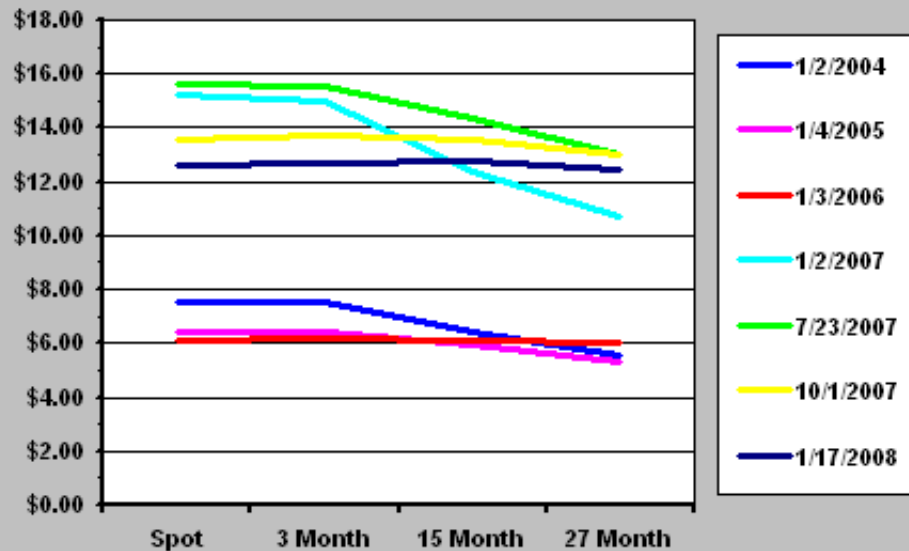
# LME Warehouse Stocks



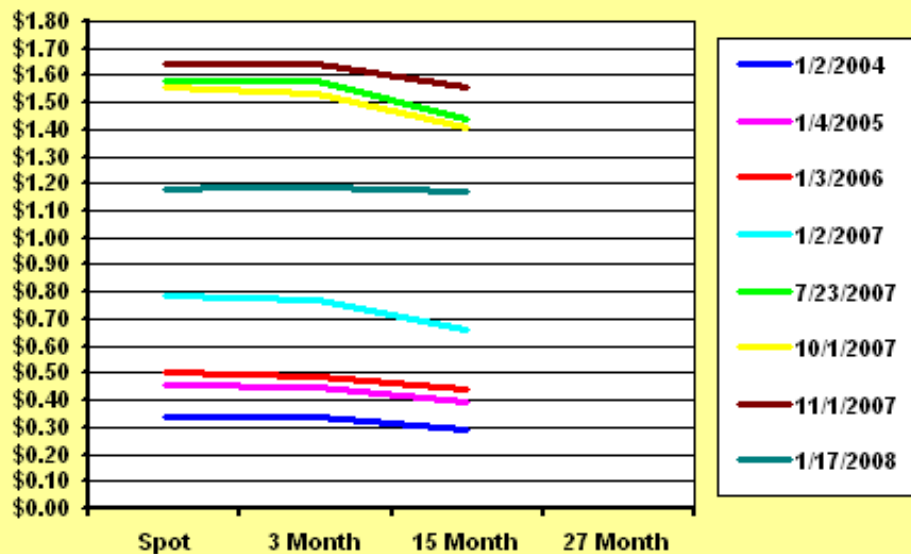
### LME Copper Futures Curves



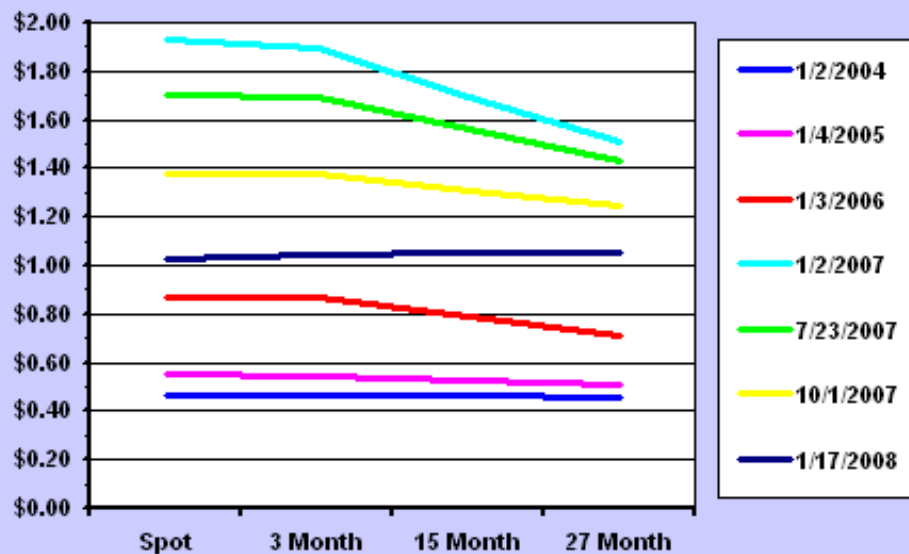
### LME Nickel Futures Curves



### LME Lead Futures Curves



### LME Zinc Futures Curves

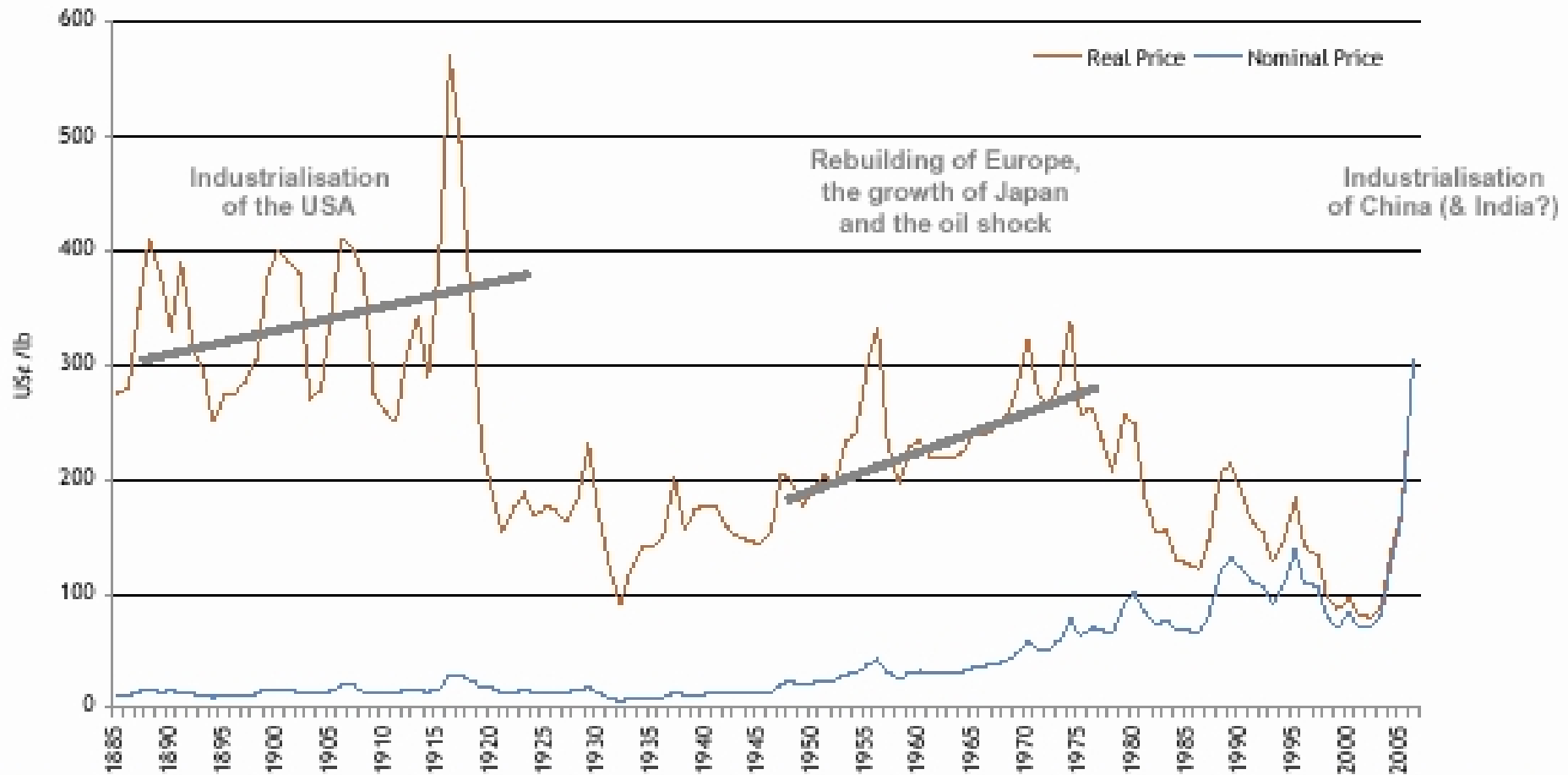




# Super Cycle or Business Cycle?

Copper prices since 1885

Source: Xstrata June 2007 Presentation



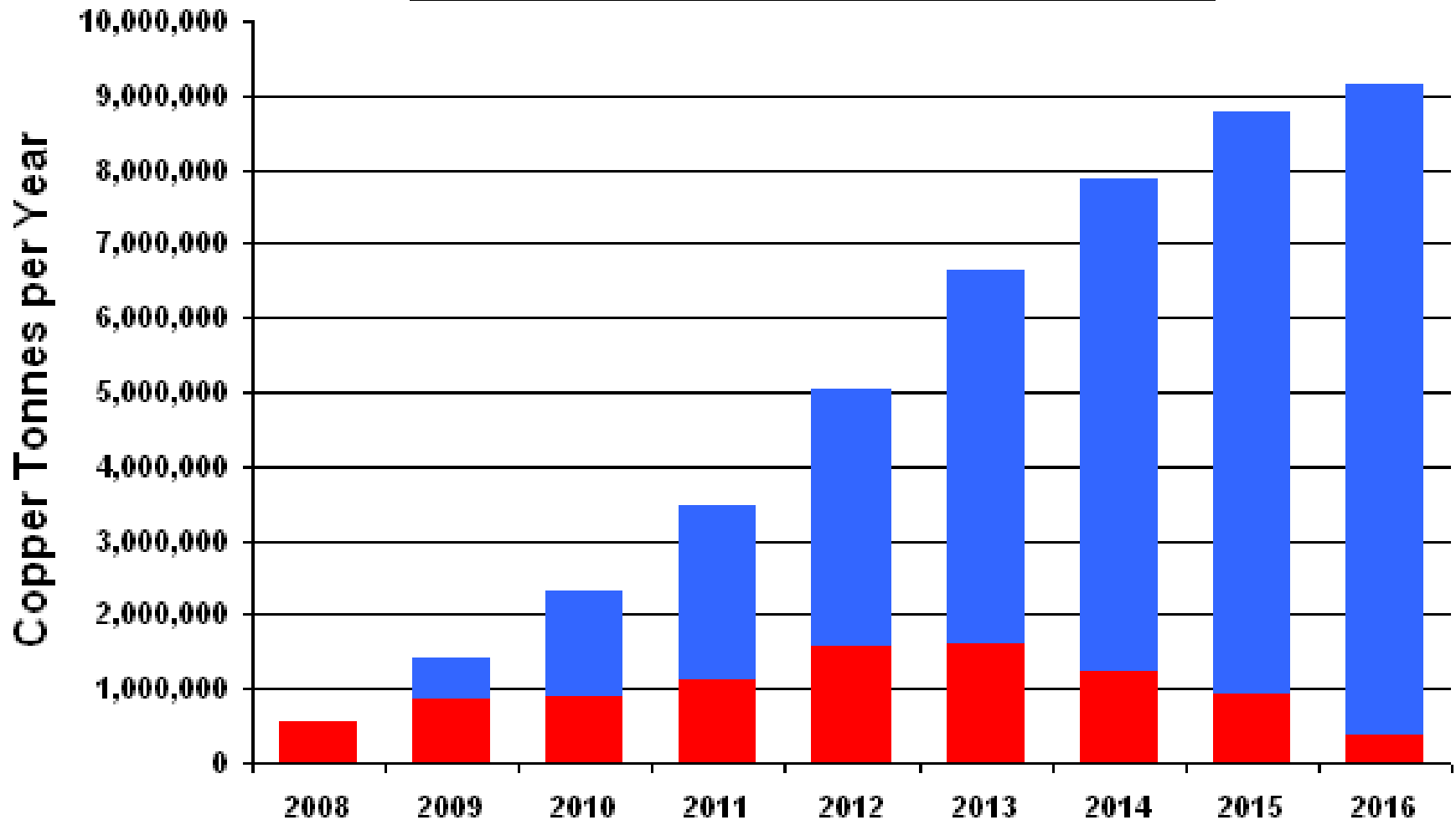
Price spikes can occur due to supply issues, but a true super-cycle is underpinned by demand

# 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

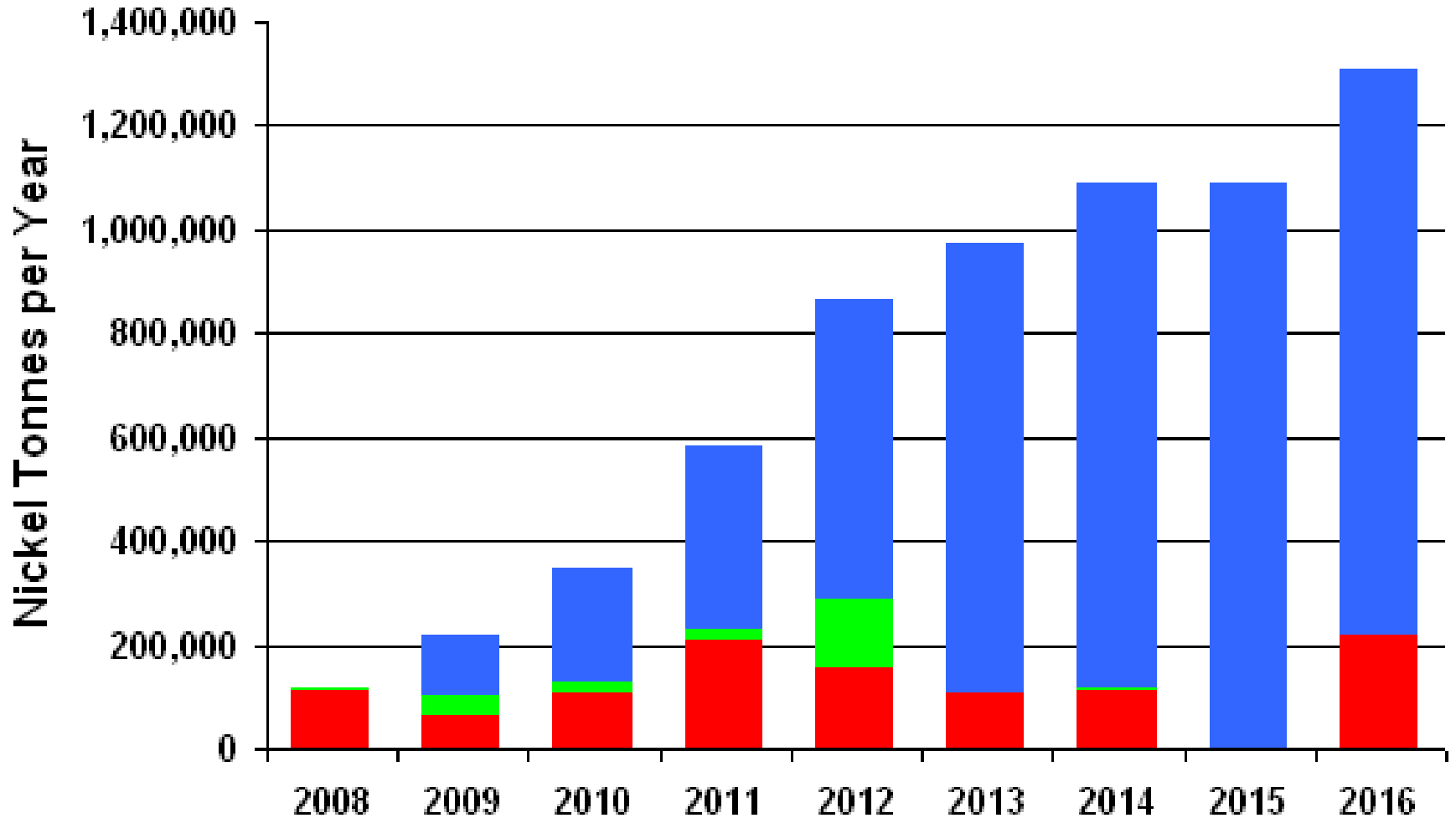
(2007 Estimated Supply: 16,800,000 tonnes)



Source: Credit Suisse September 2007

# Projected New Nickel Supply

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





Issued: 104,644,000

High: \$20.44 on 4/4/2007

Max Volume: 8,529,800 on 11/26/2007

Diluted: 129,219,000

Low: \$5.90 on 12/18/2007

Max Value: \$133,944,454 on 7/24/2006

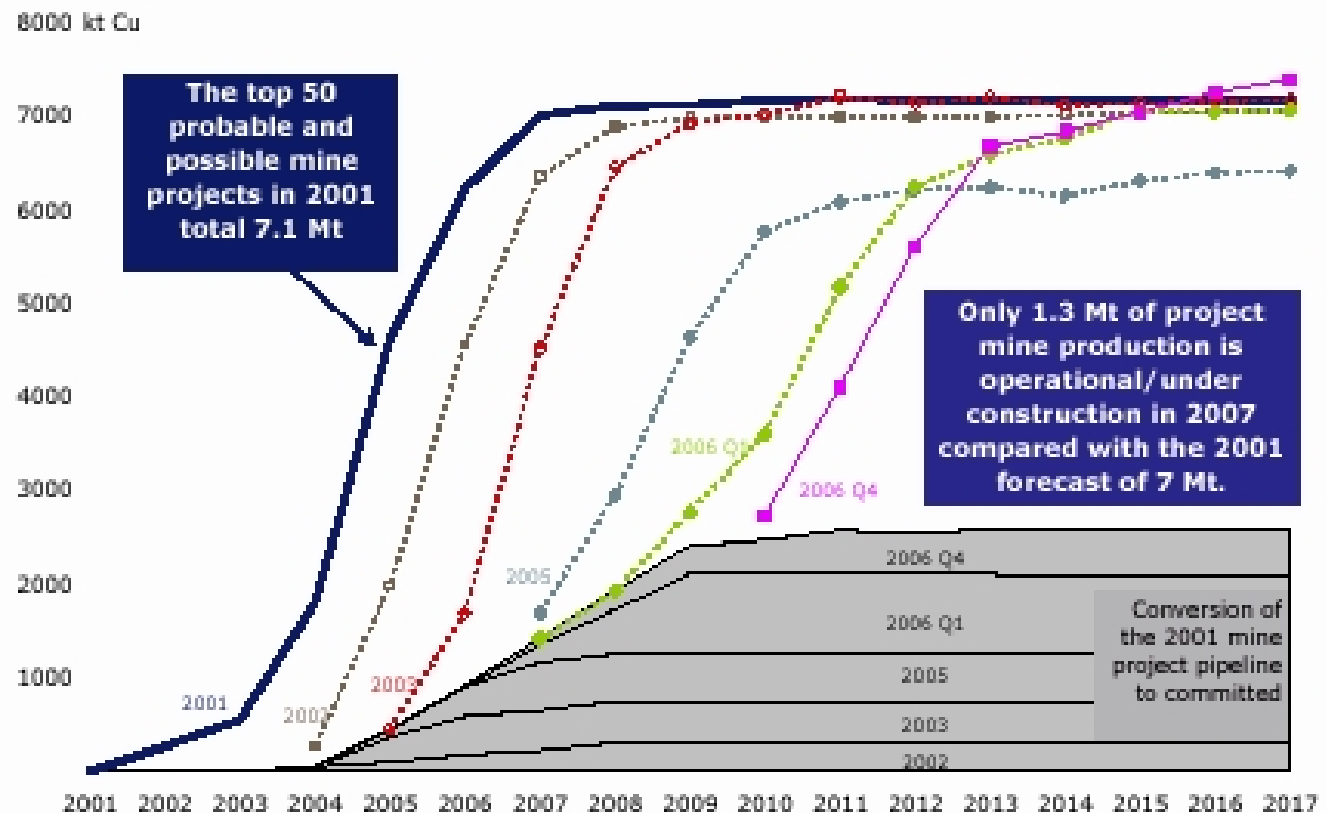


# Supply-side optimism fails to reflect today's higher cost reality



## Copper Output Growth from New Projects: Expectations vs Reality

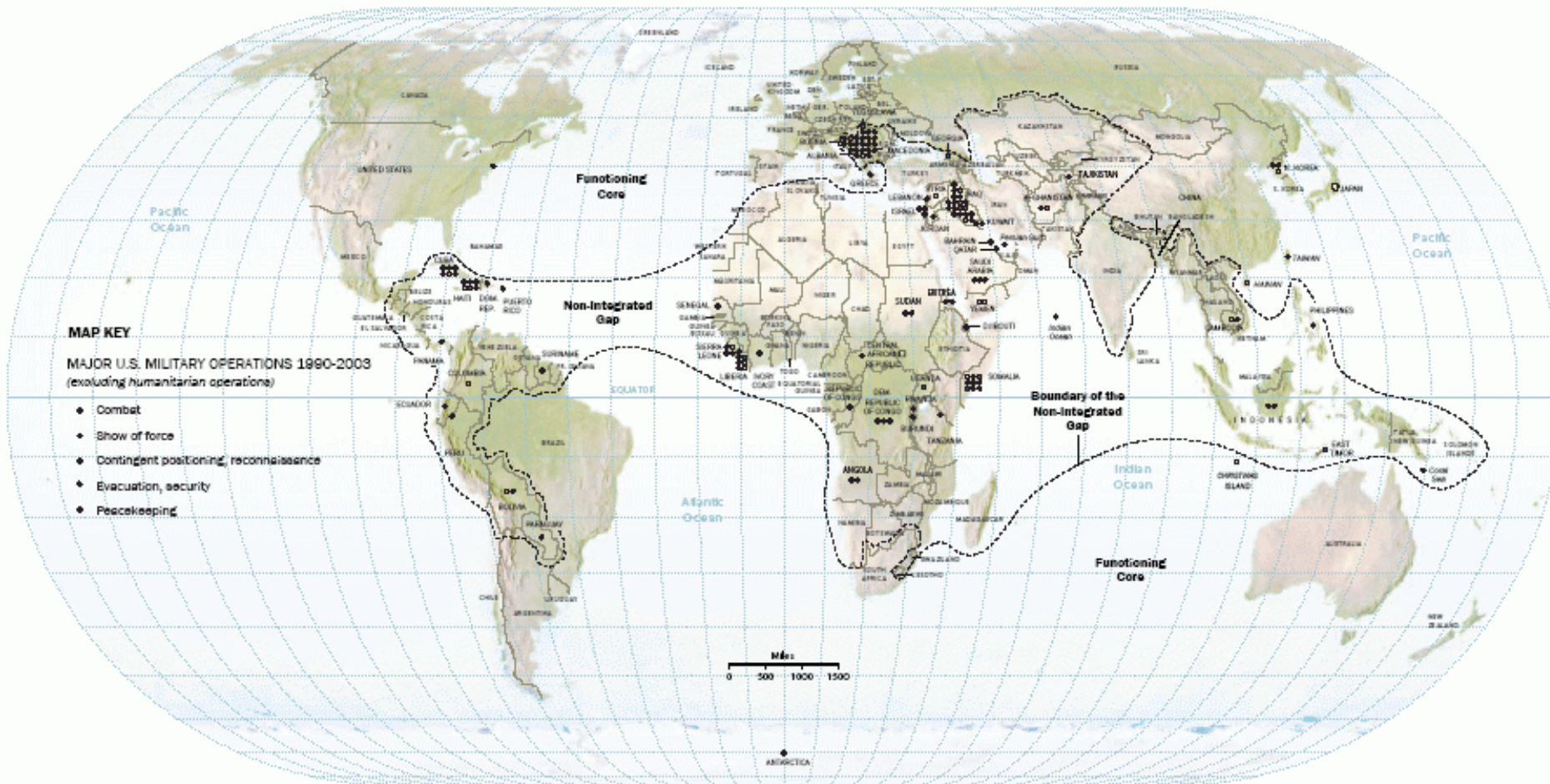
- There is a gap between the expectation and the reality of project delivery
- High prevailing prices have not yet shortened this expectation gap
- Shortage of skills and equipment, riskier jurisdictions and higher costs leading to longer lead times



- 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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**Beware the fragmentation of commodity supply channels as strategic value becomes an important part of acquisition and production decisions.**

**Making economic war under the  
American eye in the sky**



# 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)



# Recent Copper Related Buyouts

- **Regalito** – US \$6.00 cash - \$151 million (Chile)
- **bcMetals** - \$1.70 cash - \$80 million ( BC)
- **Peru Copper** - \$6.60 cash - \$830 million (Peru)
- **Northern Peru Copper** - \$13.75 cash - \$455 million (Peru)
- **Northern Orion** - \$7.25 value - \$1.6 billion (Argentina)
- **Arizona Star** - \$18.00 cash - \$773 million (Chile)
- **Eurozinc** - \$3.66 value - \$2.1 billion (Portugal)
- **Tenke** - \$24.00 value - \$1.5 billion (Congo)

# Other Recent Buyouts

- **Virginia Gold** –\$15.53 value - \$760 million (Quebec)
- **Viceroy** - \$14.00 value - \$833 million (Argentina)
- **St. Jude** - \$1.92 value - \$100 million (Ghana)
- **Western Copper** - \$32.80 value - \$1.7 billion (Mexico)
- **Northern Orionc** - \$7.25 value - \$1.6 billion (Argentina)
- **Wolfden** - \$3.81 cash - \$363 million (Nunavut)
- **Afriore** - \$8.75 cash - \$500 million (South Africa)
- **Primary Metals** - \$3.65 cash - \$54 million (Portugal)
- **Bema Gold** - \$7.32 value - \$4 billion (Russia, Chile)
- **Energy Metals** - \$13.00 value - \$1 billion (USA)

# **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, and be prepared for a surprise on the upside!**

# Exit Strategies

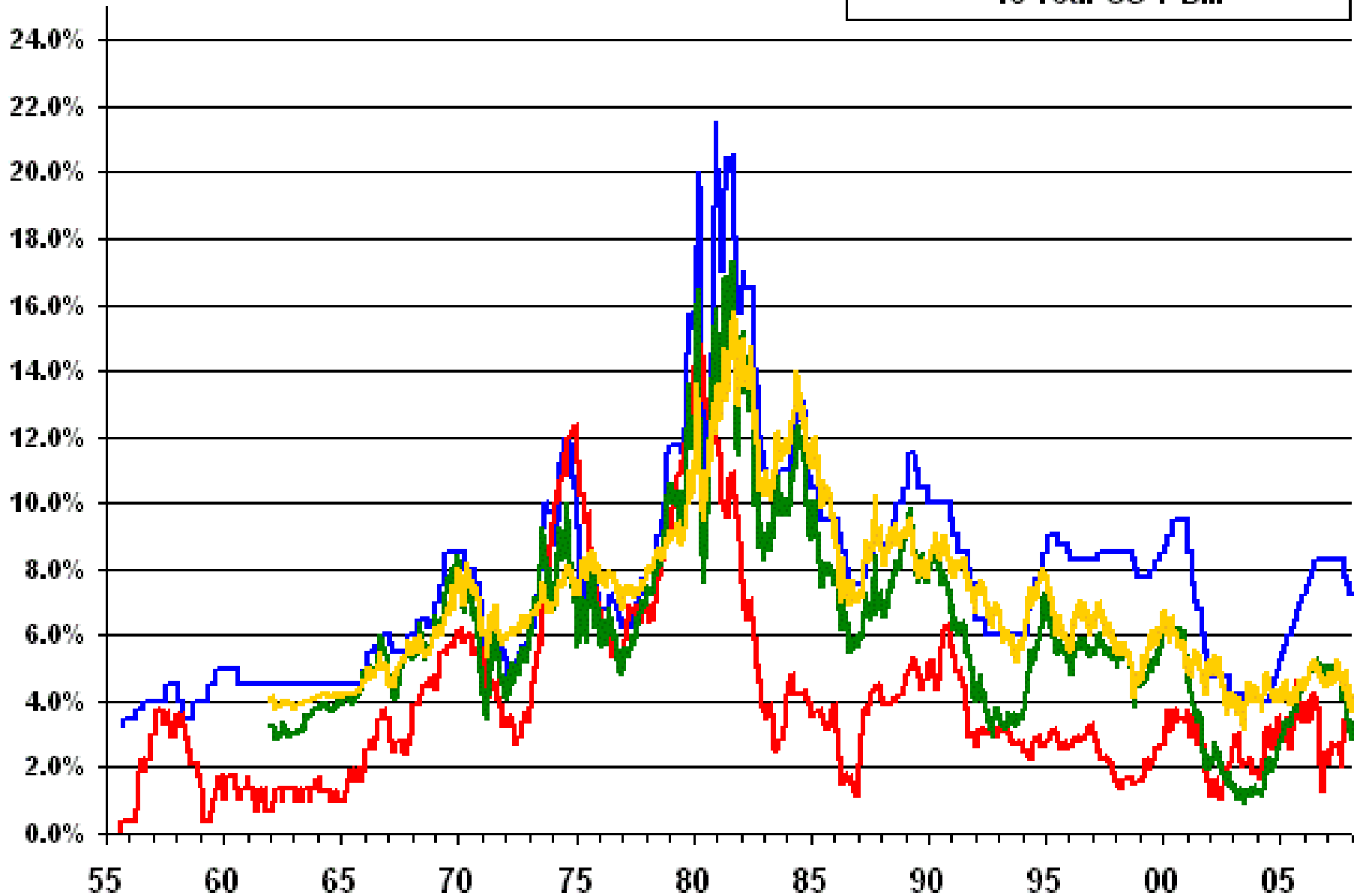
**Liquidity cascading down the food chain through buyouts and mergers of advanced deposits.**

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



# Key Rates

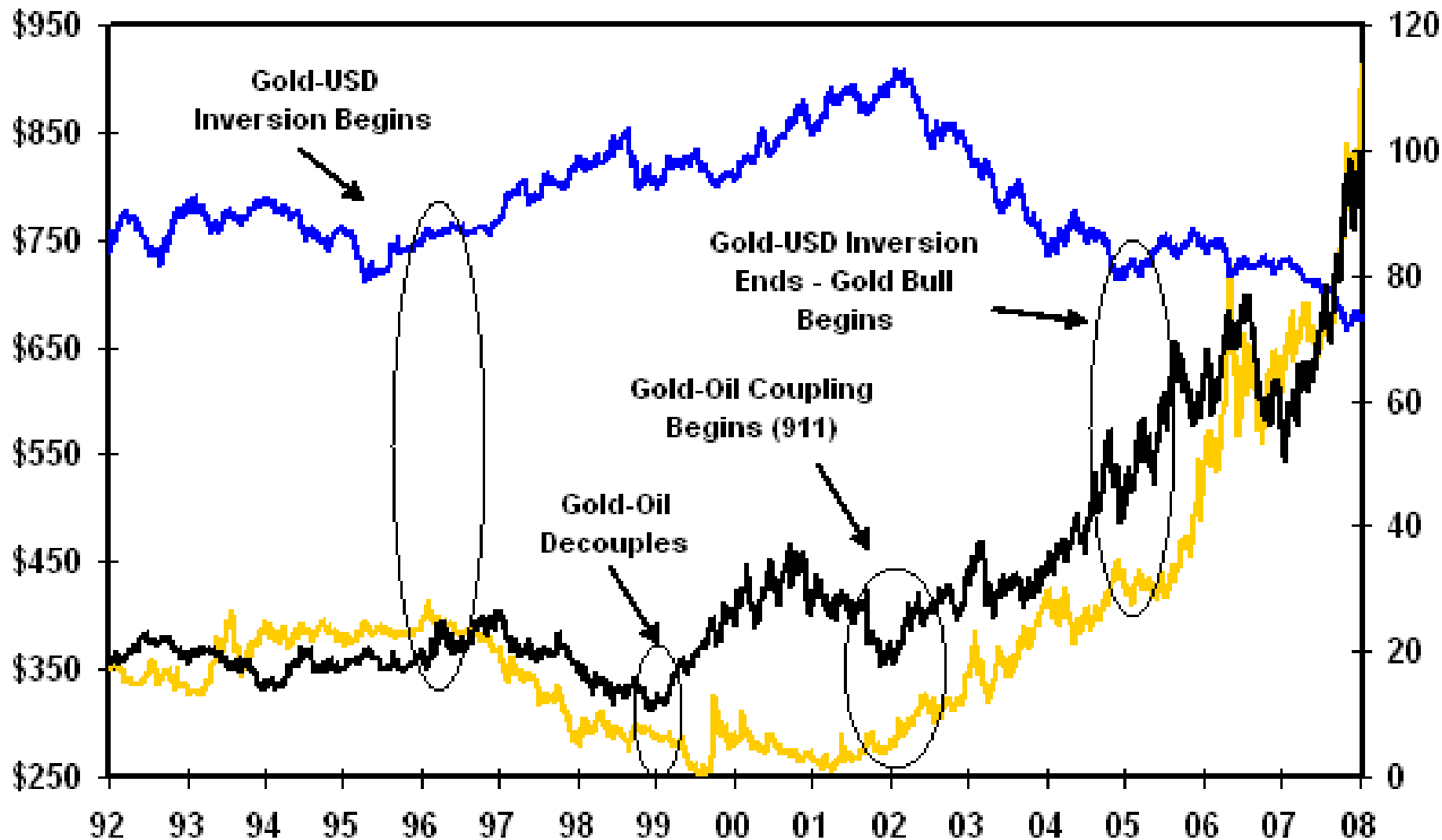
- US Prime Rate
- US CPI Inflation Rate
- 1 Year US T-Bill
- 10 Year US T-Bill





## Gold vs US\$ Index vs Oil

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



# **The Fourth Leg**

## **Collapsing the Wall of Doubt**

- **\$28 billion raised for TSXV since 2003, \$9.8 billion in 2007**
- **Discovery Plays in the Context of a Long Term Outlook for Elevated Base Metal Prices**
- **Gold's time is finally here - \$1,000 is the crossover, \$2,400 the target**
- **New world class discoveries validating Cinderella as more than a fairy tale of a time long gone**





Issued: 134,019,000  
 Diluted: 147,554,000

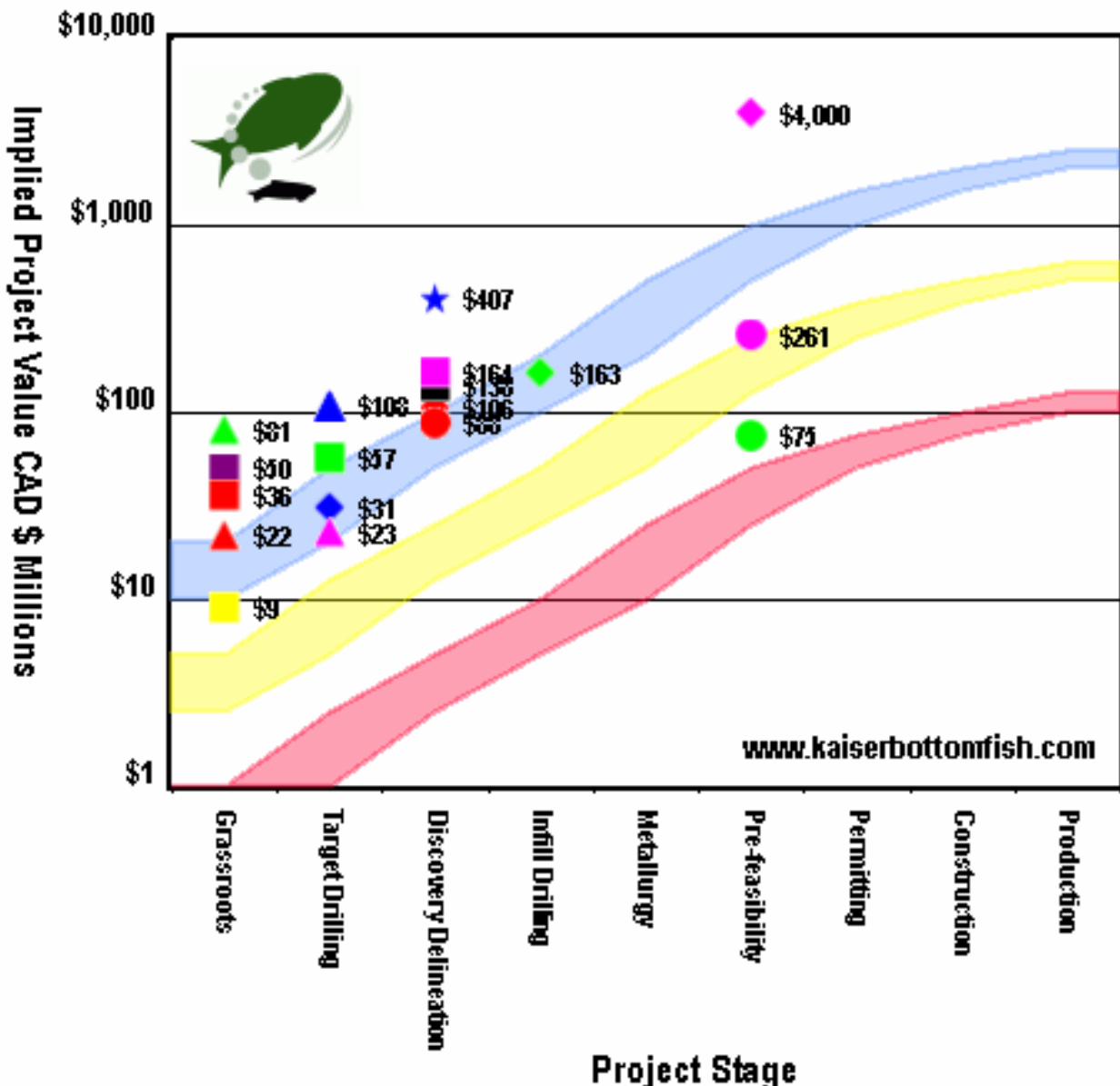
High: \$43.00 on 11/1/2006  
 Low: \$0.40 on 5/25/2005

Max Volume: 6,122,100 on 10/4/2007  
 Max Value: \$170,825,815 on 5/25/2007



# McFauld's Lake Area Play Valuations

Friday, January 18, 2008



**Dream Target Channels**

- \$100 million Dream Target Channel
- \$500 million Dream Target Channel
- \$2 billion Dream Target Channel

**Key Area Play Projects**

- Noront - Double Eagle
- Fancamp - McFauld's Lake
- UC - McFauld's Lake
- Spider - McFauld's Lake UC JV
- KWG - McFauld's Lake UC JV
- Freevest - McFauld's Lake
- Canstar - McFauld's Lake #1
- MacDonald - McNugget
- Probe Mines - McFauld's Lake West
- Temex - MacDonald/Temex JV
- Northern Shield - Highbank 100%

**Comparable Projects**

- Golden Chalice - Langmuir
- Victory Nickel - Lac Rocher
- Cdn Royalties - South Raglan
- Celtic - Kinguruik
- Liberty - Redstone
- Inspiration - Langmuir
- Diamondfields - Voisey's Bay

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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!

# Kaiser Services

- Kaiser Bottom-Fish Online Membership – US \$250 per quarter or \$800 per year
- One time one month KBFO Trial at \$100
- Kaiser Blog Membership – Free
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**Thank You**

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