

# **The Outlook for the Core Resource Sector Narratives**

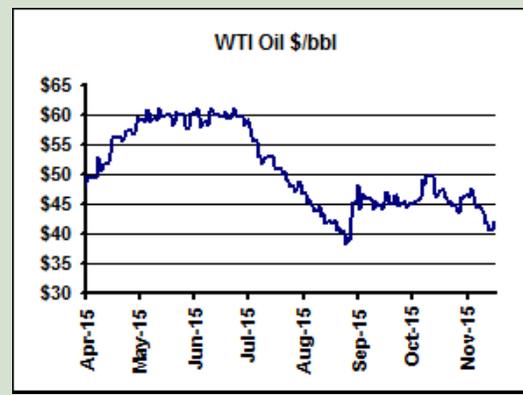
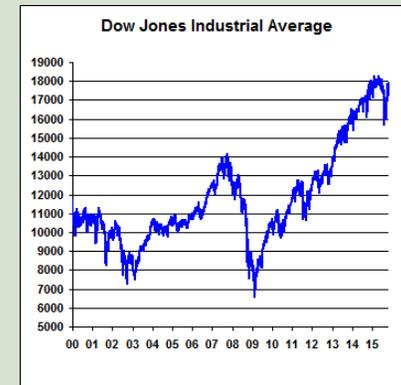
**Presented by John Kaiser**

**49 North Resource Conference**

**November 17, 2015**

**San Francisco, USA**

## Resource Sector Capitulation Washout



**And yet general equities remain near all time highs!**

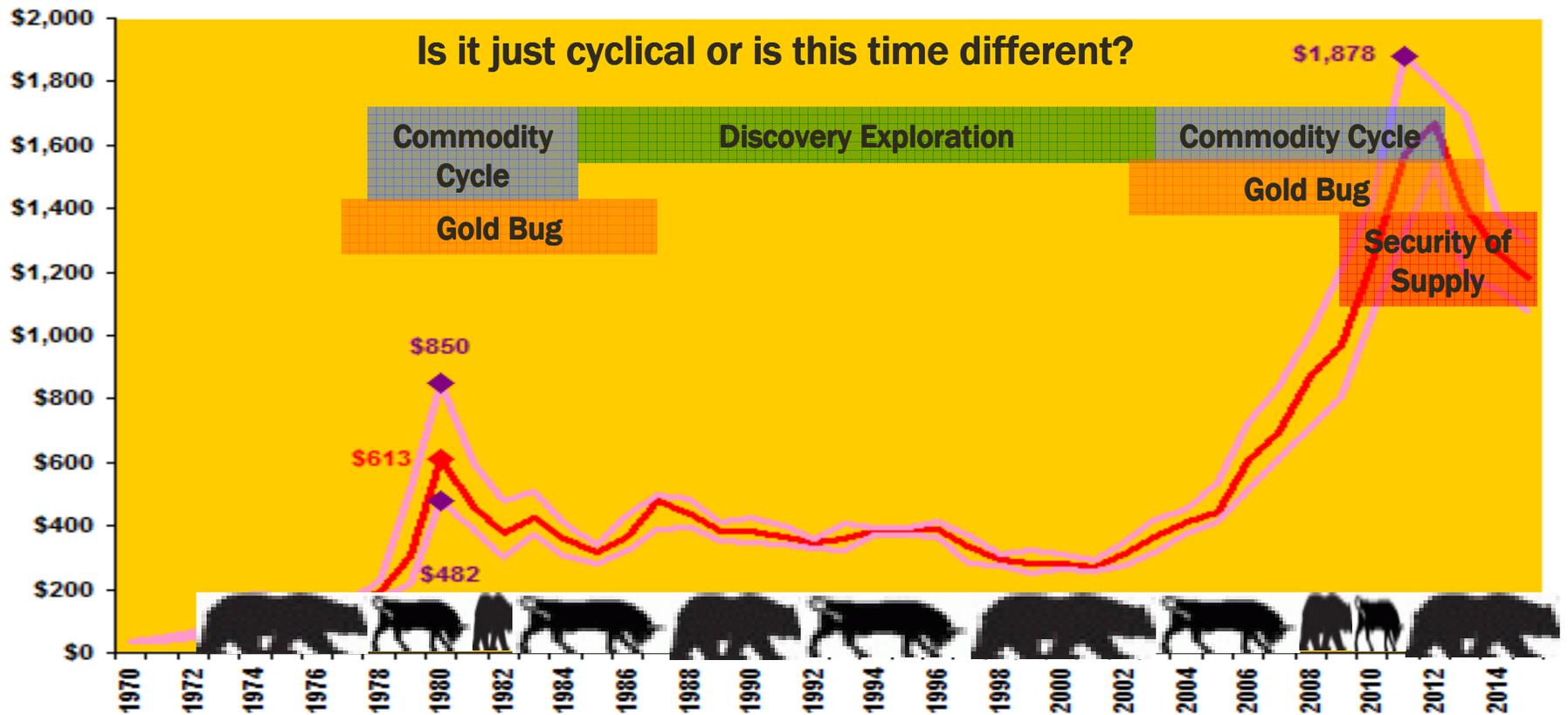
## Key Narratives and the Capital Sources they Attract

	Commodity Cycle	Gold Bug	Security of Supply	Discovery Exploration
<b>Producers (Farm-In/Buyout)</b>	Yes	Yes	Rarely	Rarely
<b>Other Juniors (Farm-In)</b>	No	Yes	No	Yes ?
<b>Private Equity</b>	Yes	Yes	Yes	No
<b>Institutions</b>	Yes	Yes	Yes	No
<b>Accredited Investors</b>	Yes	Yes	Yes	Yes
<b>Flow-Through</b>	Yes	Yes	No	Yes
<b>Retail</b>	No !	Yes	! Rarely !	Yes

# Annual Average Gold Price with High-Low Range

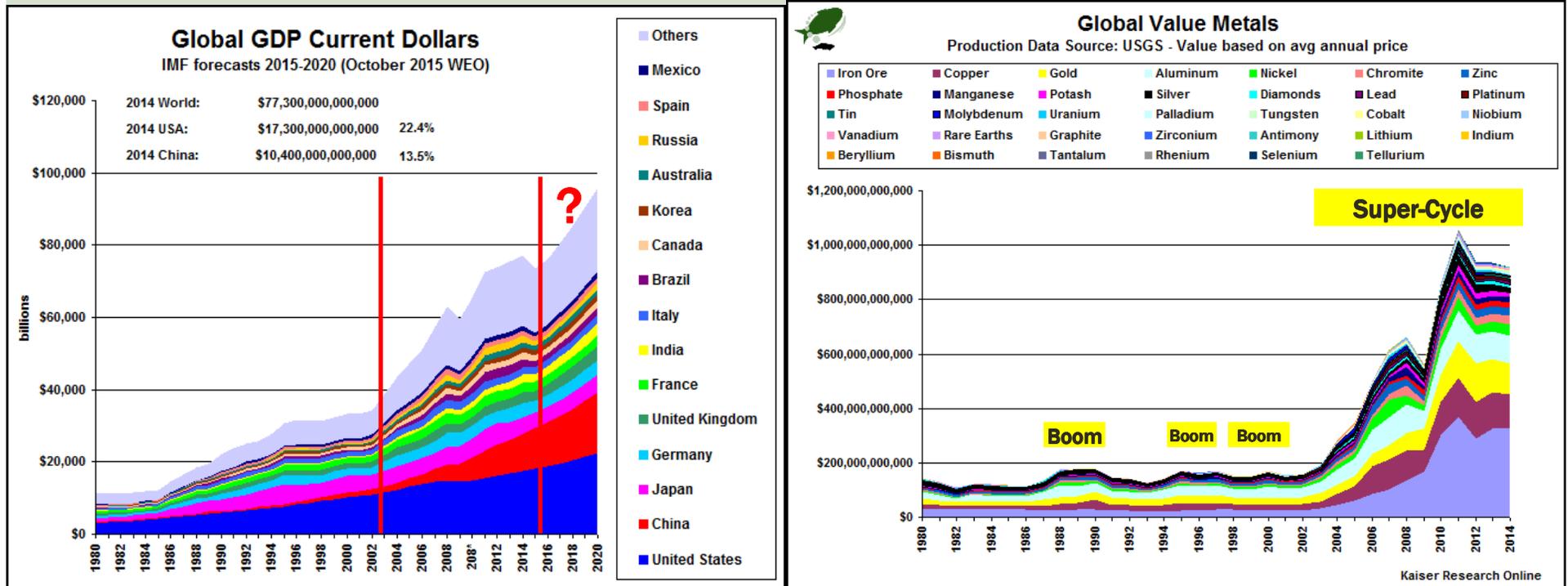
— Average Gold Price

— Yearly Hi-Lo Range



# Commodity Cycle Narrative and its Super-Cycle Variation

Juniors normally to not respond to commodity cycle booms  
but play a very important role when super-cycle booms erupt



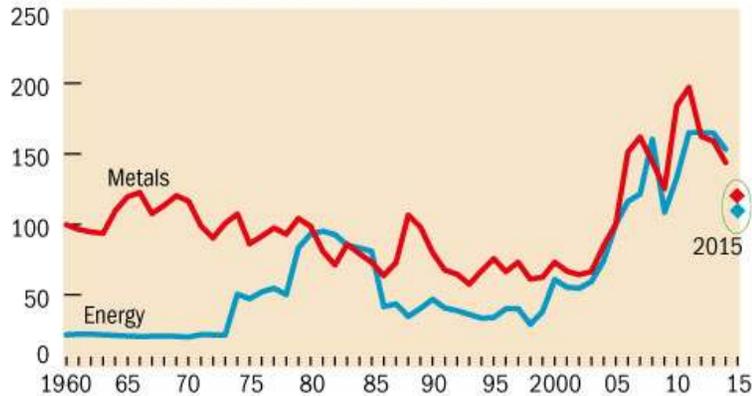
# Mine supply response to higher real metal prices has followed the usual boom-bust pattern of the commodity cycle with a vengeance – unwinding the supply glut will be long and painful

Chart 1

## Commodity blues

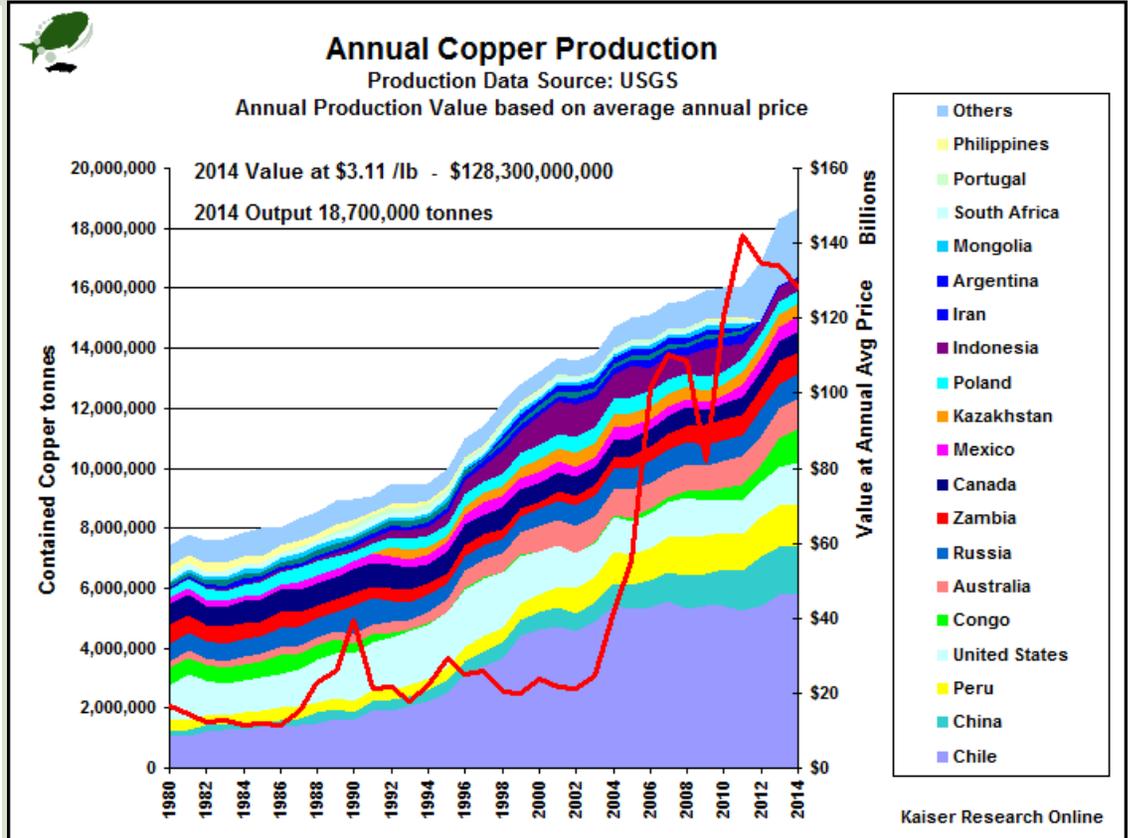
After a dramatic, decade-long rise, the prices of many commodities have been dropping sharply, especially those of energy and metals.

(world commodity prices; in real terms 2005=100)

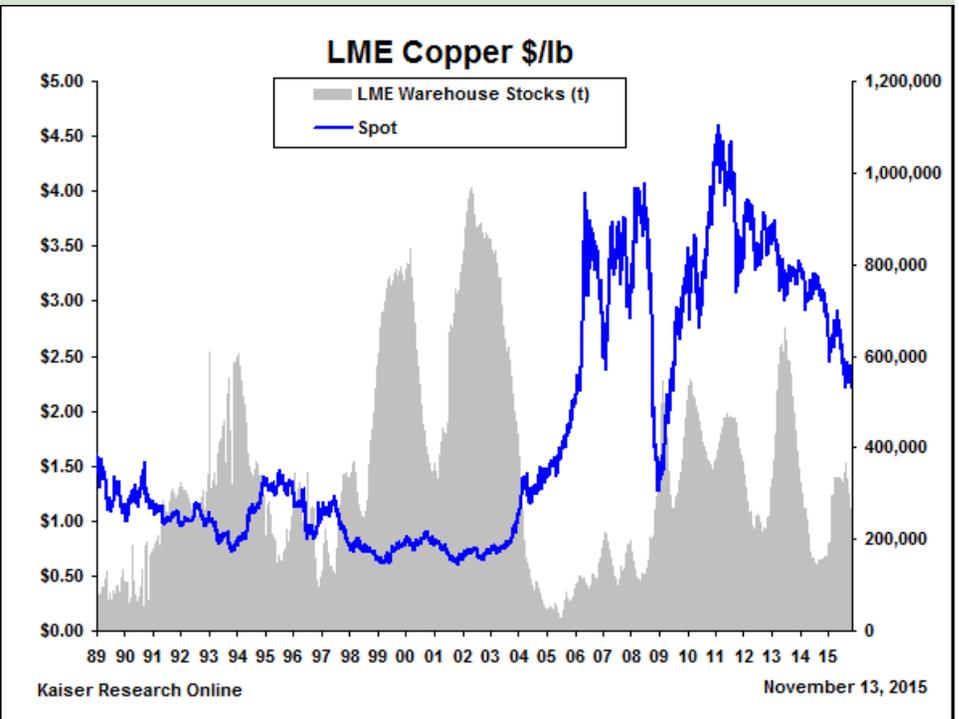


Sources: IMF, Primary Commodity Price System; U.S. Energy Information Administration; World Bank, Global Economic Monitor database; and IMF staff calculations.

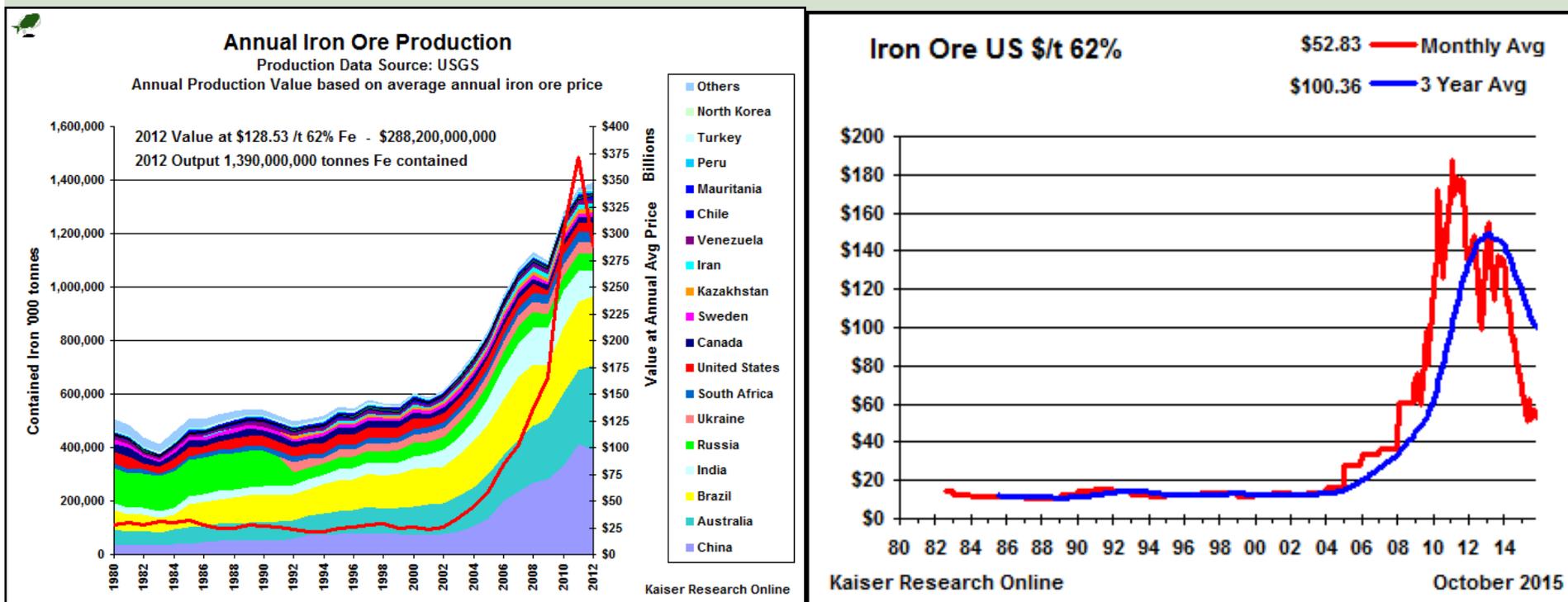
Note: The real price index for a commodity group is the trade-weighted average of the global U.S. prices of the commodities in the group deflated by the advanced country manufacturing price index and normalized to be 100 in 2005. The values for 2015 are the averages for the first half of the year.



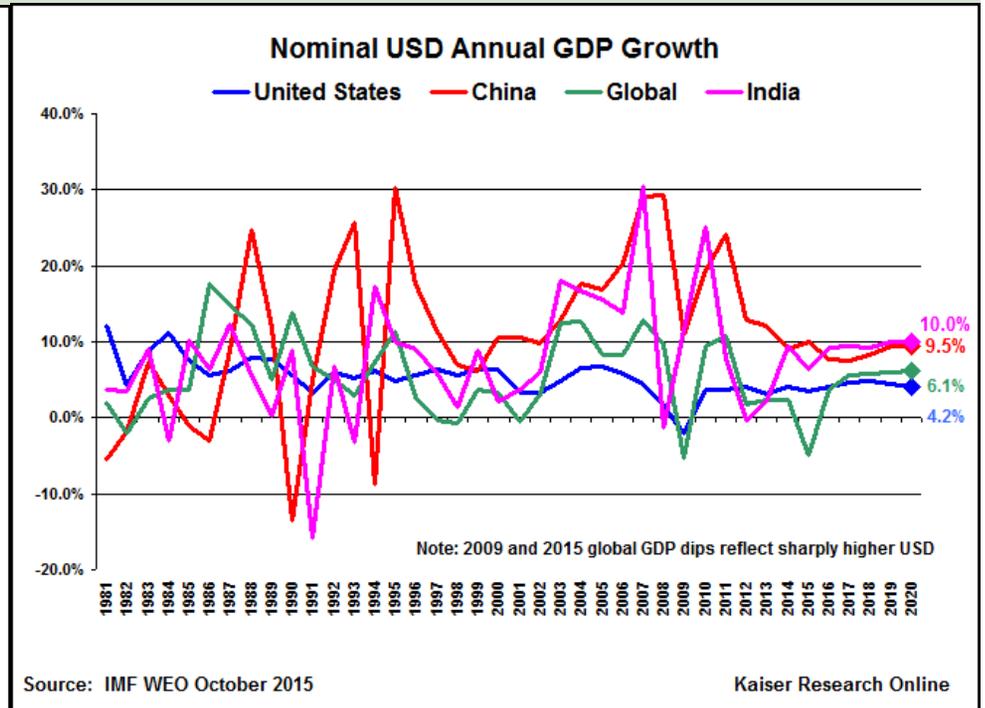
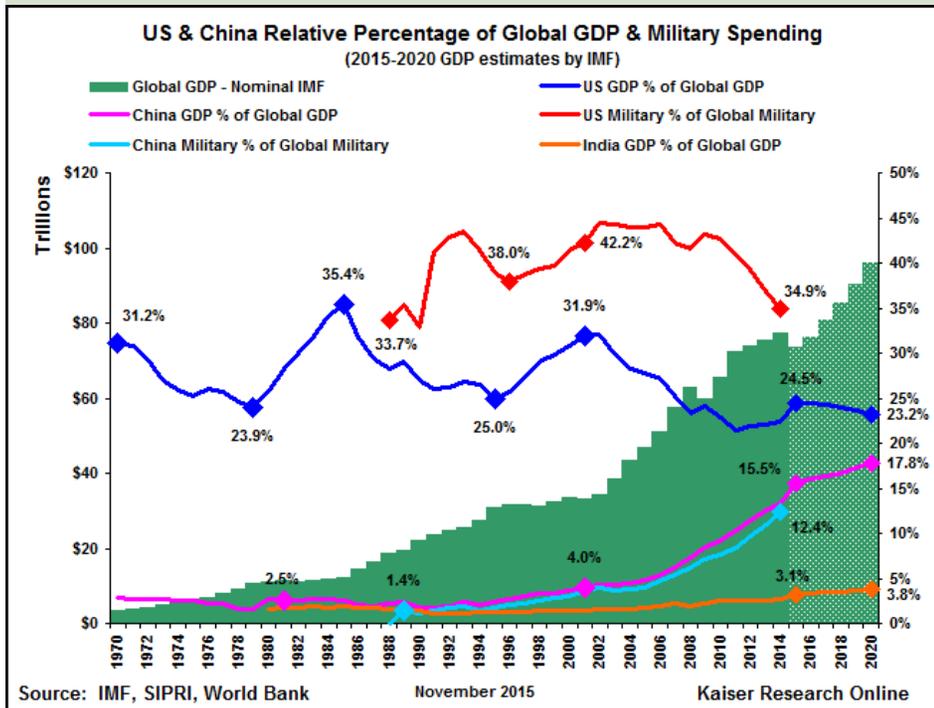
**Producers must cope with the supply glut by shutting down marginal mines, shelving development plans, and stopping exploration. This may not help if SOE's do not do the same. Advanced juniors plugged into the commodity cycle narrative are on standby while money is made on producer turnaround speculation.**



Similar to the Saudi oil supply strategy, major low cost producers are determined to capture market share by destroying the higher cost competition.



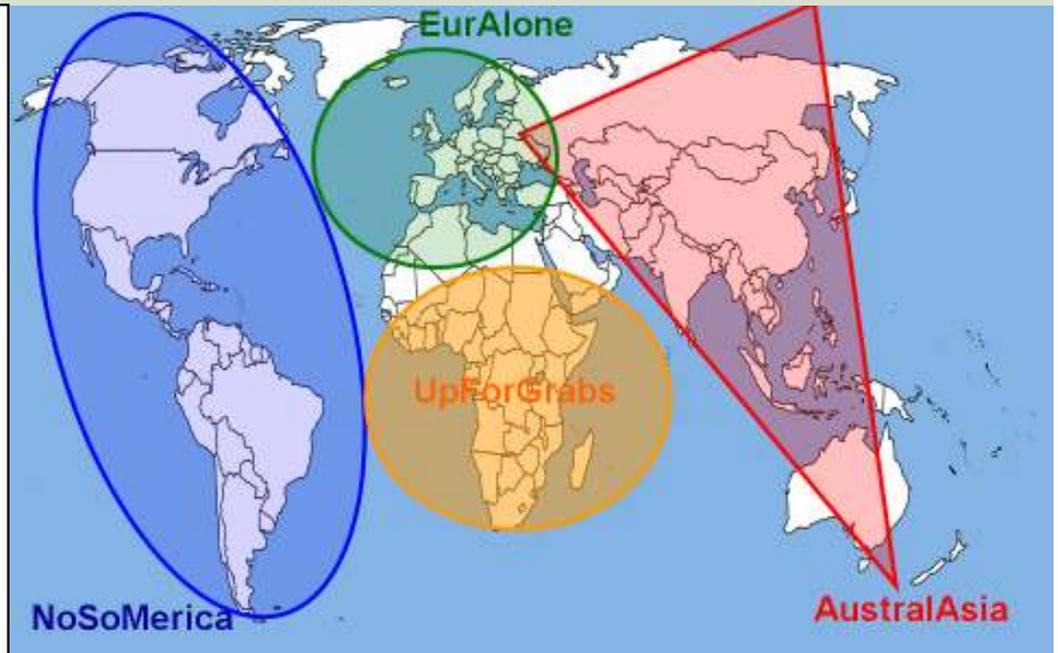
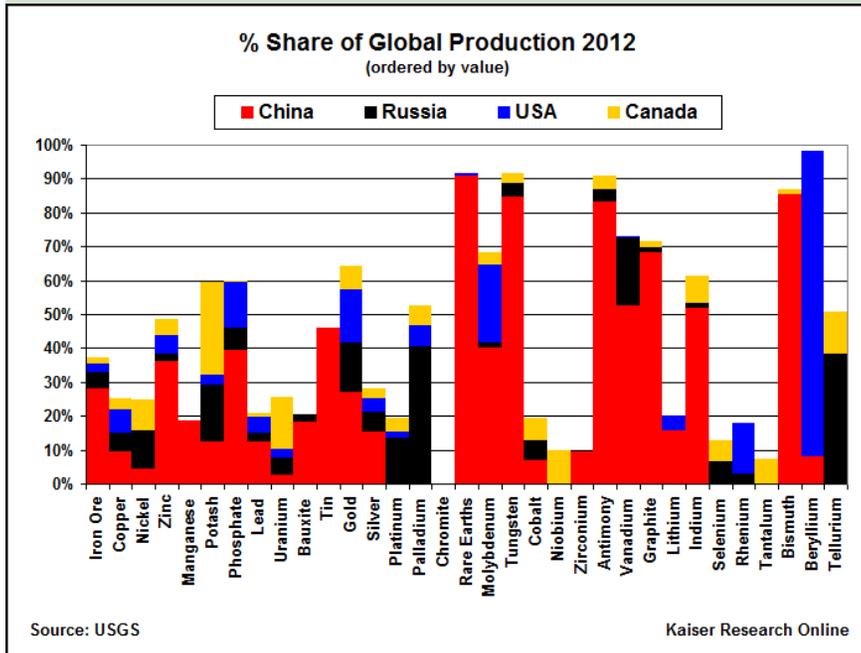
# China can no longer drive a super-cycle, emerging market growth has stalled, America's leadership role is unclear, and India cannot hit a super-cycle tipping point before 2020



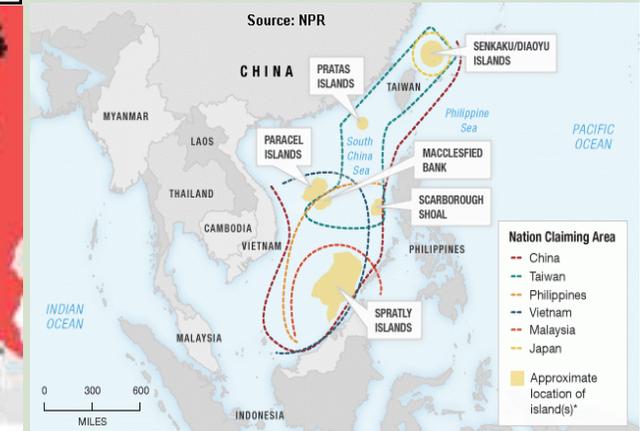
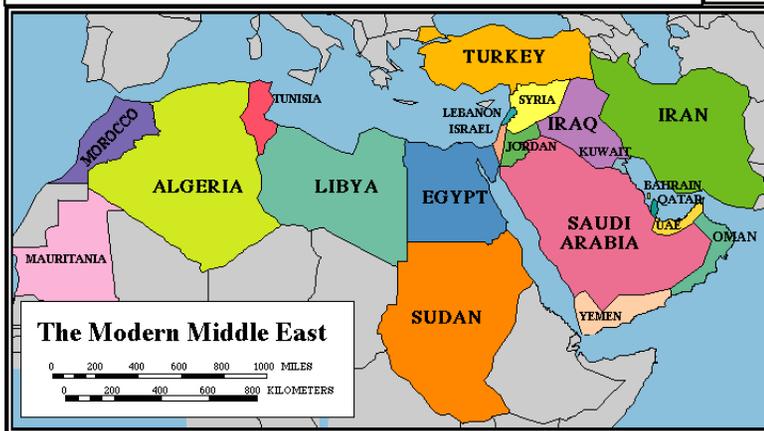
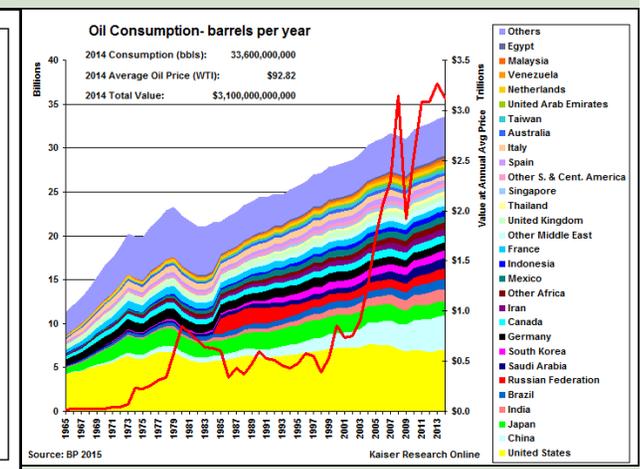
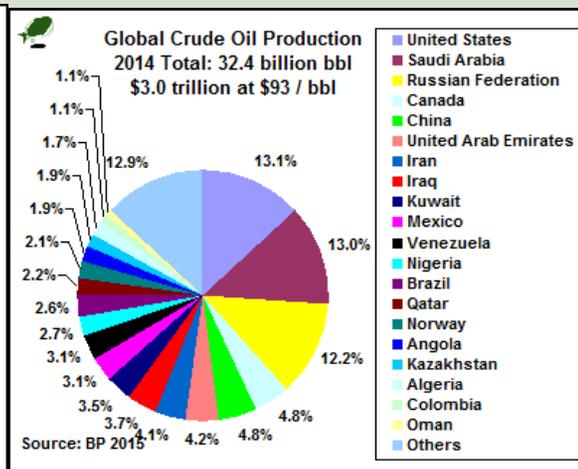
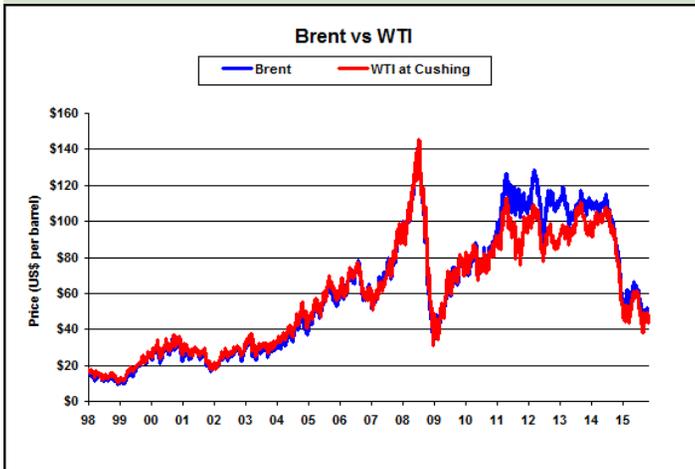
# Security of Supply Narratives

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

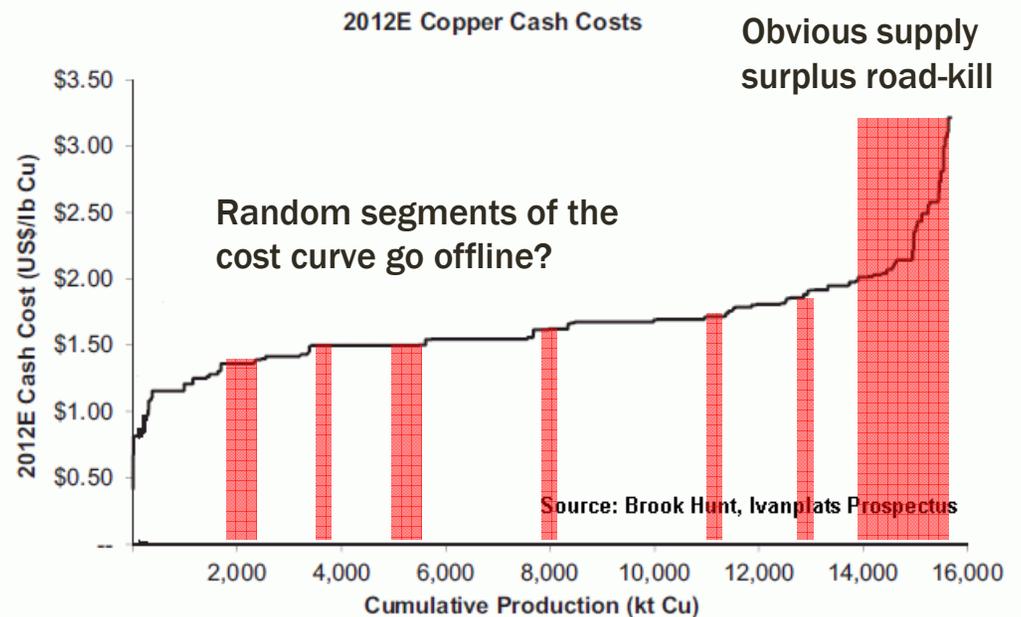
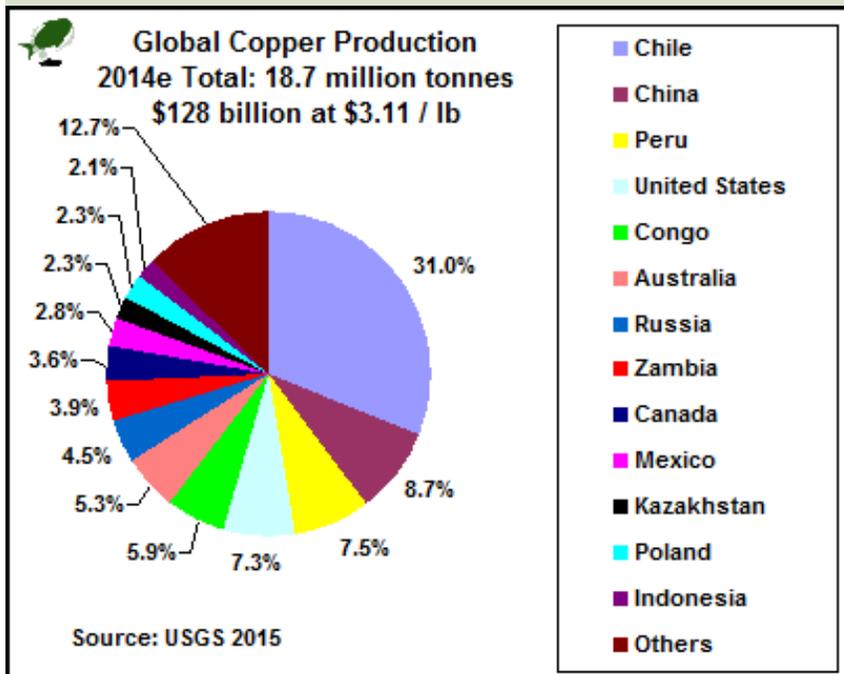
This is the new conceptual frontier for institutional capital!



# High Risk of Geopolitical Train Wrecks & Unintended Consequences



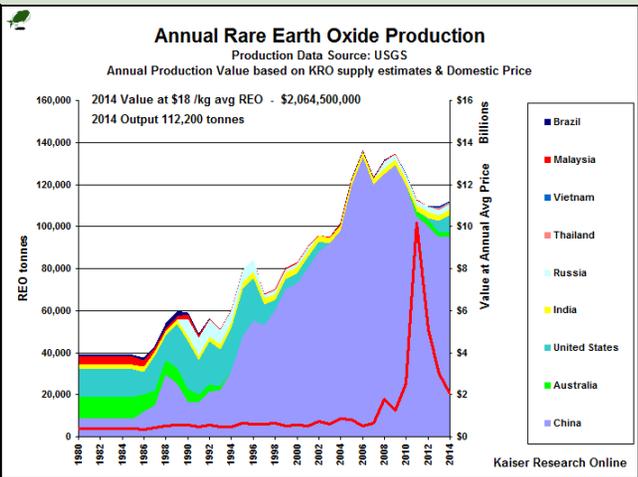
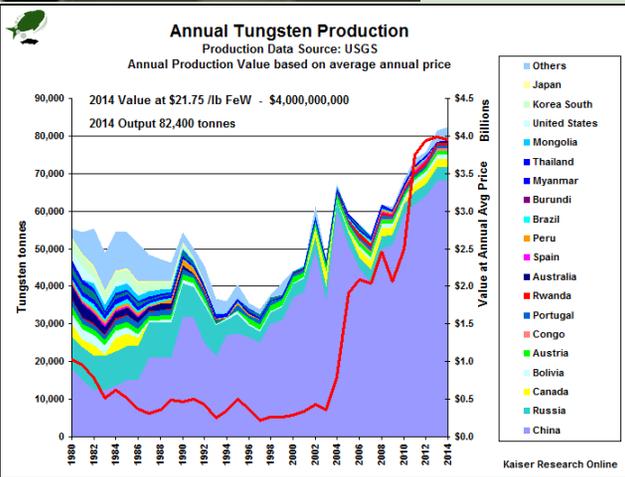
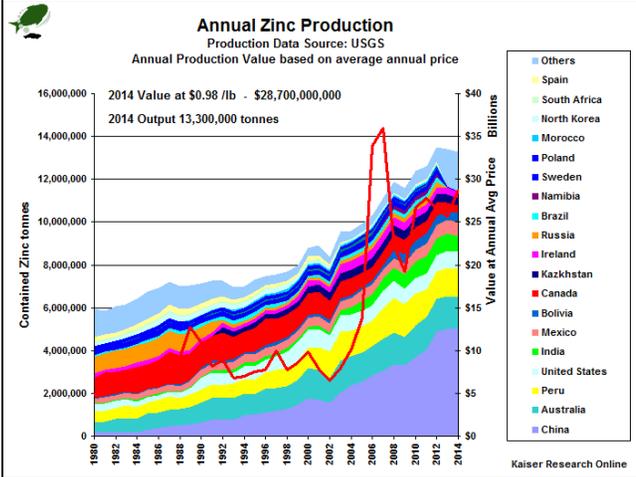
The greatest likelihood for higher medium term metal prices lies with unpredictable supply disruptions such as civil strife, infrastructure failure, resource nationalism, & sanctions. Price uptrends will be metal specific and development decisions will focus on “safe” jurisdictions.





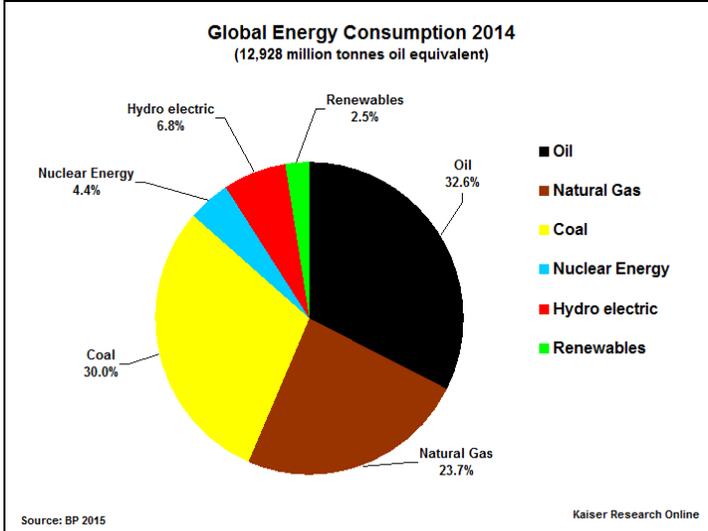
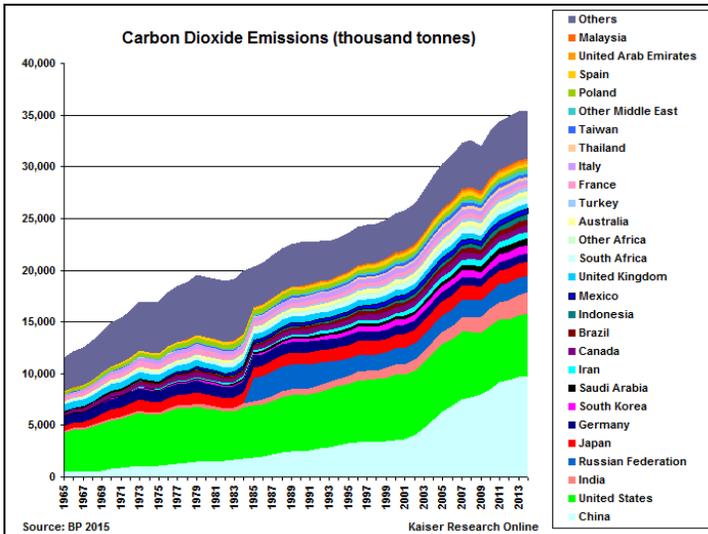
# Environmental Policy as Supply Disrupter

## 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.

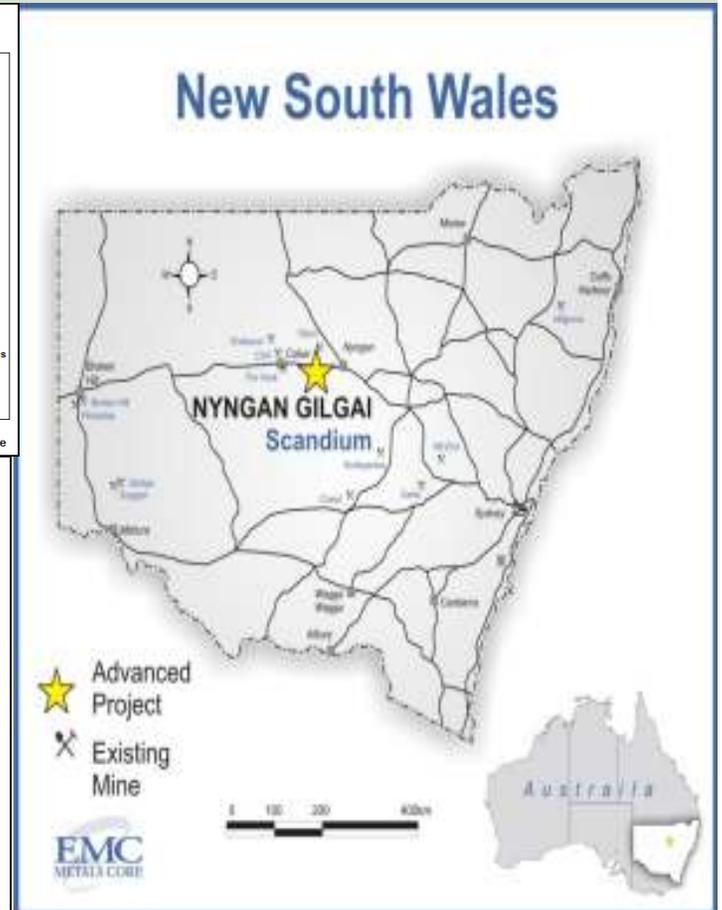
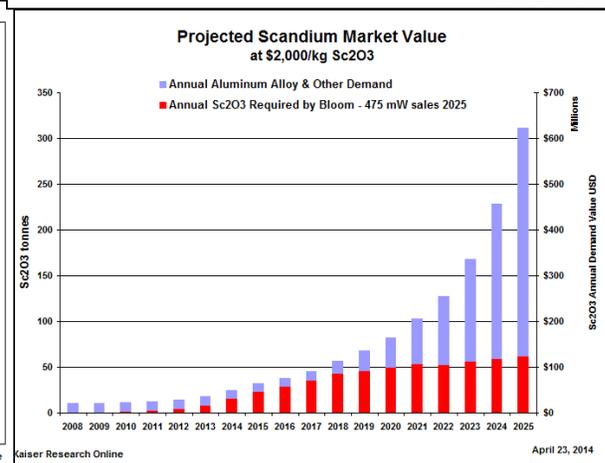
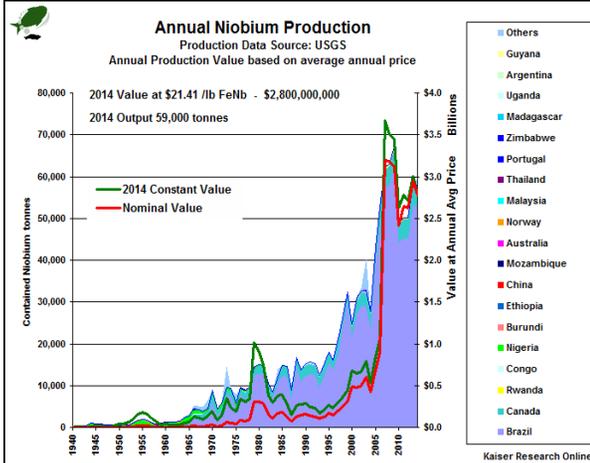
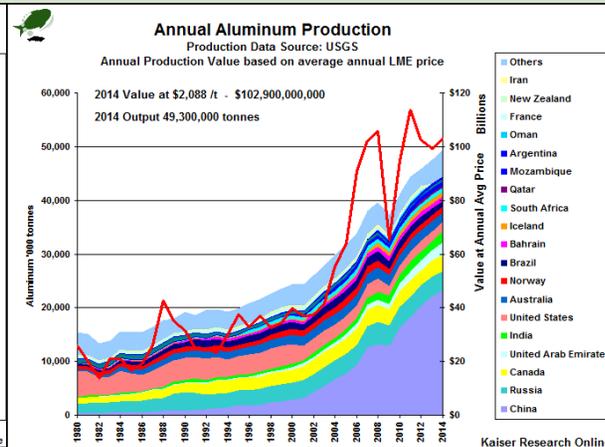
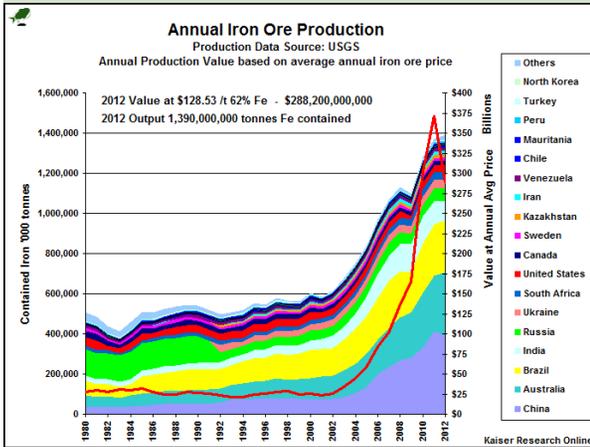
A family that purchases a new vehicle in 2025 will save **\$8,200** in fuel costs when compared with a similar vehicle in 2010.

Over the life of the program, the standards will:

Save **12** billion barrels of oil.

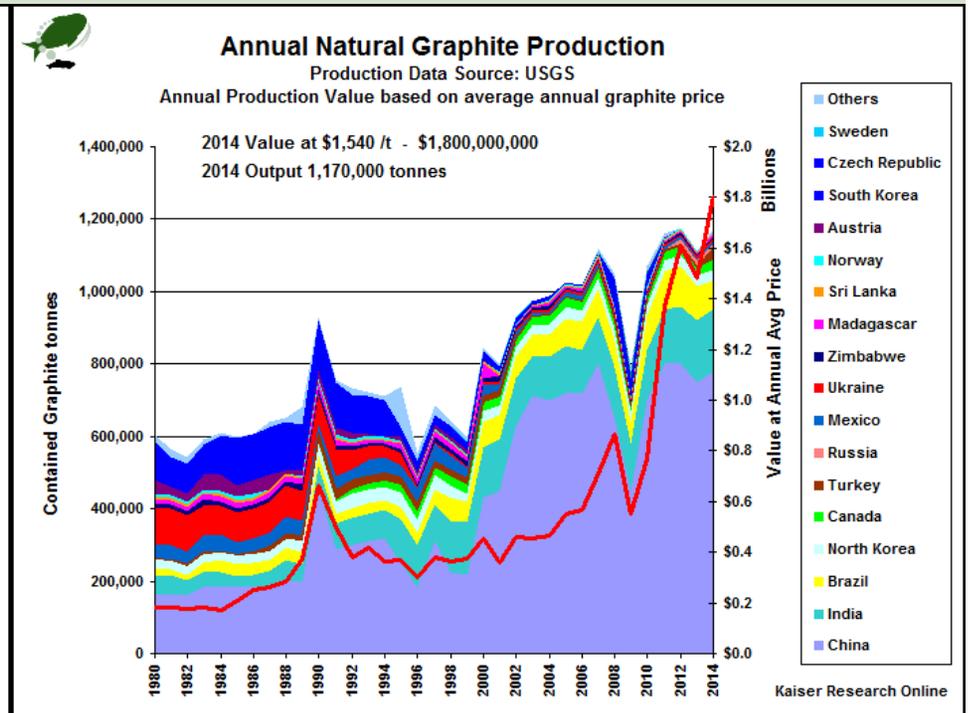
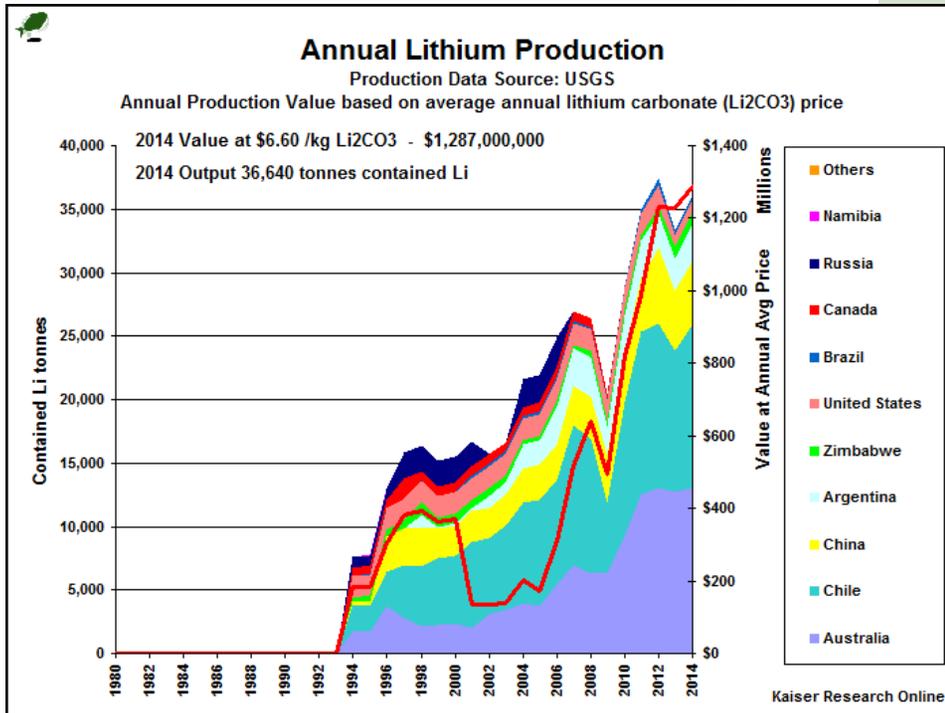
Eliminate **6** billion metric tons of carbon dioxide pollution.

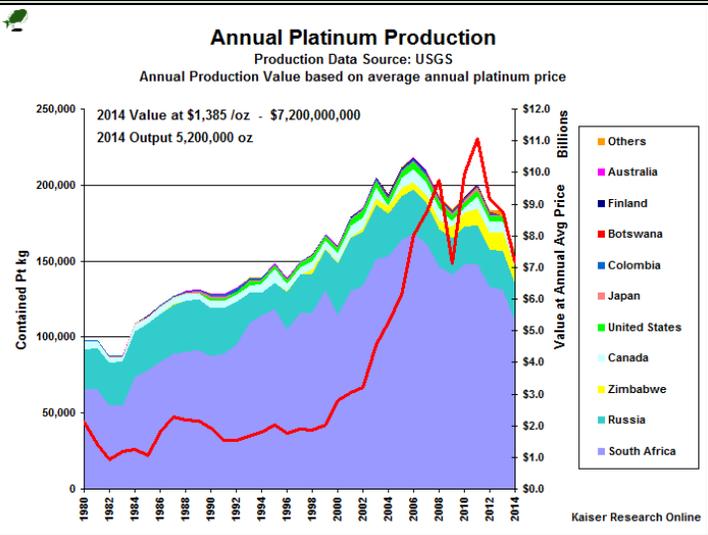
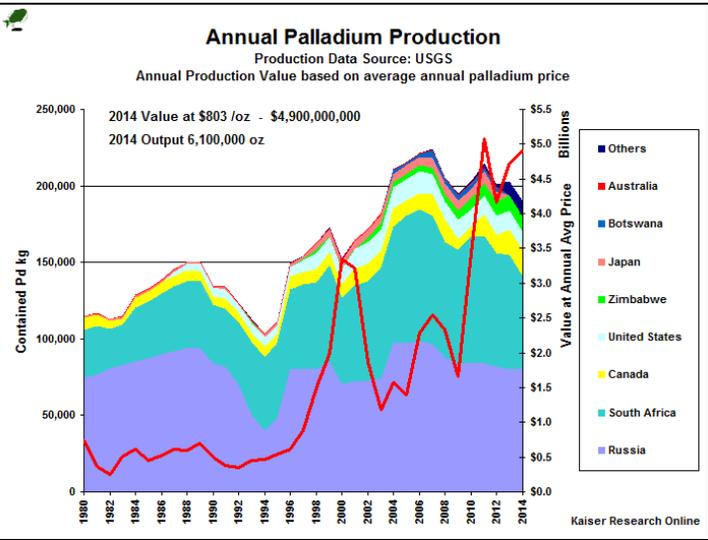
# Scandium: will become for aluminum what niobium became for steel



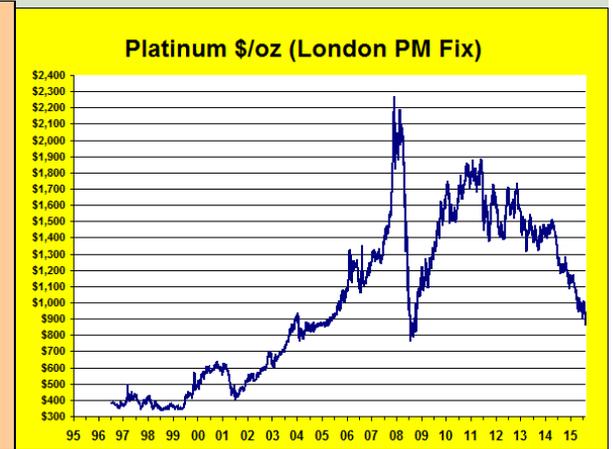
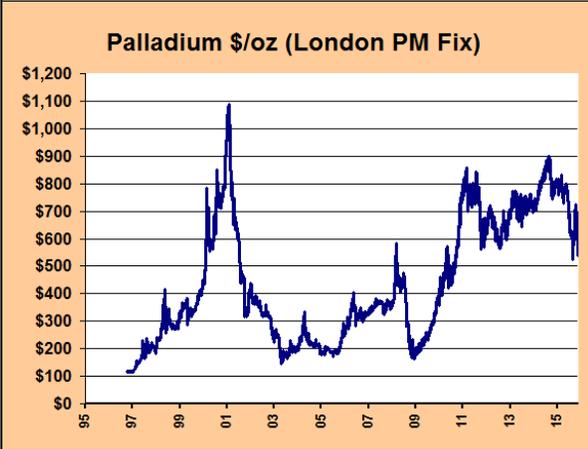


# Battery technology the greatest innovation frontier



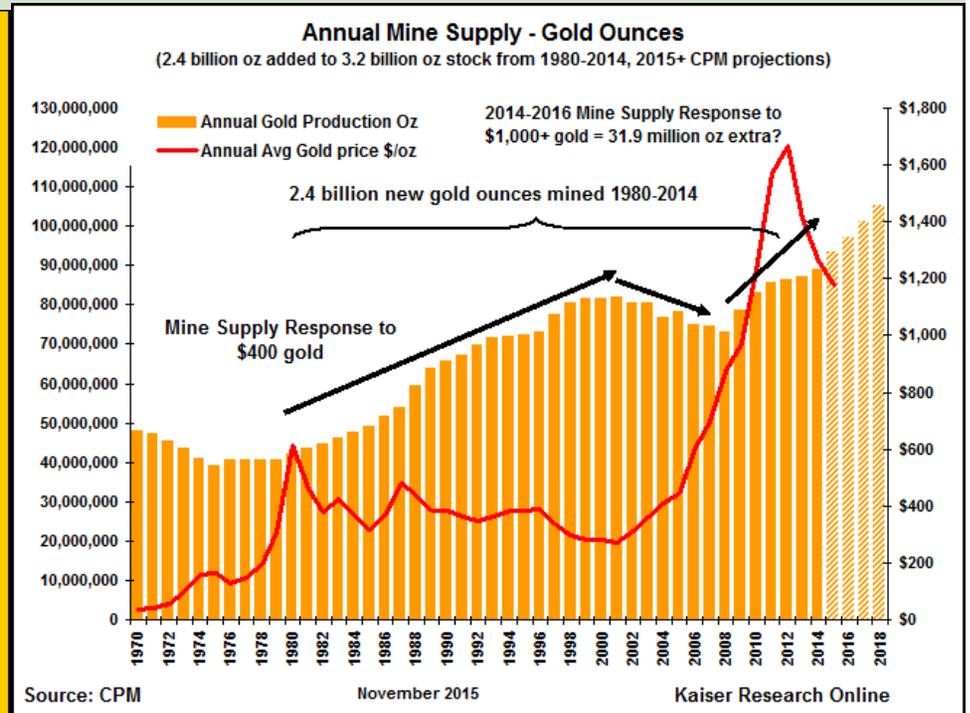
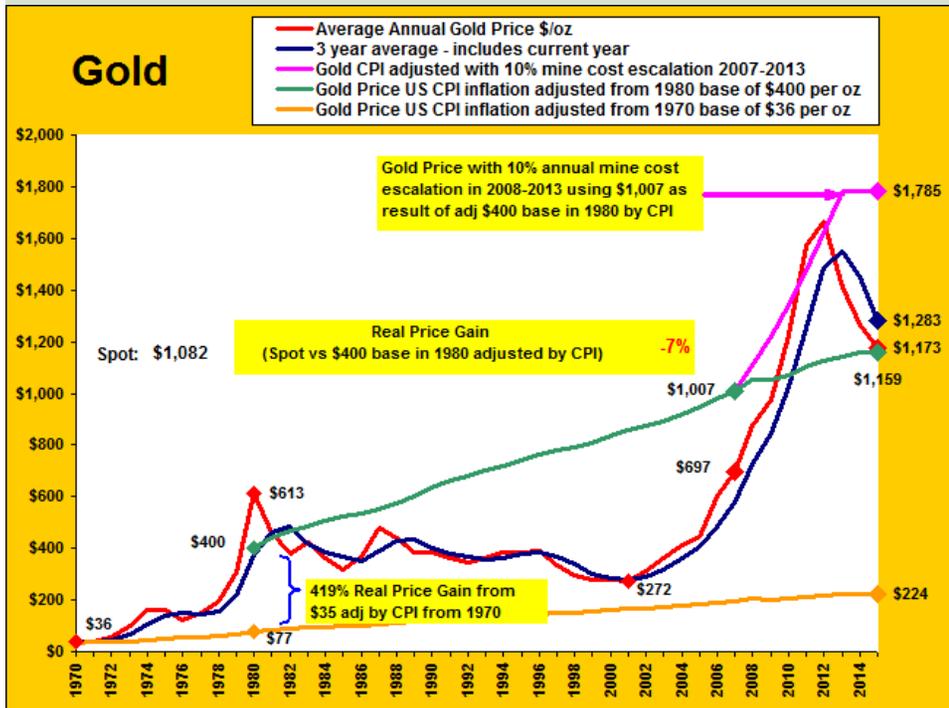


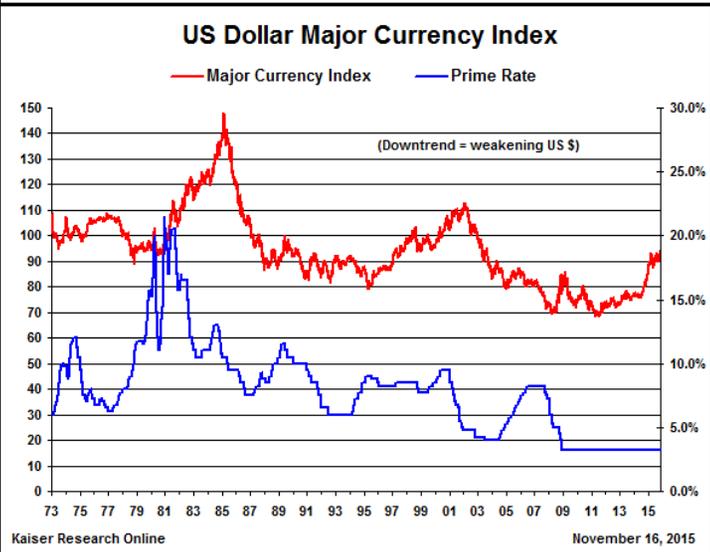
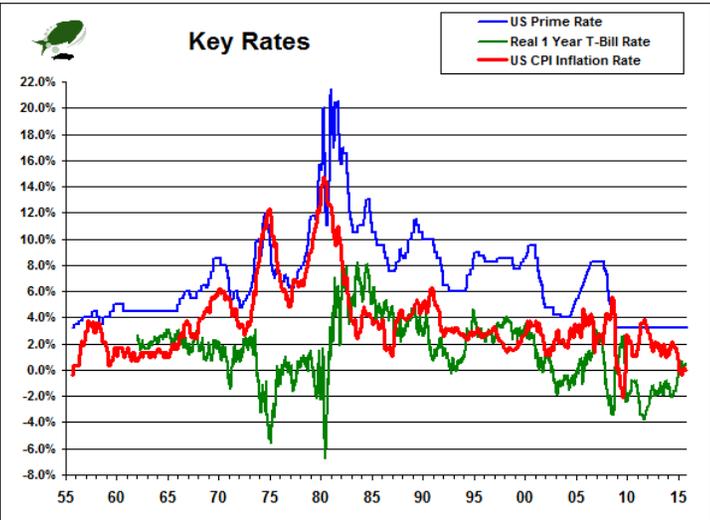
# Diesel out and Hydrogen in?



# 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

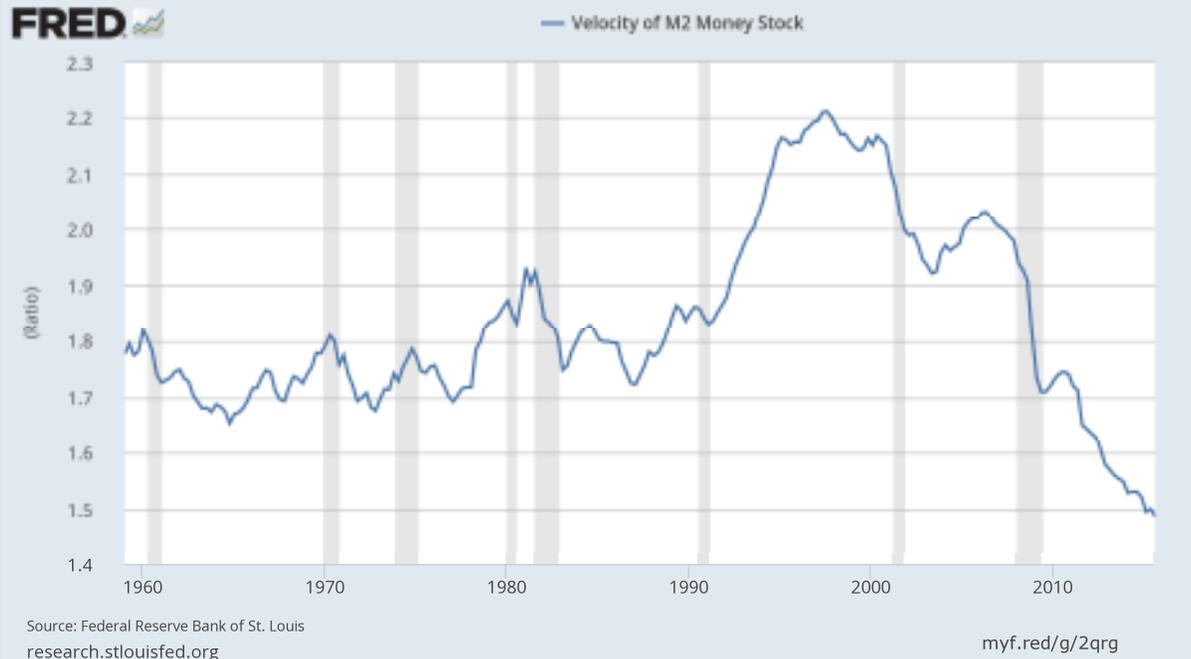




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Where is the “hyper-inflation” and “fiat currency debasement” that the monetary response to the 2008 financial crisis was supposed to unleash? What will it take to stimulate global growth and break the trap of secular stagnation?

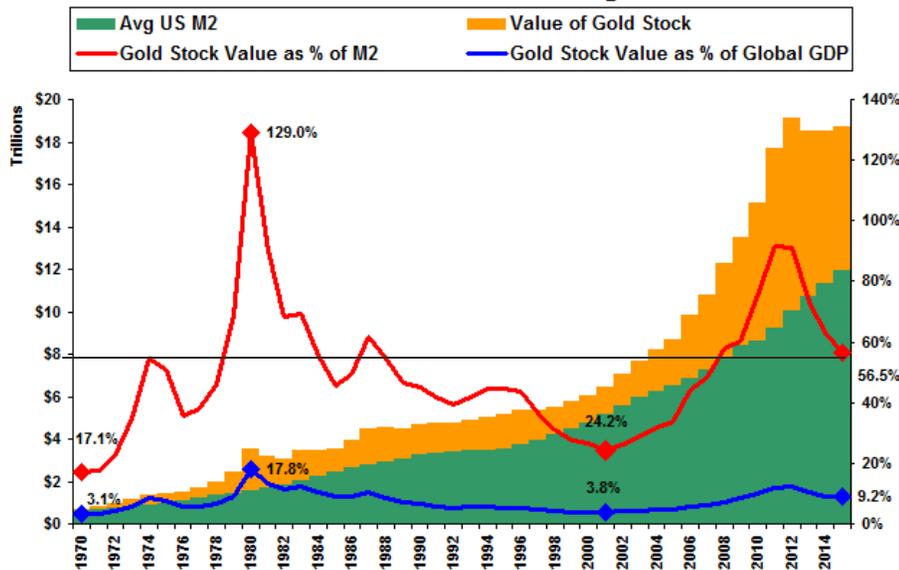


Source: Federal Reserve Bank of St. Louis  
[research.stlouisfed.org](http://research.stlouisfed.org)

[myf.red/g/2qrg](http://myf.red/g/2qrg)

If you look at the value of the gold stock in terms of money supply and global GDP, the gold price remains well above historical levels. Missing from the debate is a strong argument as to why we should expect a higher real gold price that benefits mine profitability. Rising global prosperity and the accompanying relative decline of the American economic and military super-power will deliver sustainable real gold price growth.

**Relationship between Annual Avg US M2, Nominal Global GDP and Value of Existing Gold Stock**

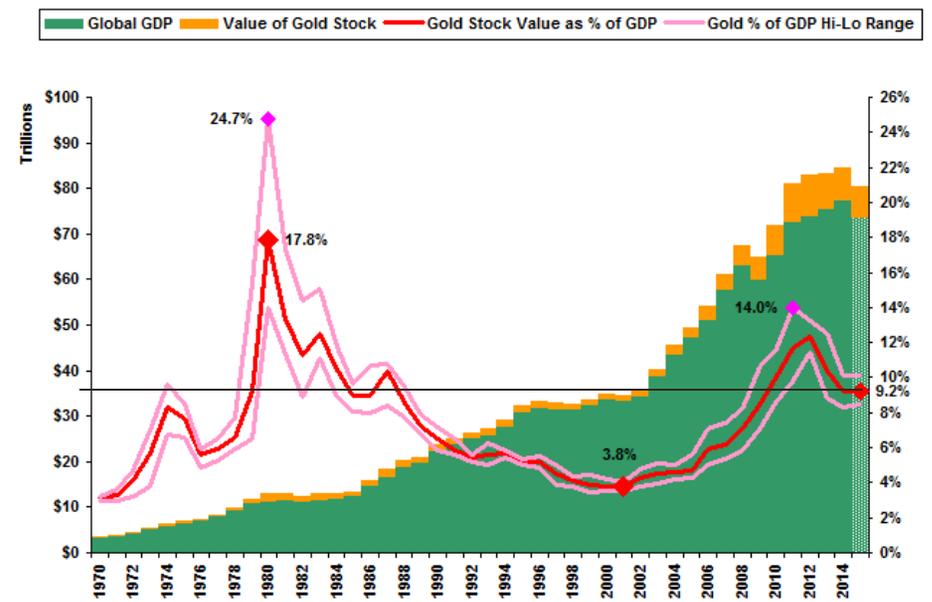


Source: CPM, IMF, Federal Reserve

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**Relationship between Global GDP and Value of Existing Gold Stock (2015 onwards GDP & Mine Supply estimated)**



Source: CPM, IMF, World Bank

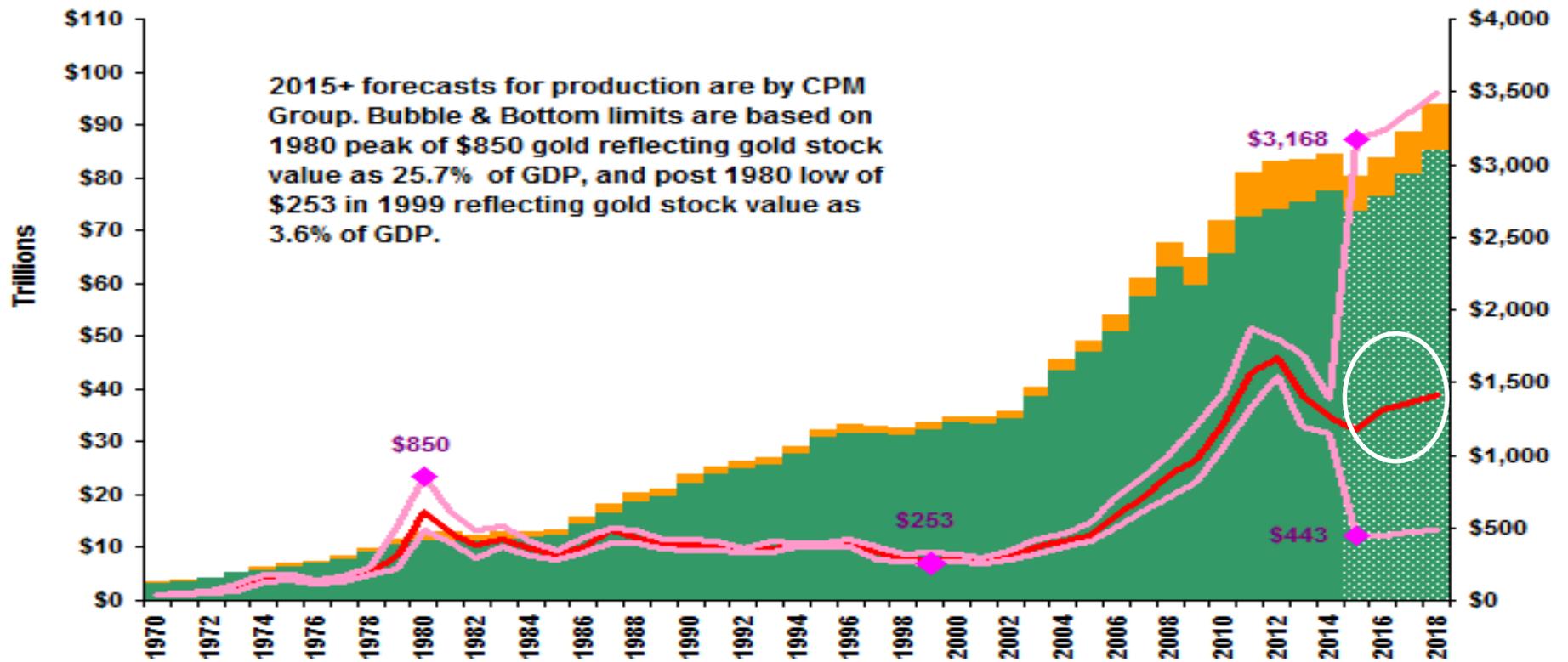
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## Past Peak & Bottom Based Bubble & Bear Limits for Gold

(2015 onwards GDP & Mine Supply estimated)

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



Source: CPM, IMF, World Bank

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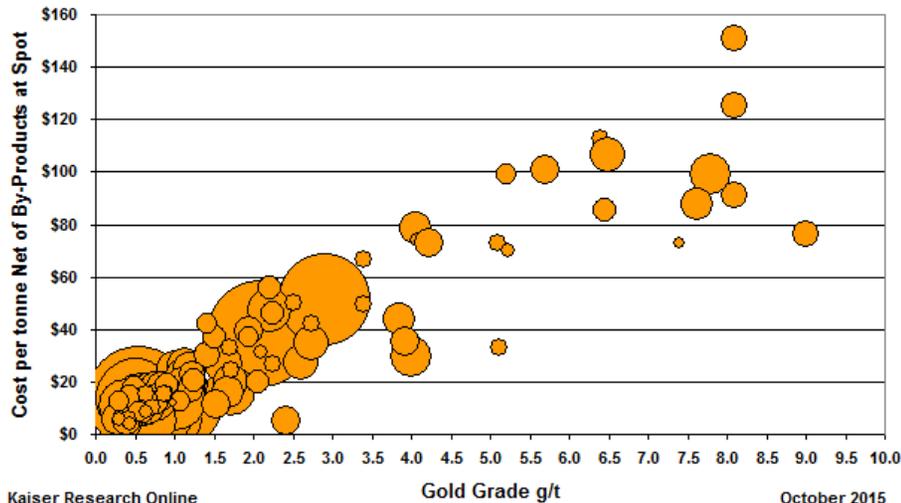
# Advanced Gold Juniors: Leveraged Bets on higher Gold Prices

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



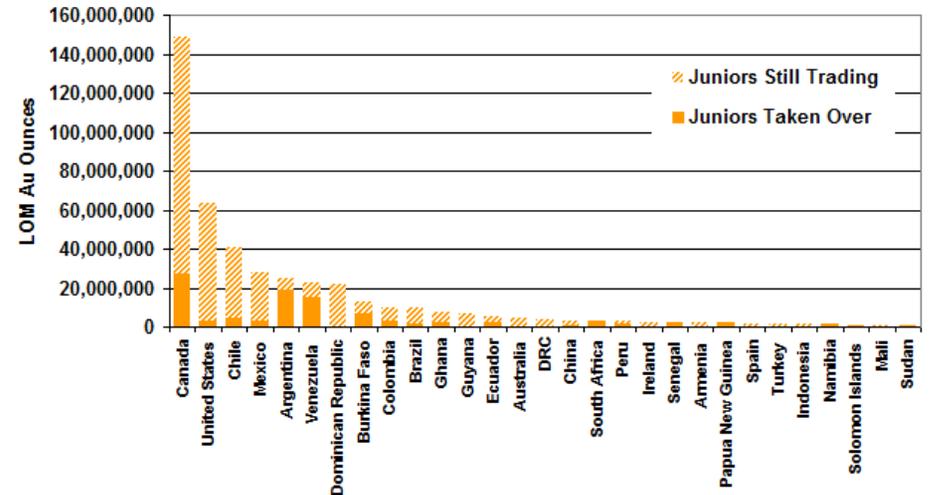
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## Potential Primary LOM Gold Production

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, advanced exploration, royalties

The market has stopped believing in a higher gold price just around the corner. Juniors must return to discovering deposits that work with the metal prices we have.

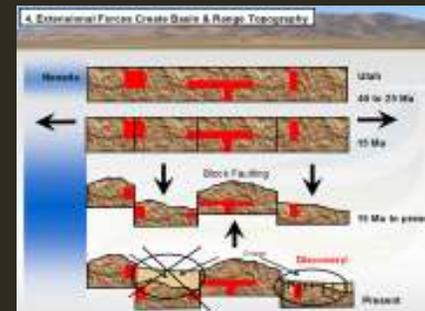
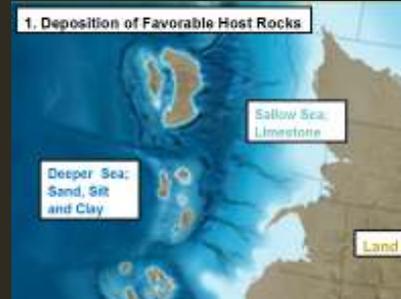
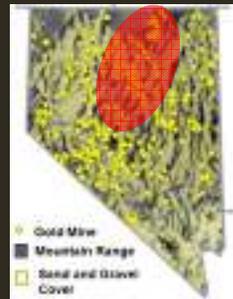
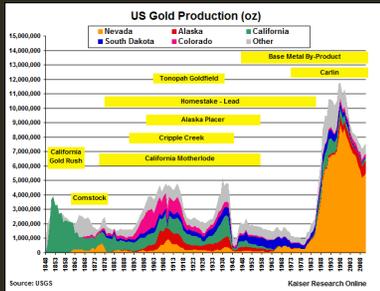


## **Elements of a good exploration story in the new reality**

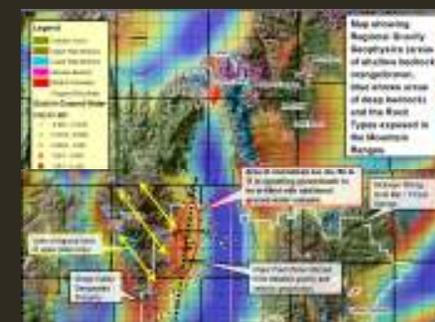
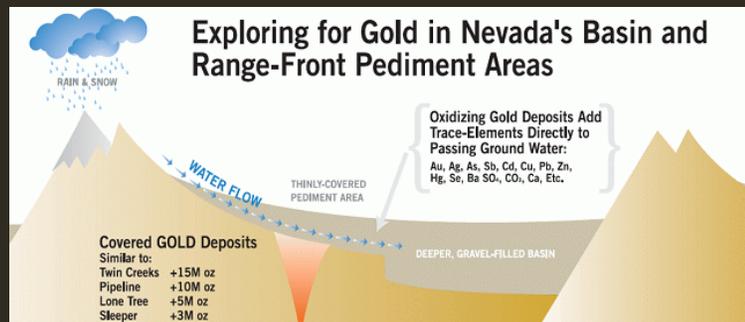
- Does the region have a substantial metal endowment?
- If not, what reason is there to believe in a hidden endowment?
- If so, is there a reason to believe it has not been largely found?
- How is your exploration strategy different from what others have already attempted?
- Are you applying a new exploration method or a model for whose hallmarks past exploration has not filtered?
- What is the potential size of the prize you are seeking?
- Do you know what failure of your exploration story would look like?
- How much money and time will you need to make or break your story?
- Would a discovery have replication implications?

**Focus not on when and why metal prices will be higher, but rather on whether the junior can discover a deposit worth developing at the prices we have!**

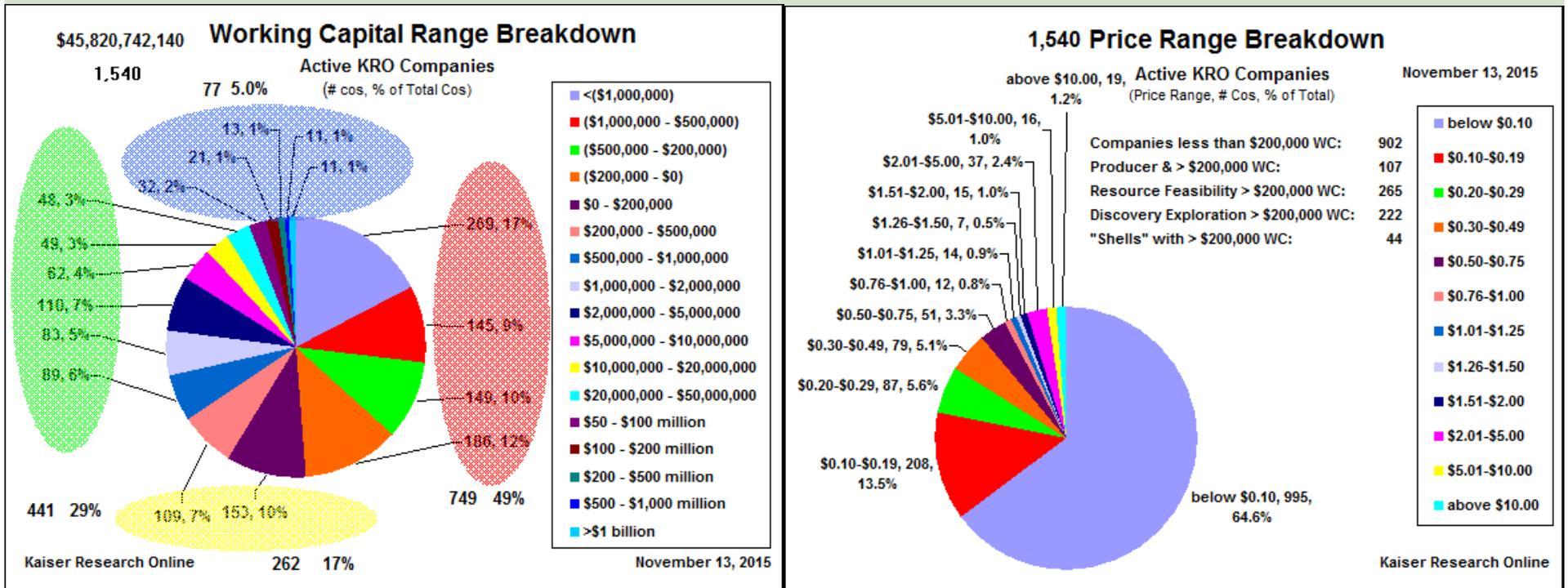
# Example of a big picture story line for an exploration junior



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>

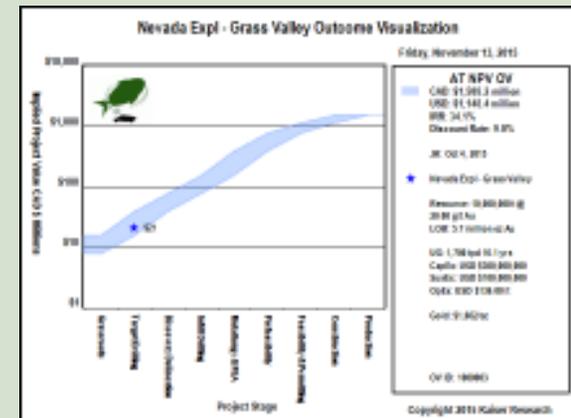
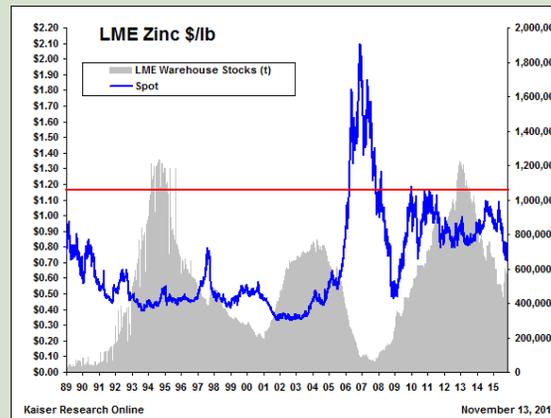


The severe financial condition of the resource juniors, the disappearance of retail investors, and a regulatory war on venture capital funding hurt the odds of a surprise discovery that switches the glass half full and revives the juniors.





The 2016 election will be pivotal in shaping America's future. Most outcomes will be beneficial for the resource sector narratives.



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346 Rheem Blvd #107,  
Moraga, CA, 94556, USA

Email: [jkaiser@KaiserResearch.com](mailto:jkaiser@KaiserResearch.com)

Twitter: @KaiserResearch

Skype: KaiserResearch

Tel: (925) 631-9748

# Questions?

***When the market wind blows resource juniors should bend  
like reeds rather than break like trees.***