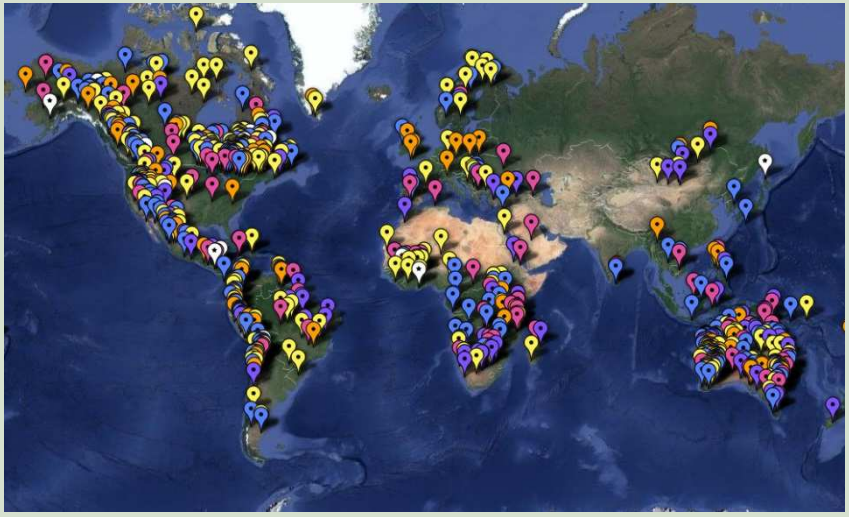
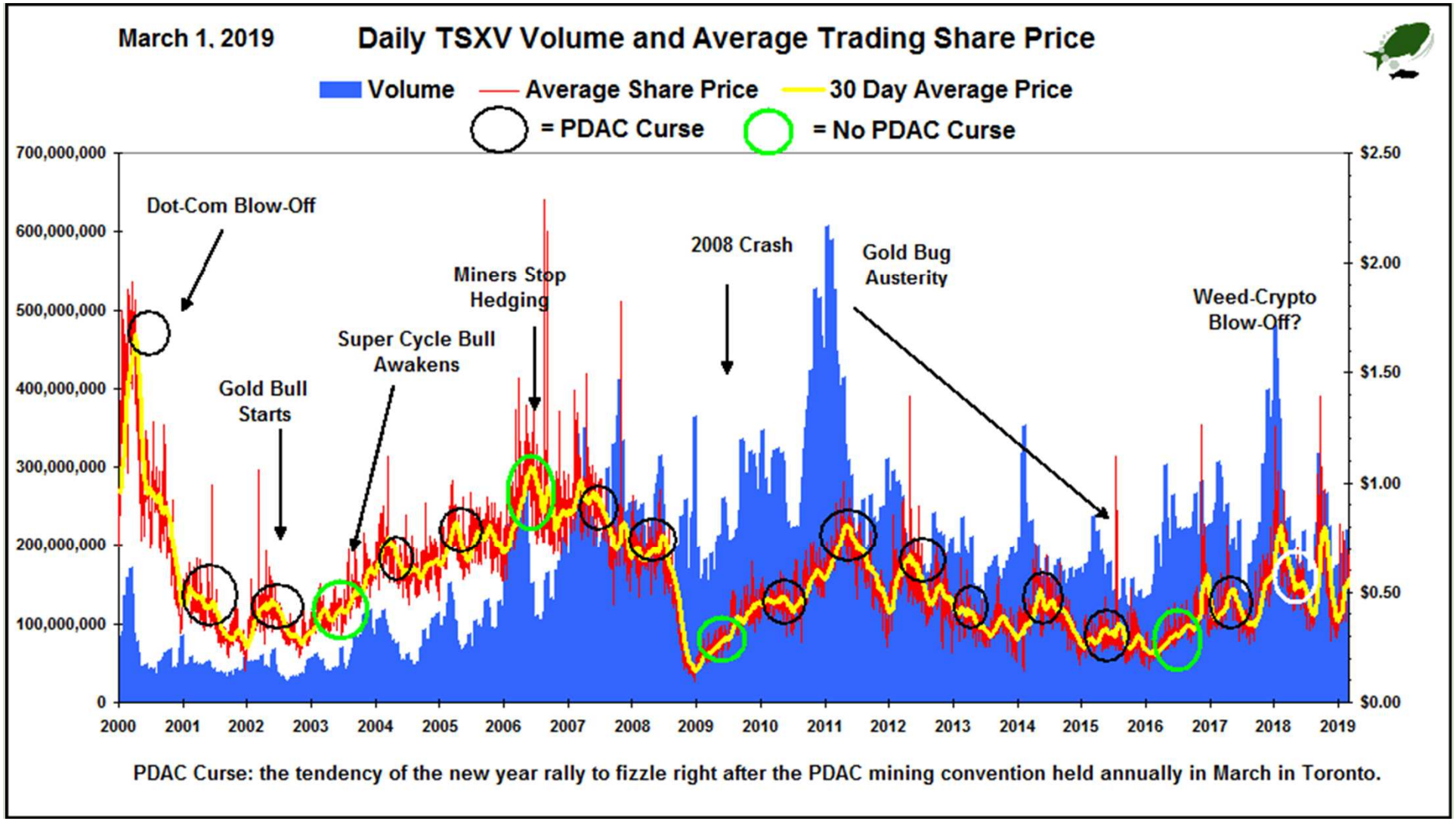
Metals Investor Forum
March 2019

Seven years of famine, what follows, feast or extinction?

Presented by John Kaiser

March 3, 2019
Toronto, Canada




March 1, 2019
Daily TSXV Volume and Average Trading Share Price
Volume
Average Share Price
30 Day Average Price
= PDAC Curse
= No PDAC Curse
Dot-Com Blow-Off
Gold Bull Starts
Super Cycle Bull Awakens
Miners Stop Hedging
2008 Crash
Gold Bug Austerity
Weed-Crypto Blow-Off?
700,000,000
600,000,000
500,000,000
400,000,000
300,000,000
200,000,000
100,000,000
0
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
2000
2001
2002
2003
2004
2005
2006
2007
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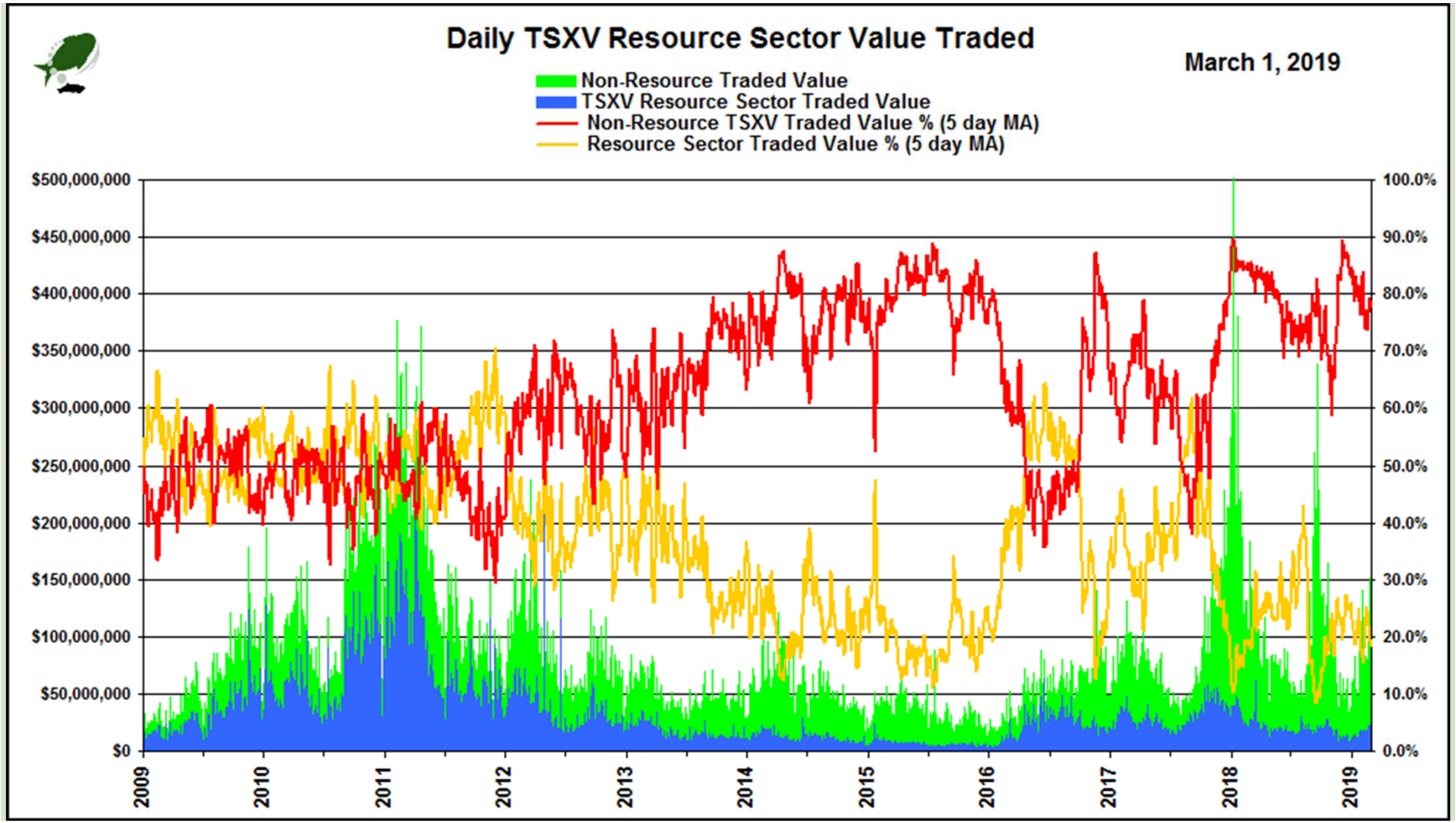
2018
2019
PDAC Curse: the tendency of the new year rally to fizzle right after the PDAC mining convention held annually in March in Toronto.

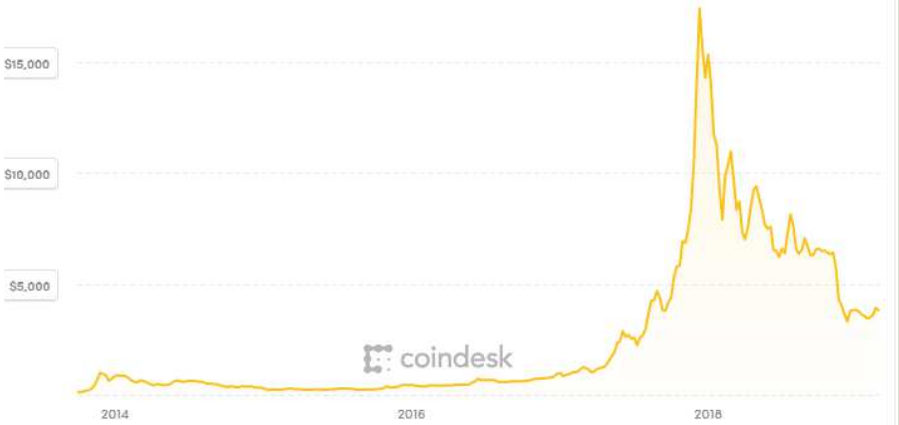

Daily TSXV Resource Sector Value Traded
March 1, 2019
Non-Resource Traded Value
TSXV Resource Sector Traded Value
Non-Resource TSXV Traded Value % (5 day MA)
Resource Sector Traded Value % (5 day MA)
$500,000,000
$450,000,000
$400,000,000
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019

MOST ACTIVE BY VALUE

Name	Symbol	Value ($)
OrganiGram Holdings Inc	OGI	$212,622,910
Namaste Technologies Inc.	N	137,905,739
Aleafia Health Inc.	ALEF	65,851,802
Pharmacielo Ltd.	PCLO	59,971,098
Canopy Rivers Inc.	RIV	56,706,672
Emerald Health Therapeutics, Inc.	EMH	56,114,978
Cobalt 27 Capital Corp.	KBLT	42,574,696
Khiron Life Sciences Corp.	KHRN	33,273,901
Patriot One Technologies Inc.	PAT	31,376,946
Auxly Cannabis Group Inc.	XLY	31,068,644

Bubble Dynamics

- Winner take all potential – dot com & cannabis
- A bubble expands despite a wall of skepticism
- Market momentum attracts new capital while “sold too soon” profits are recycled into me too contenders
- The skeptics who went short get crucified
- As the leaders approach valuations equating to the future value of the entire market me too contenders flood the market
- The peak is when skeptics capitulate and join the rush
- At the peak the collective value of all the contenders can be 100 times the value of the future market
- As inflowing new money declines the leaders merge with each other
- The also-rans and latecomers fade as the market concentrates on the finalists
- The winners get valued on cash flow metrics



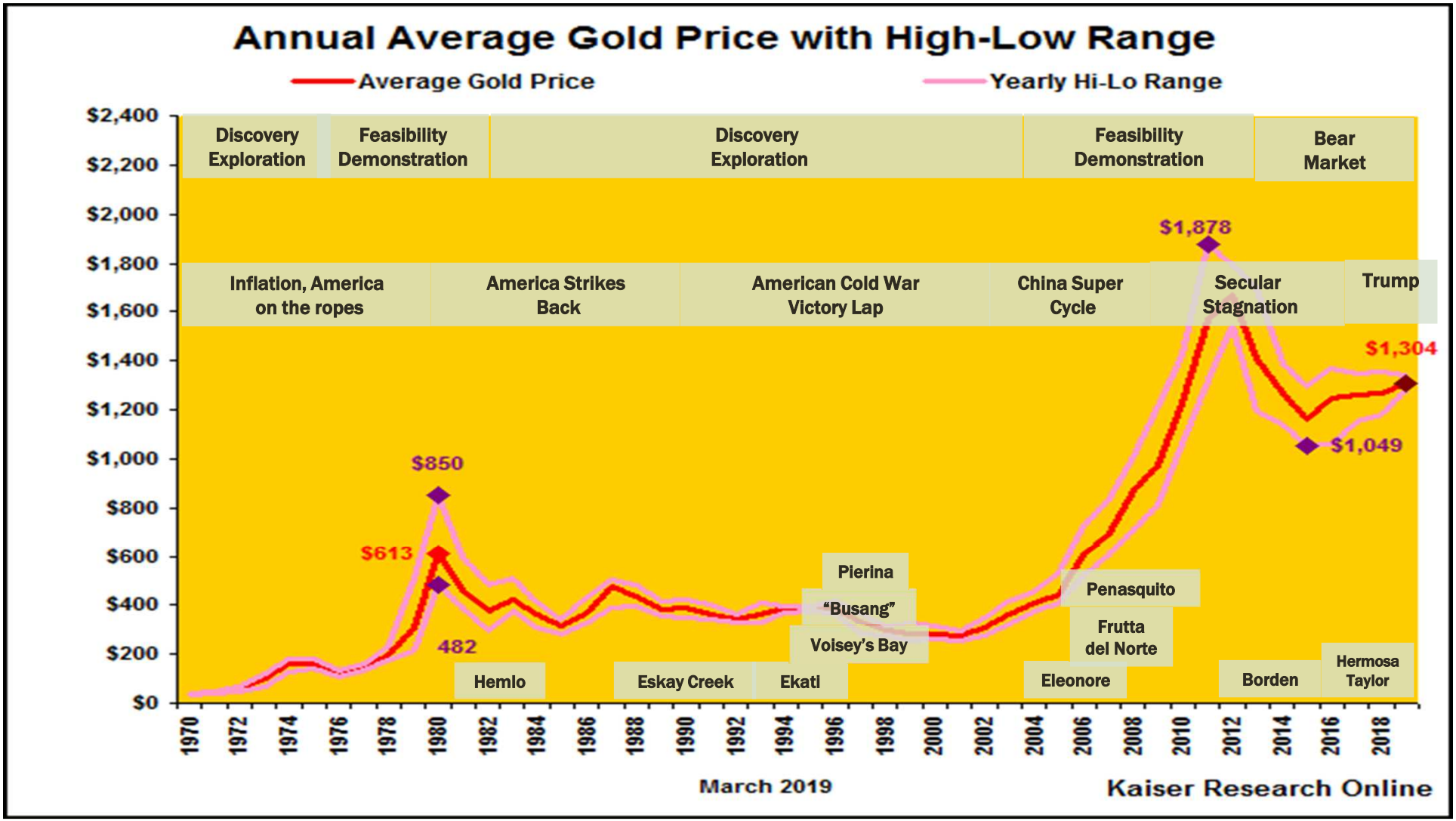
Crypto-Blockchain

- No winner take all potential because crypto-currency aspires to be money, an information system that keeps track of debits and credits over space and time among different “owners” engaged in exchange of goods and services.
- A currency is supposed to be stable so that it can facilitate price discovery. Bitcoin and its infinite potential clones are at this stage parasitic on the dominant form of money – the US dollar – a greater fool spiral for gamblers
- The bubble formed because of rapid inflow of real money attracted by the momentum – because it is not an asset class there is no valuation limit, just a limit of crypto owners trying to cash out. The novelty is over.
- Blockchain is a new transformational technology with many niche applications – no winner takes all

Bubble Dynamics for the Resource Sector: 2 generic types

- **Optionality – Feasibility Demonstration:** higher trending real metal prices driven by macroeconomic trends or security of supply factors which drag the failures of past exploration cycles into the money
- No limit to the number of participants - each one that finishes is a winner as long as the metal price gains do not disappear
- **Discovery Exploration:** a new discovery that works at prevailing metal prices enjoys an S-Curve bubble
- If it is a world class discovery with replication implications the glass switches half full for similar exploration plays

No winner take all dynamic except for metals with small but growing demand such as was with niobium and could happen with scandium


Annual Average Gold Price with High-Low Range
Average Gold Price
Yearly Hi-Lo Range
$2,400
$2,200
$2,000
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
Discovery Exploration
Feasibility Demonstration
Discovery Exploration
Feasibility Demonstration
Bear Market
Inflation, America on the ropes
America Strikes Back
American Cold War Victory Lap
China Super Cycle
Secular Stagnation
Trump
$1,878
$1,304
$1,049
$850
$613
482
Hemlo
Eskay Creek
Ekati
Pierina
"Busang"
Voisey's Bay
Penasquito
Frutta del Norte
Eleonore
Borden
Hermosa Taylor
1970
1972
1974
1976
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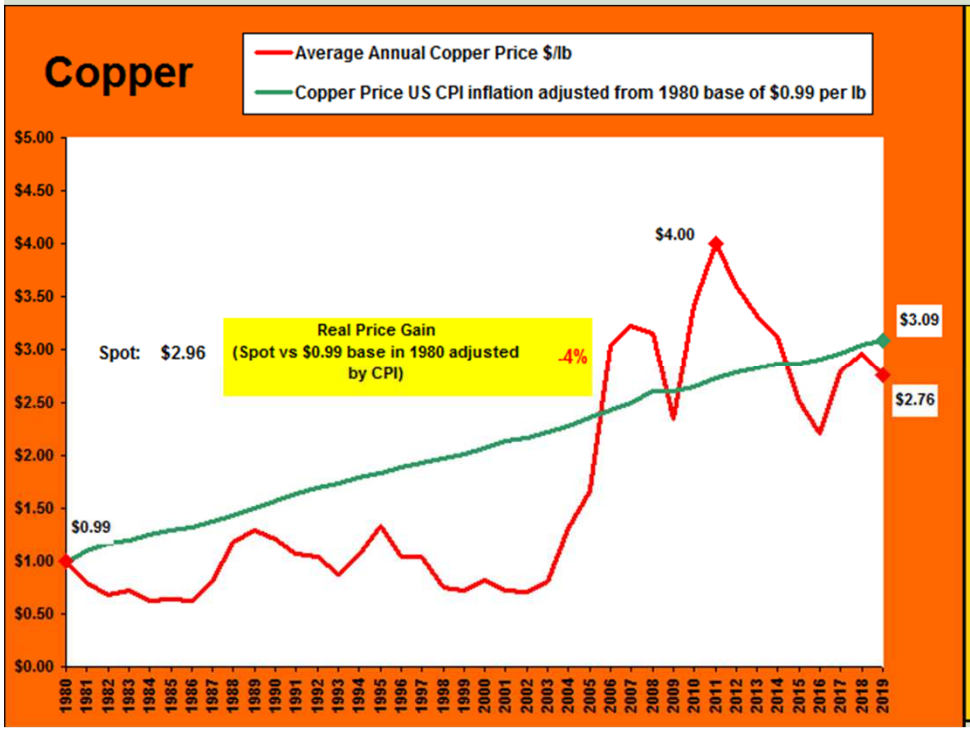
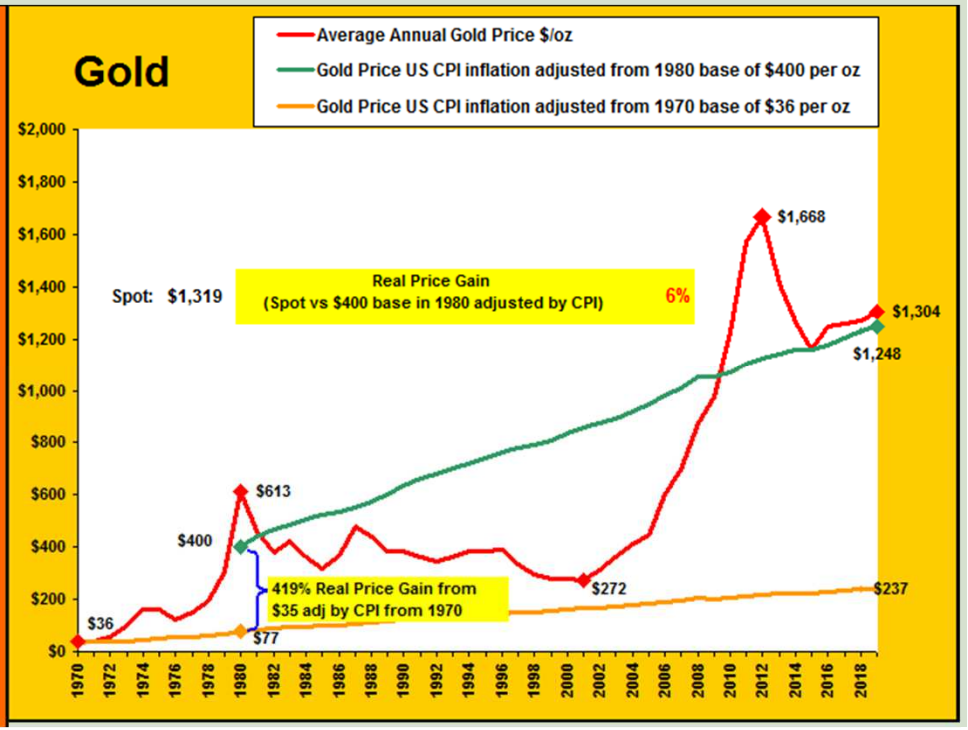
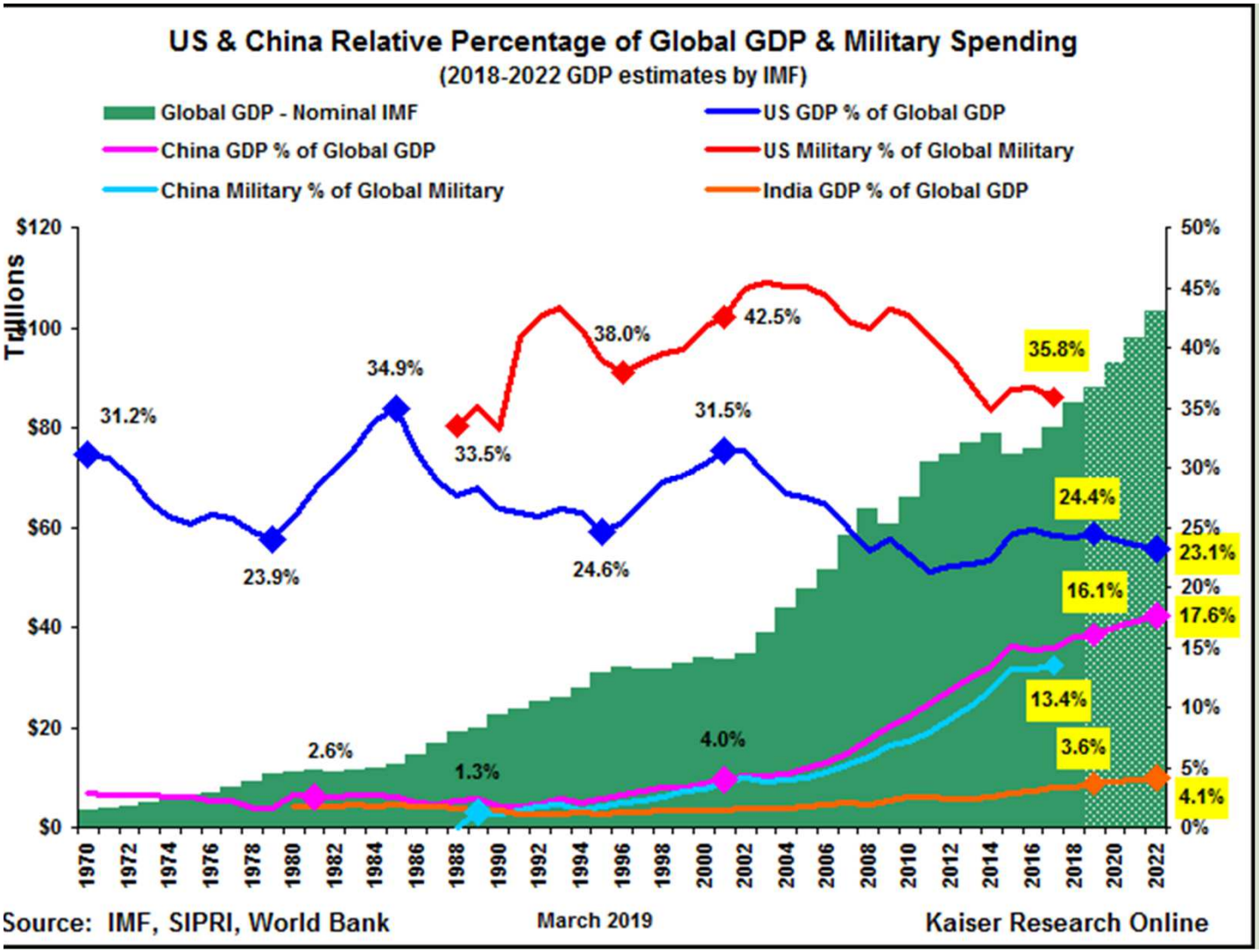
March 2019
Kaiser Research Online

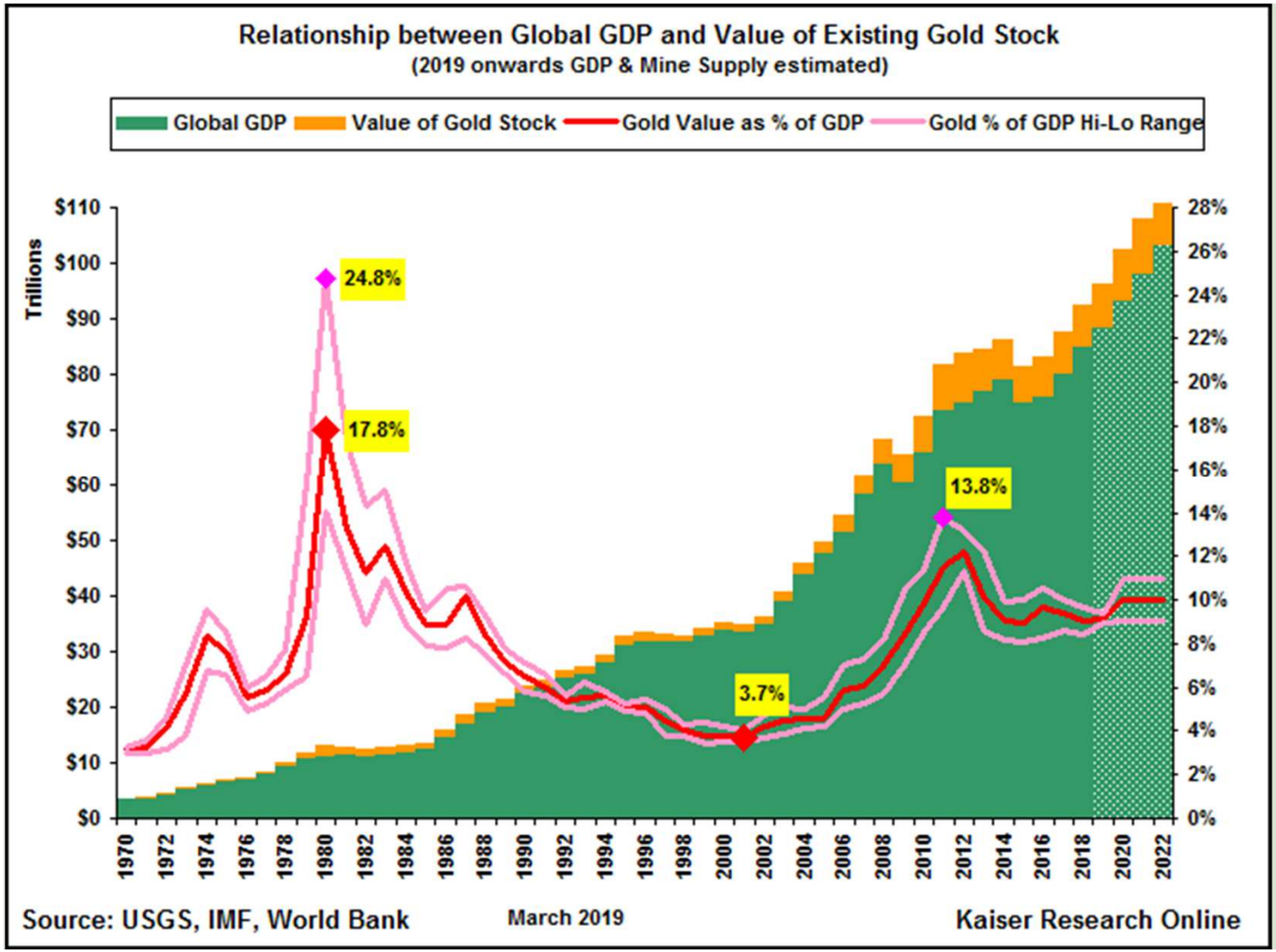
Current Prices for Copper and Gold cannot spawn a feasibility demonstration bubble – what is needed to change that?



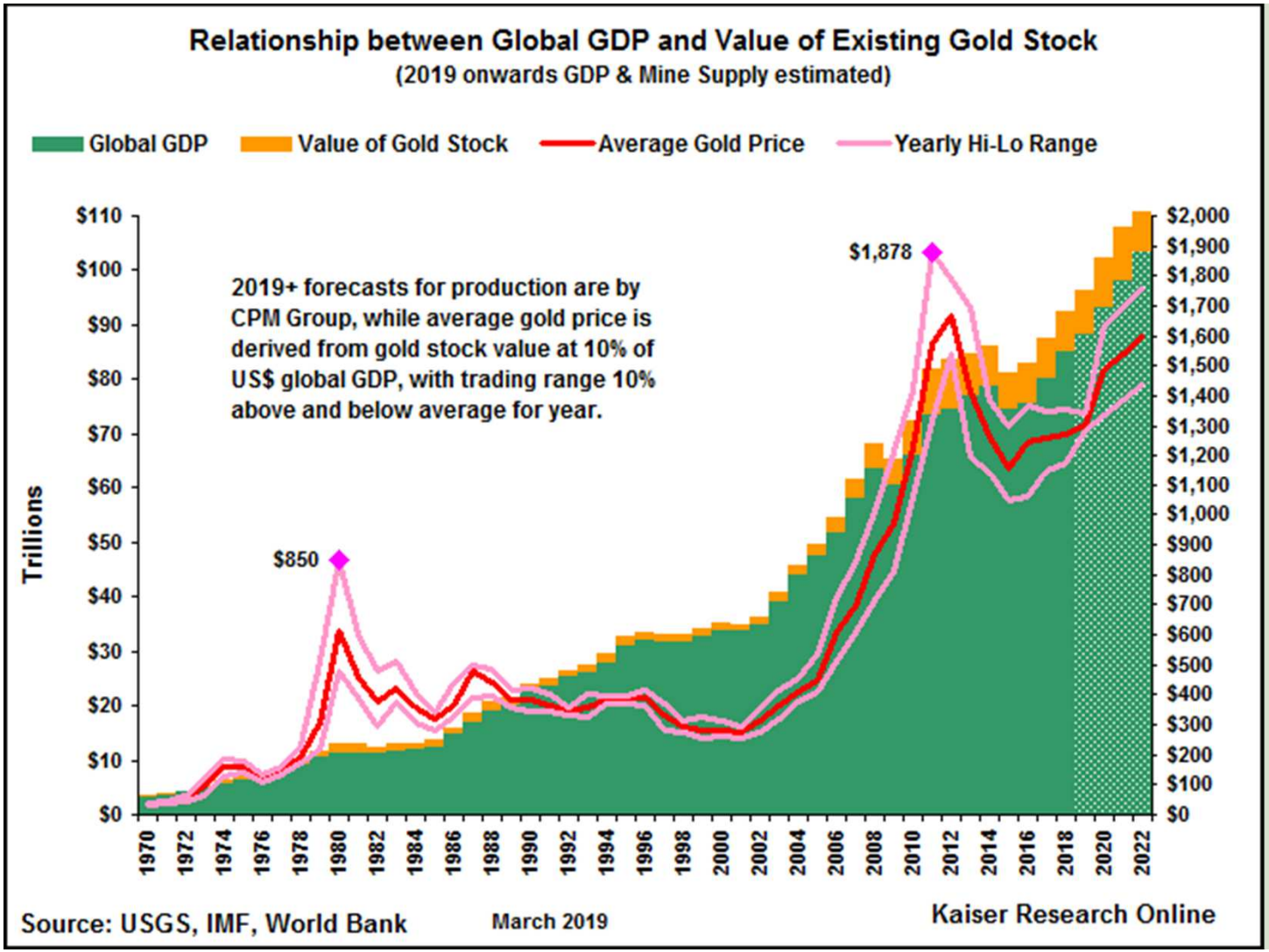




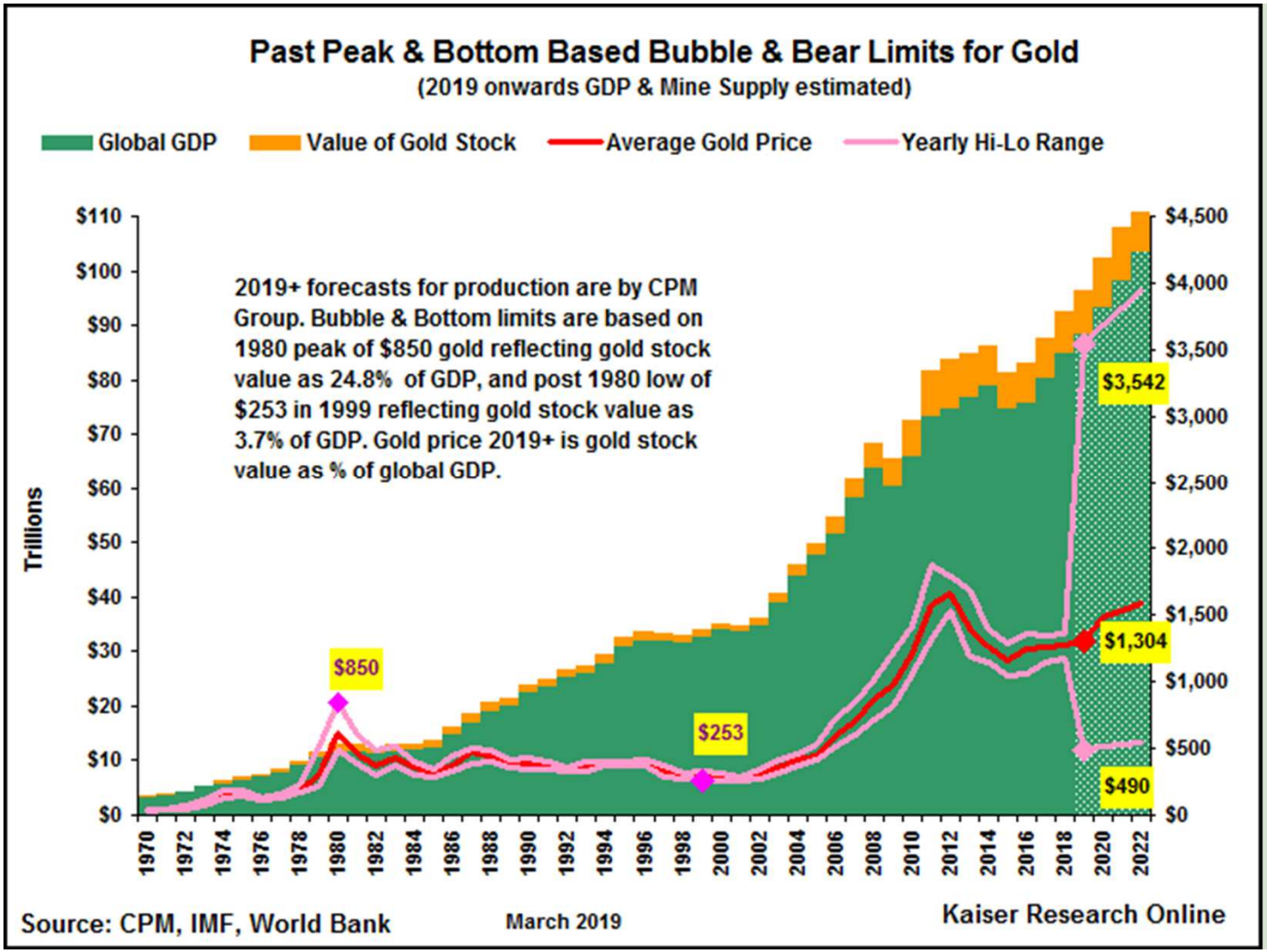
- China super-cycle is over, natural slow-down in growth
- Strong mining supply response has restored normal business cycle
- Protectionism may prove IMF global GDP growth projections optimistic
- India at best can hit a super-cycle tipping point in 2025
- Miners are still undoing their super-cycle mistakes
- Great power struggle returns



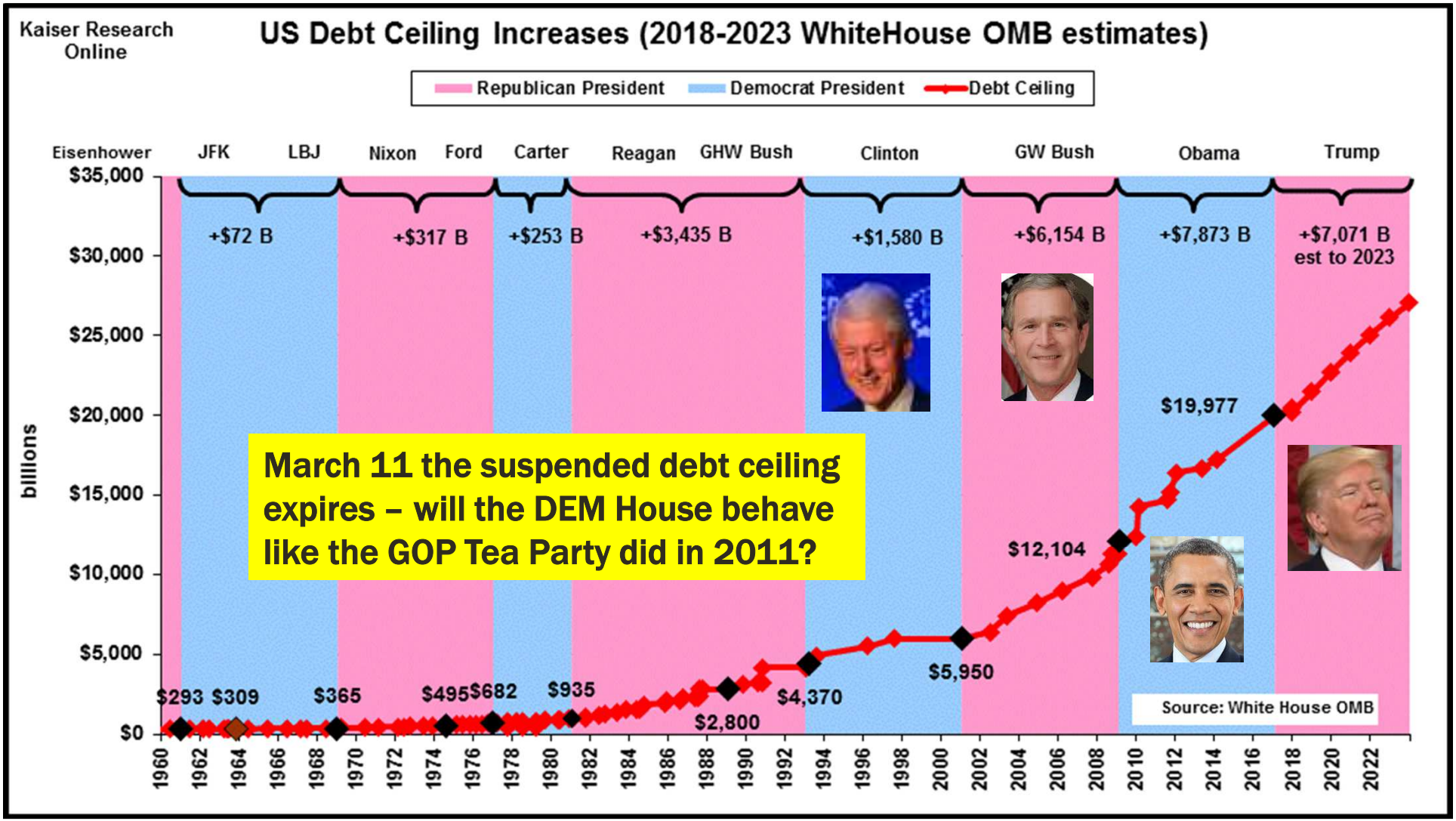
If we treat the value of the gold stock relative to global GDP as an uncertainty indicator, what is it telling us?



And assume 10% as the new normal in a stable global economy as forecast by the IMF, here is the real price we might expect for gold over the next 4 years.



But if we apply the 25% peak achieved in 1980 and the 4% low in 1999, here are the real price equivalents today. The bear version will not happen but what about the bull scenario?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US Debt Ceiling Increases (2018-2023 WhiteHouse OMB estimates)
Republican President
Democrat President
Debt Ceiling
Eisenhower
JFK
LBJ
Nixon
Ford
Carter
Reagan
GHW Bush
Clinton
GW Bush
Obama
Trump
billions
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
$5,000
$0
+$72 B
+$317 B
+$253 B
+$3,435 B
+$1,580 B
+$6,154 B
+$7,873 B
+$7,071 B est to 2023
$293
$309
$365
$495
$682
$935
$2,800
$4,370
$5,950
$12,104
$19,977
March 11 the suspended debt ceiling expires – will the DEM House behave like the GOP Tea Party did in 2011?
Source: White House OMB
1960
1962
1964
1966
1968
1970
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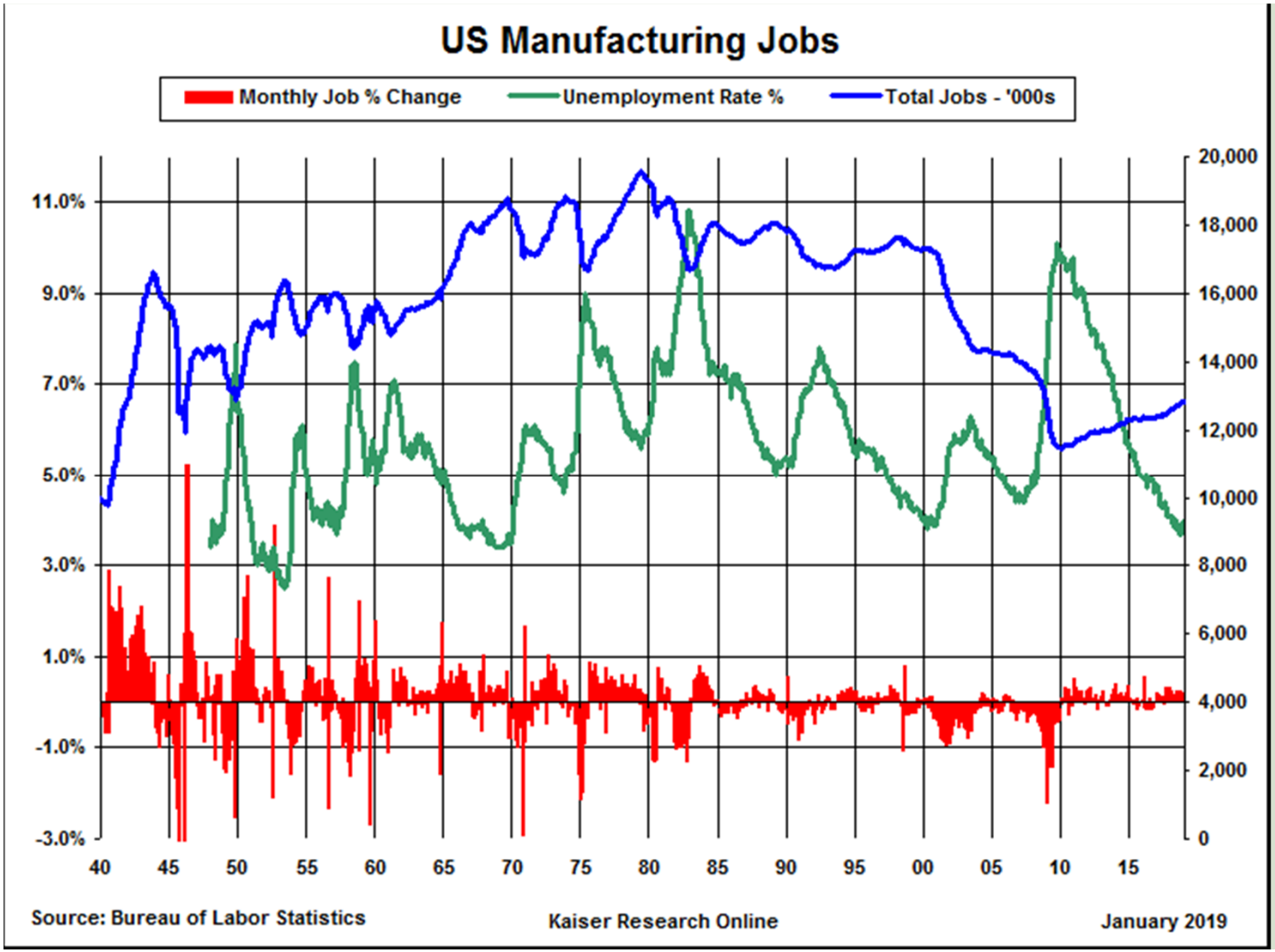
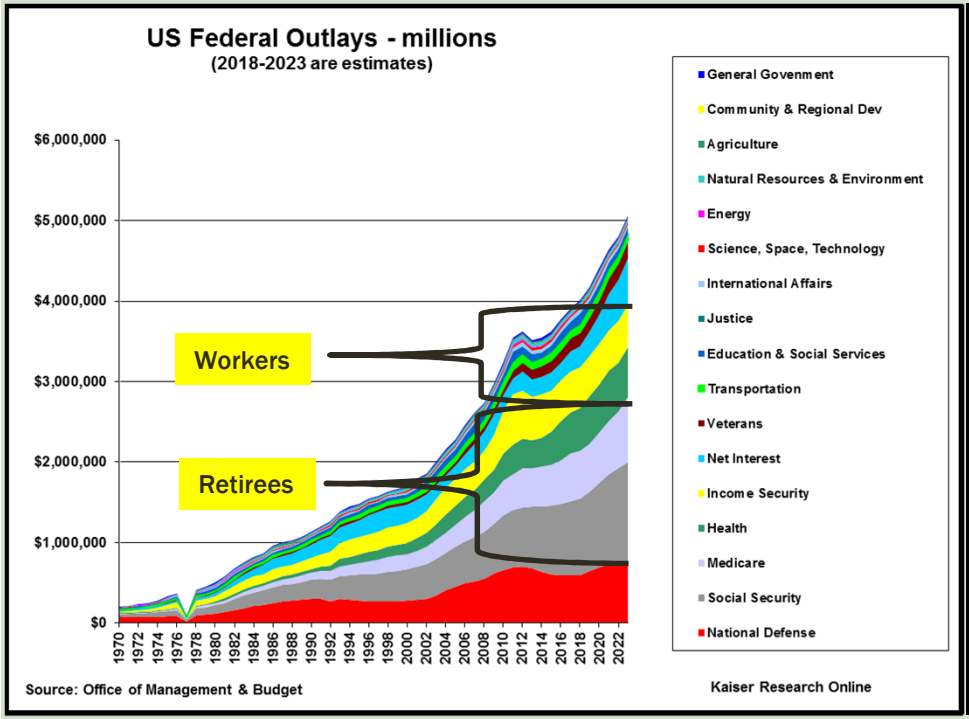
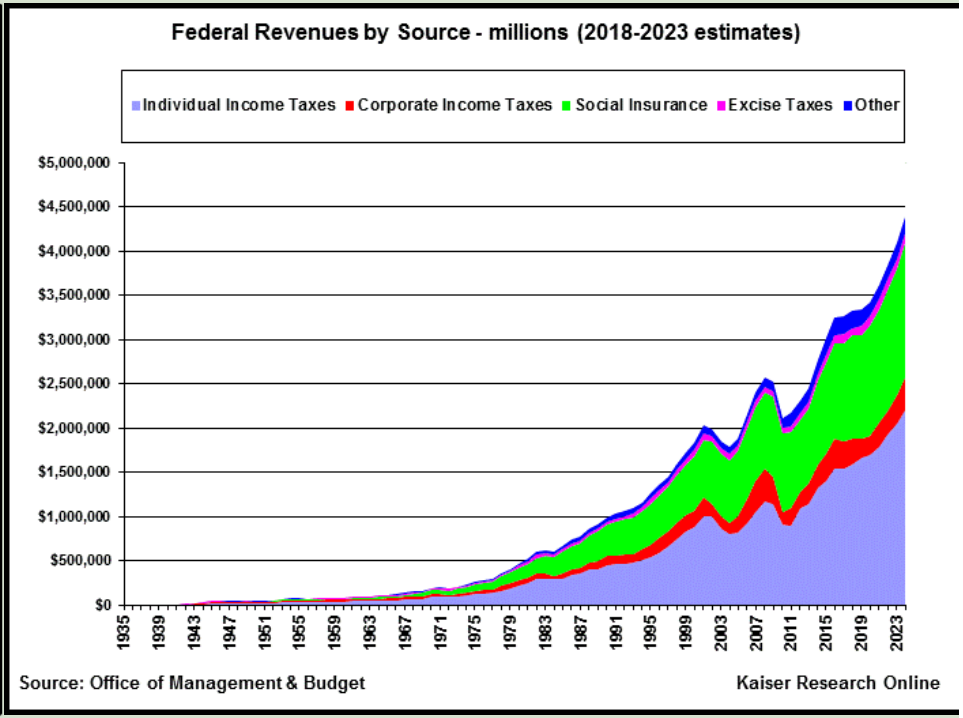
2022



The hollowing out of America reversed under Obama. As the risk of global conflict under Trump rises, the reshoring of manufacturing will accelerate but with low job growth thanks to automation. Who is Andrew Yang?

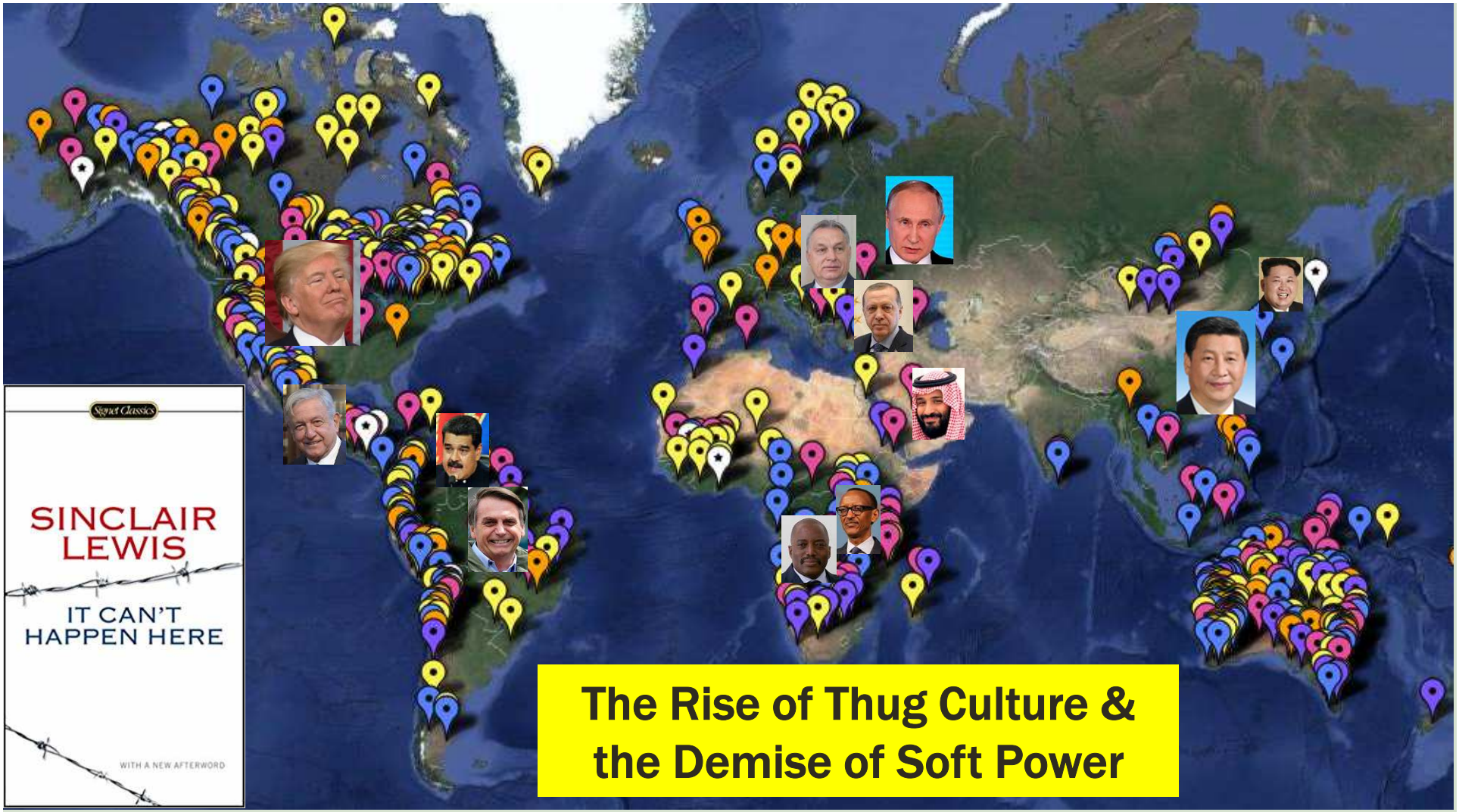
A looming inter-generational conflict

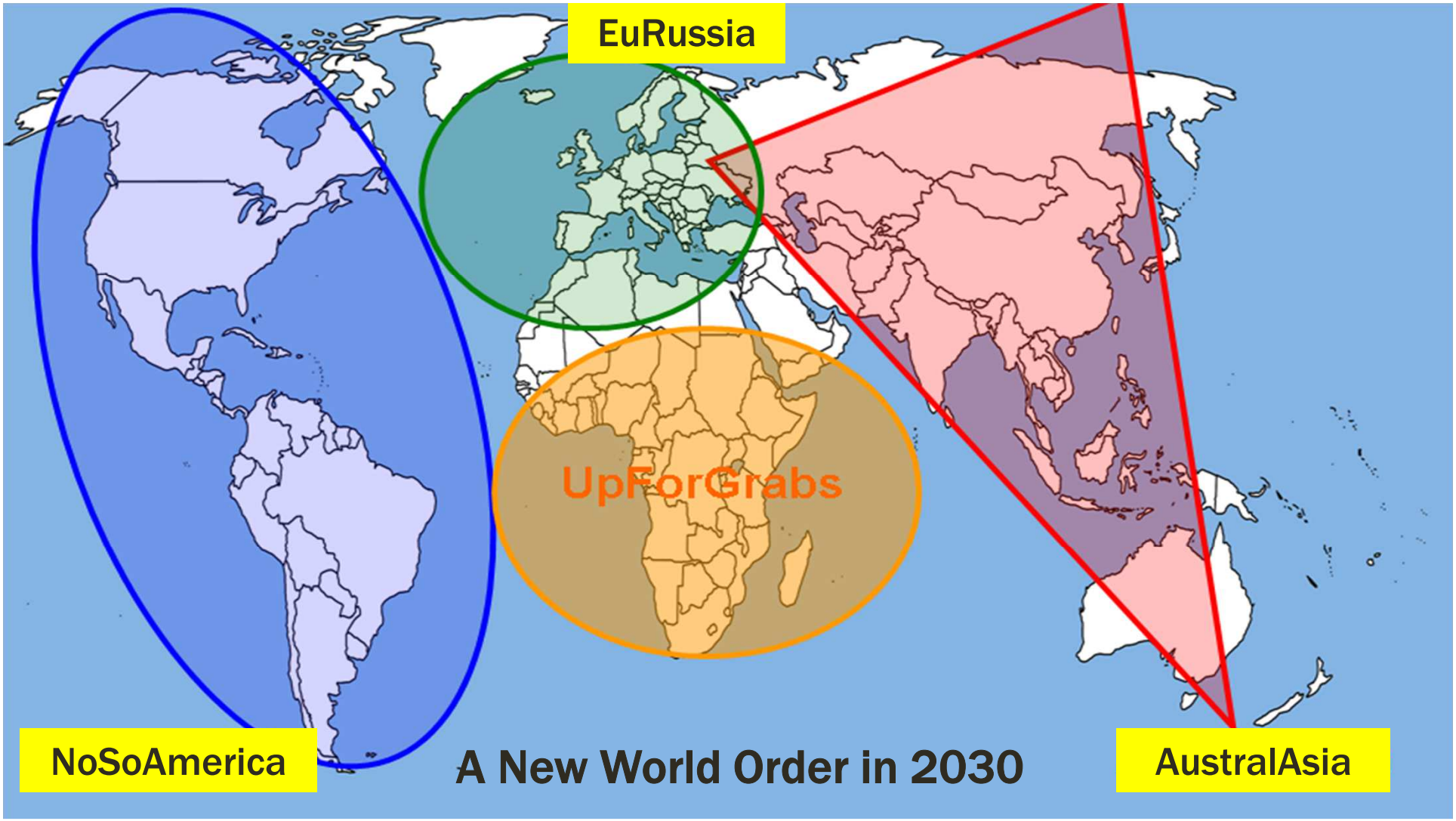


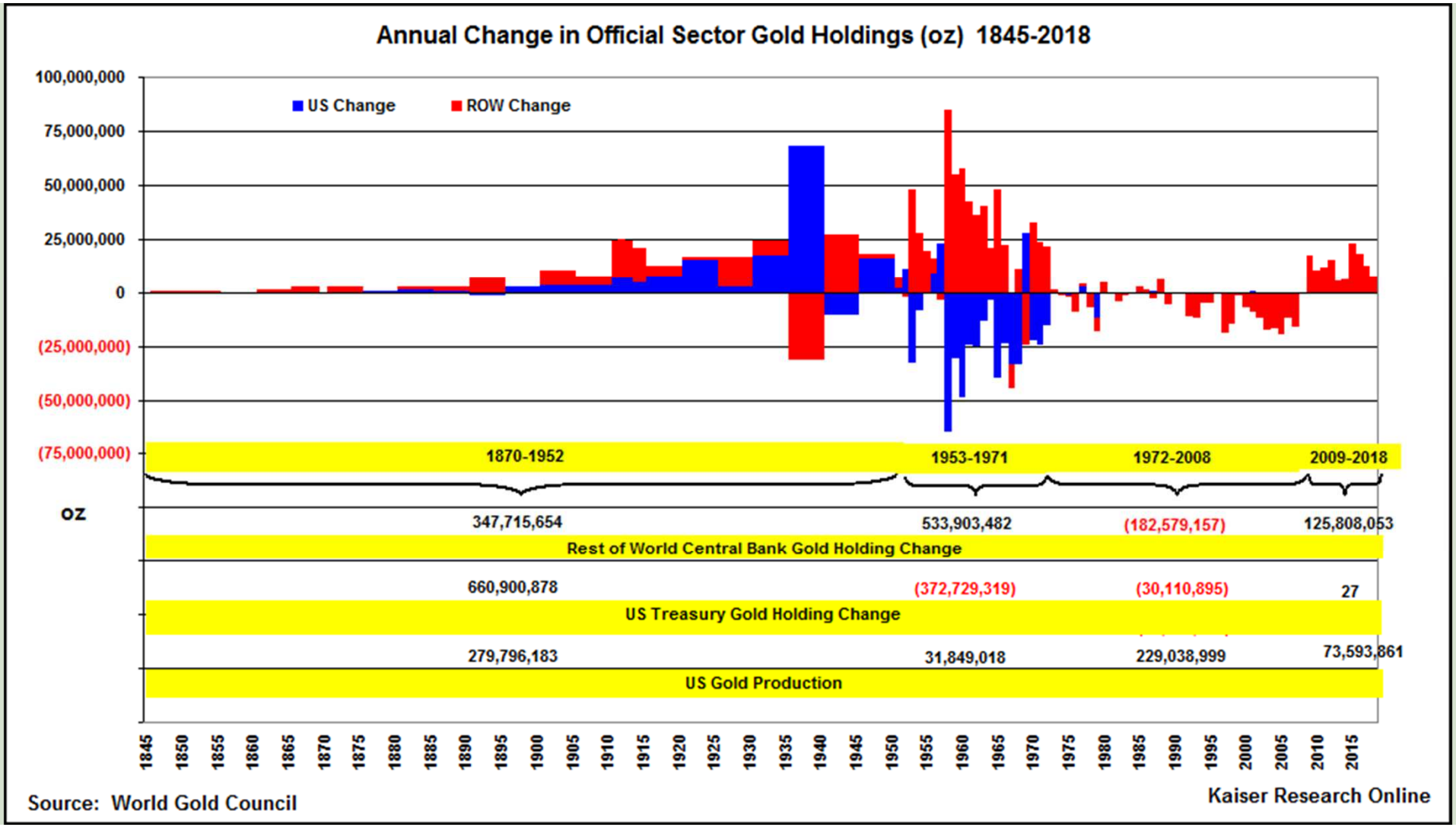


Note the rising outlays for retirees (Medicare & Social Security) as the boomer generation retires between 2010 and 2030 compared to health & income security outlays.

Note the social security and income tax revenue expectation relative to corporate tax needed to fund rising outlays for retirees.


Signet Classics
SINCLAIR LEWIS
IT CAN'T HAPPEN HERE
WITH A NEW AFTERWORD
The Rise of Thug Culture &
the Demise of Soft Power


EuRussia
UpForGrabs
NoSoAmerica
A New World Order in 2030
AustralAsia


Annual Change in Official Sector Gold Holdings (oz) 1845-2018
100,000,000
75,000,000
50,000,000
25,000,000
0
(25,000,000)
(50,000,000)
(75,000,000)
US Change
ROW Change
1870-1952
1953-1971
1972-2008
2009-2018
OZ
347,715,654
533,903,482
(182,579,157)
125,808,053
Rest of World Central Bank Gold Holding Change
660,900,878
(372,729,319)
(30,110,895)
27
US Treasury Gold Holding Change
279,796,183
31,849,018
229,038,999
73,593,861
US Gold Production
1845
1850
1855
1860
1865
1870
1875
1880
1885
1890
1895
1900
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1915
1920
1925
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1950
1955
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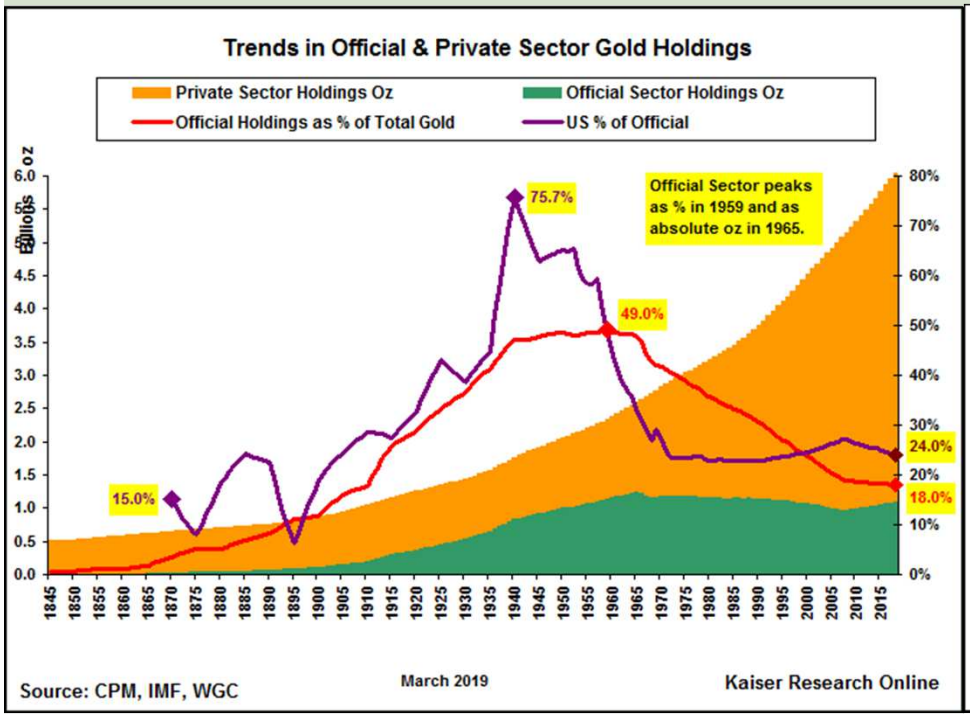
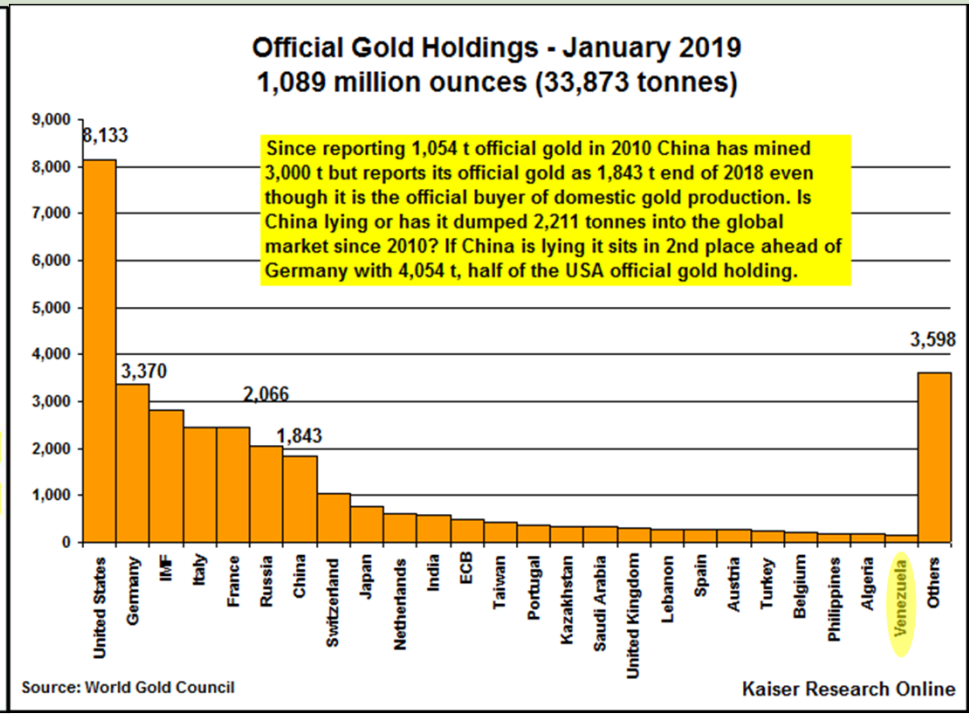
2015
Source: World Gold Council
Kaiser Research Online

The private sector has absorbed new gold production since 1959. But since 2009 the official sector has started to be a net buyer. China has been flat since 2011 even though it is the biggest gold producer and the state is the official gold buyer. Is China secretly hoarding gold? In recent years countries like Russia have stepped up gold buying. Reliance on the USD dollar forces subordination to American will.

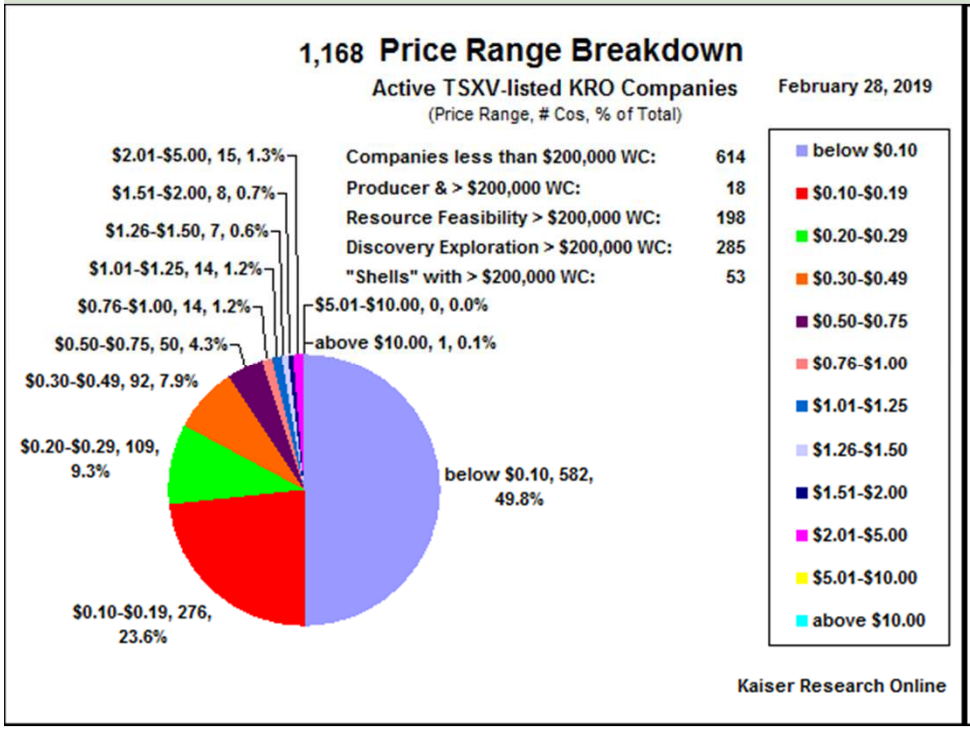


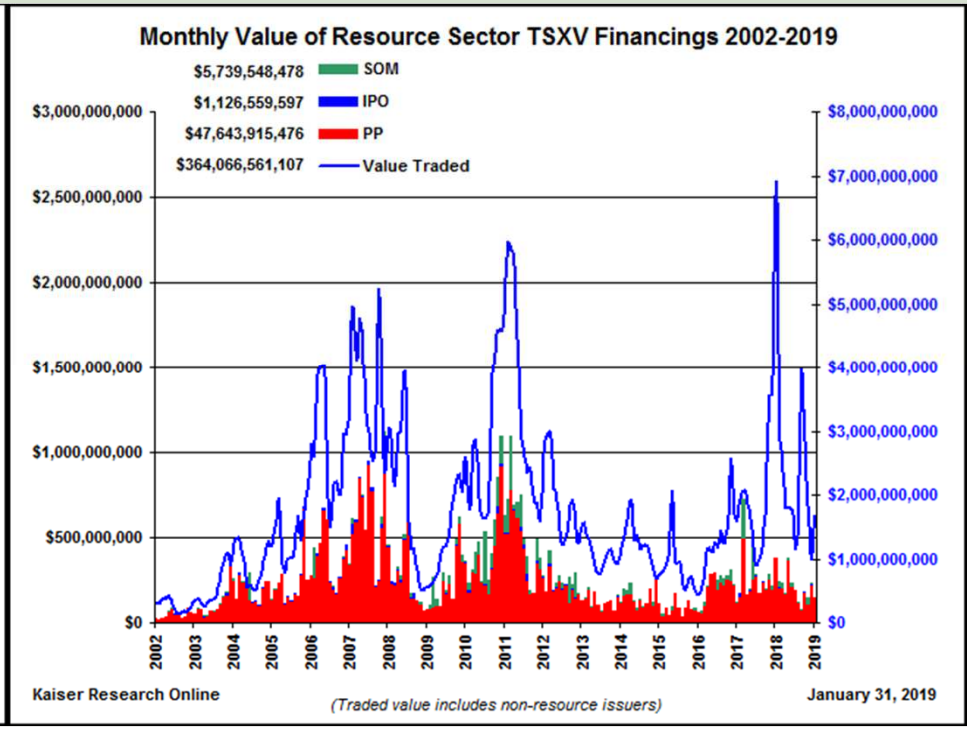


Nothing I say makes any difference. Maybe I and the majority of voters who did not vote for him should buy gold.

Everything I say He does. Is there a way I can buy gold without Him and the base knowing?

Half of the TSXV resource listings do not have enough money to keep the lights on, which may be a good thing. Funding for junior resource listings recovered from 2016 to mid 2018 but has since been weak. The junior resource sector is on an extinction path. The cannabis-crypto bubble is no longer an excuse. But what will bring audiences with risk capital back to the resource juniors?





The exodus from the resource junior bear market

- Institutional money will not come until a distinct multi-year uptrend is visible, which is unlikely to happen for metals other than gold in the current context of trade protectionism – bad news for optionality plays in the short term
- Gold may develop a gentle but sustained real price uptrend linked to uncertainty about where the world is headed even if and when Trump disappears.
- A 50% rise to $2,000 over the next few years will not stir the animal spirits in the way a 600% rise to $1,900 did, but in the absence of inflation or fiat currency debasement a 50% real price rise has profound implications for resource juniors by lowering the threshold for what counts as a discovery
- The potential for non-financial global crisis driven gold spikes is high
- Discovery exploration with its S-curve bubble dynamics when a discovery is made that appears to work at prevailing metal prices will attract discerning retail audiences
- Retail interest will broaden when gold breaches $1,400 because it will underscore the perception that if new but marginal gold mineralization is intersected, it could eventually end up in the money, but, more importantly, if enough money is thrown at further exploration, it is only a matter of time before an ore grade zone is intersected that spawns an S-curve bubble
- Management needs to review optionality plays from a discovery exploration perspective that asks, is what we can see from past exploration really all there is about this deposit?

Spec Value Rating System

Applies to entire universe of resource juniors

Spec Value Rating Key - 2019 onwards							
	Unrated Spec Value		Zombie Spec Value		No Spec Value		Poor Spec Value
	Bottom-Fish Spec Value		Fair Spec Value		Good Spec Value	KRO Rating Guide	
	Bottom-Fish SV Favorite		Fair SV Favorite		Good SV Favorite	Click SV Rating for KRO Search	

- Unrated – producers or not yet rated
- Zombie – financially endangered, only for extreme bottom-fishers
- No Spec Value: lifestyle, no wealth creation potential, maybe pump & dump upside
- Poor Spec Value: real junior but over-valued, typically well promoted
- Bottom-Fish Spec Value – real junior, typically missing one or more key pieces
- Fair Spec Value – real junior, upside potential balanced with downside risk
- Good Spec Value – real junior, undervalued, short term upside to fair value pricing

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When members of a crowd with a conflict of interest and the goal of influencing the market and each other connect the dots and share the result in an untrusted, competitive environment, what is the collective result?