

# Quebec Exploration 2008

Quebec City, Canada

November 25, 2008

Presented by John Kaiser

**What's in store for 2009?**

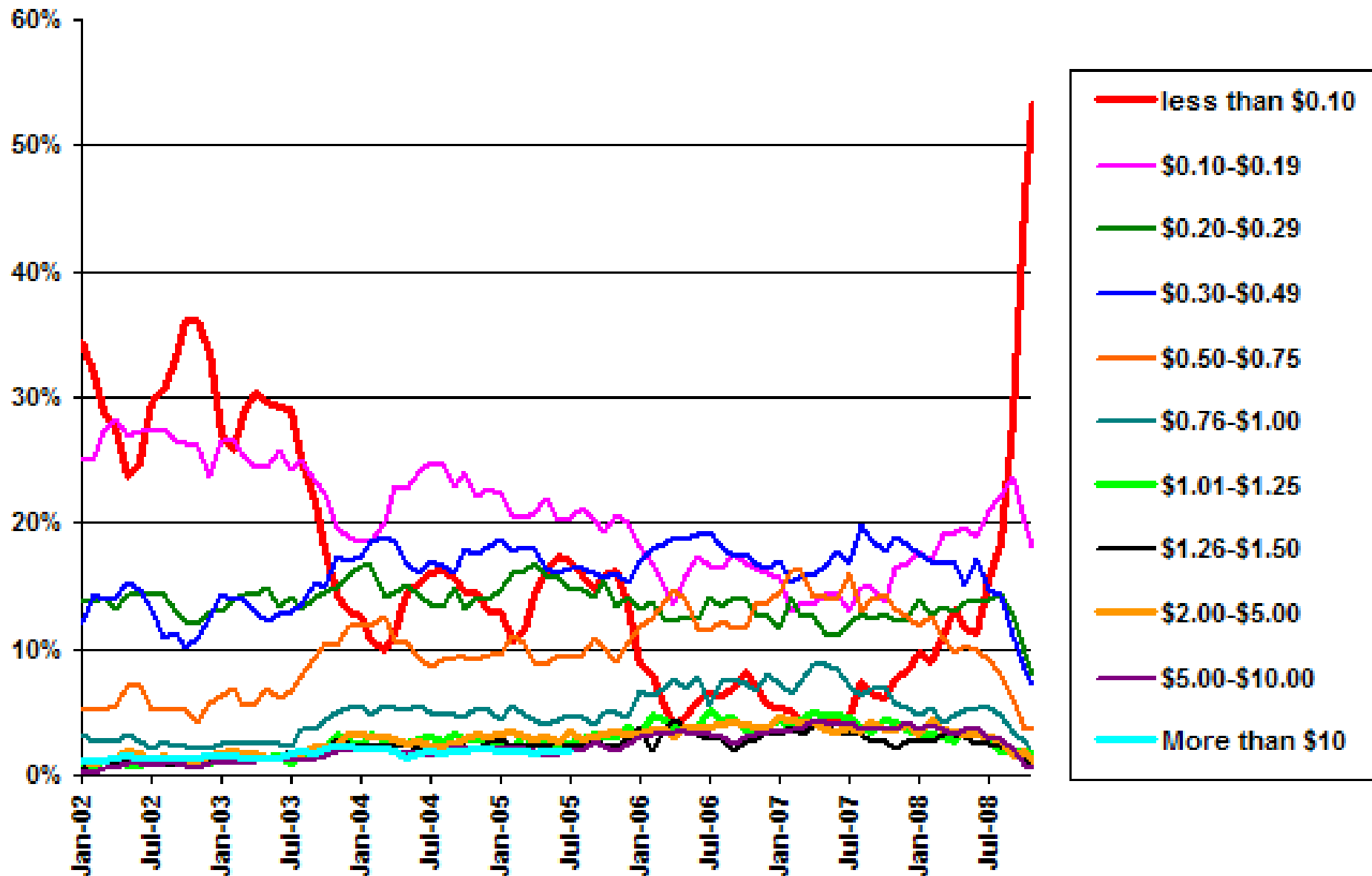
*What strategies can the resource sector expect speculators to pursue in the wake of the tsunami?*

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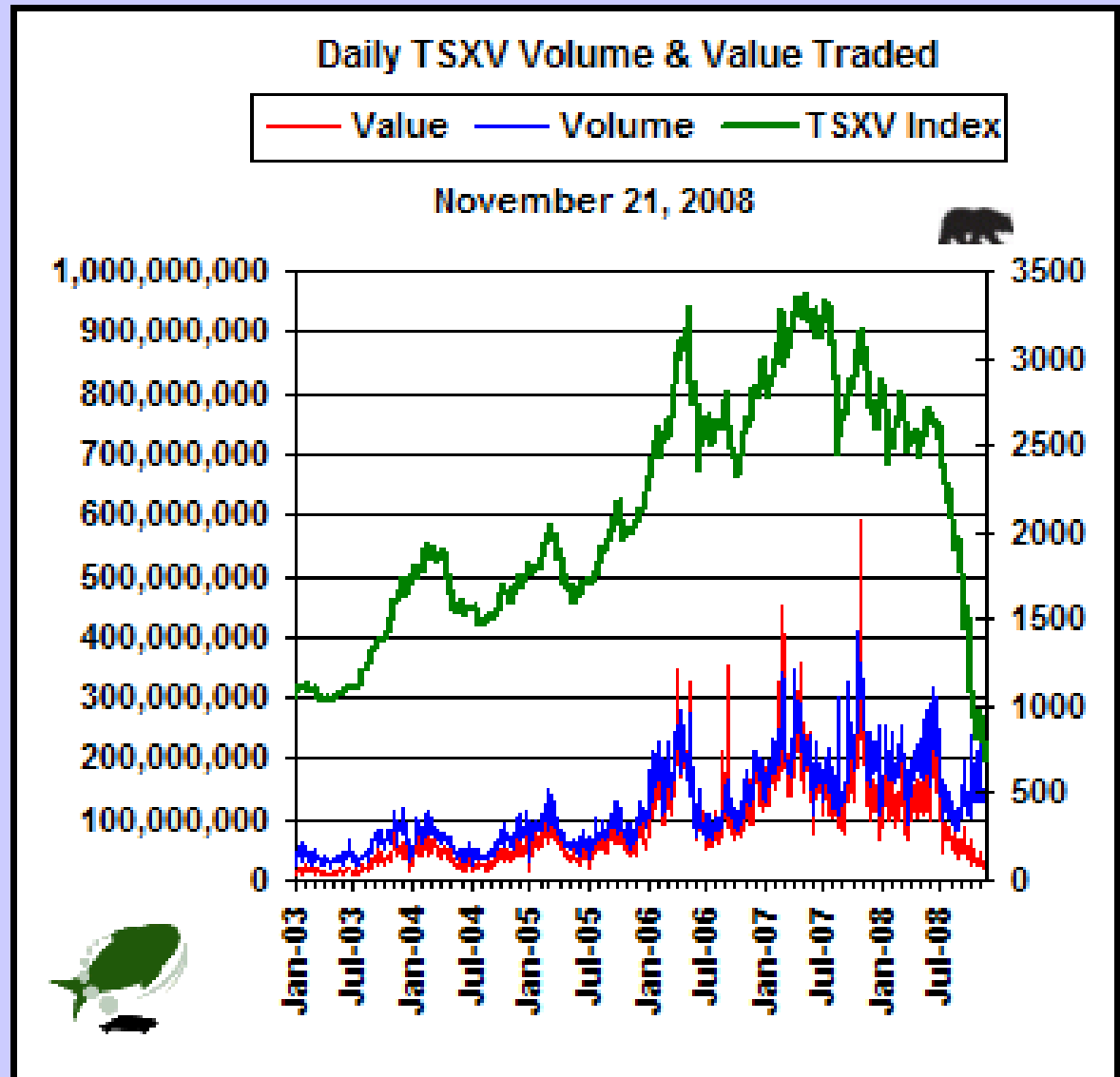
# KBFO Price Range Distribution

(November 21, 2008 total: 1,570 companies)



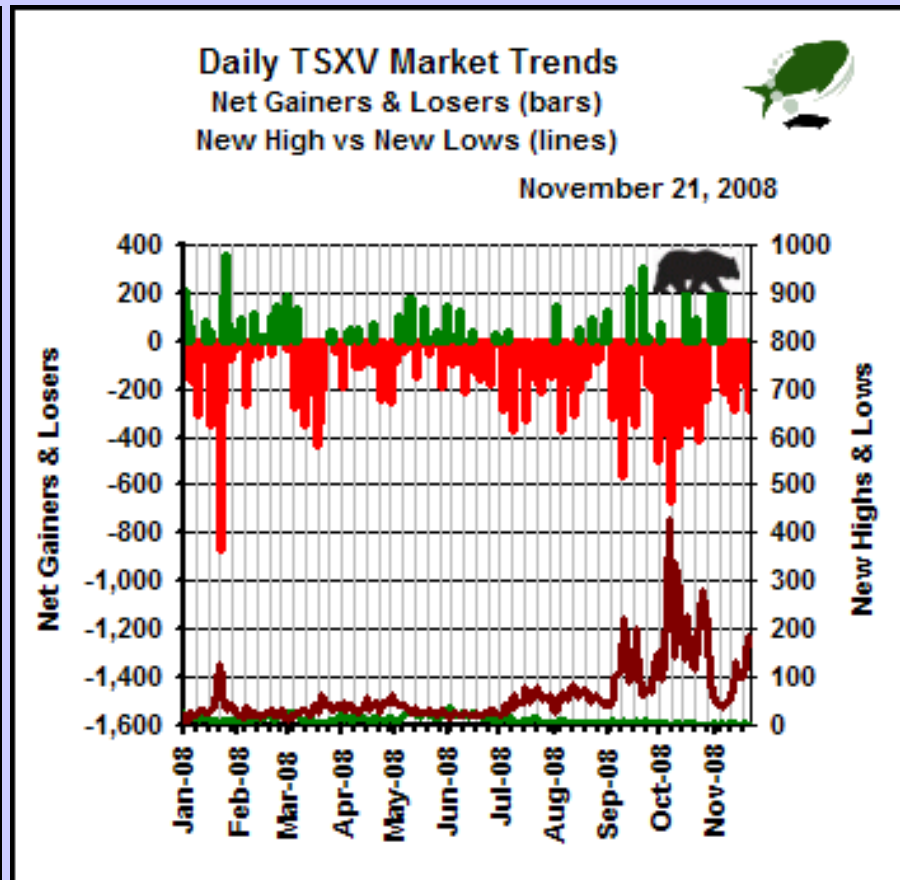
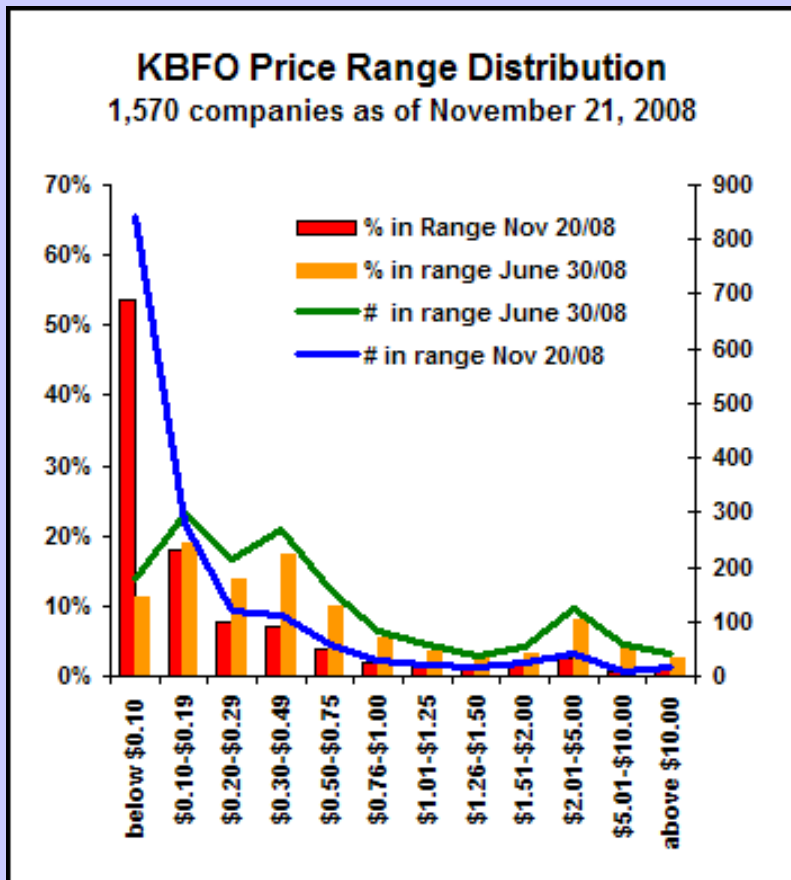
# Perfect Storm of Cyclical Downturns

- Seasonal Cycle
- Story Speculation Cycle
- Life Cycle
- Market Cycle
- Commodity Cycle
- Economic Cycle
- Institutional Cycle



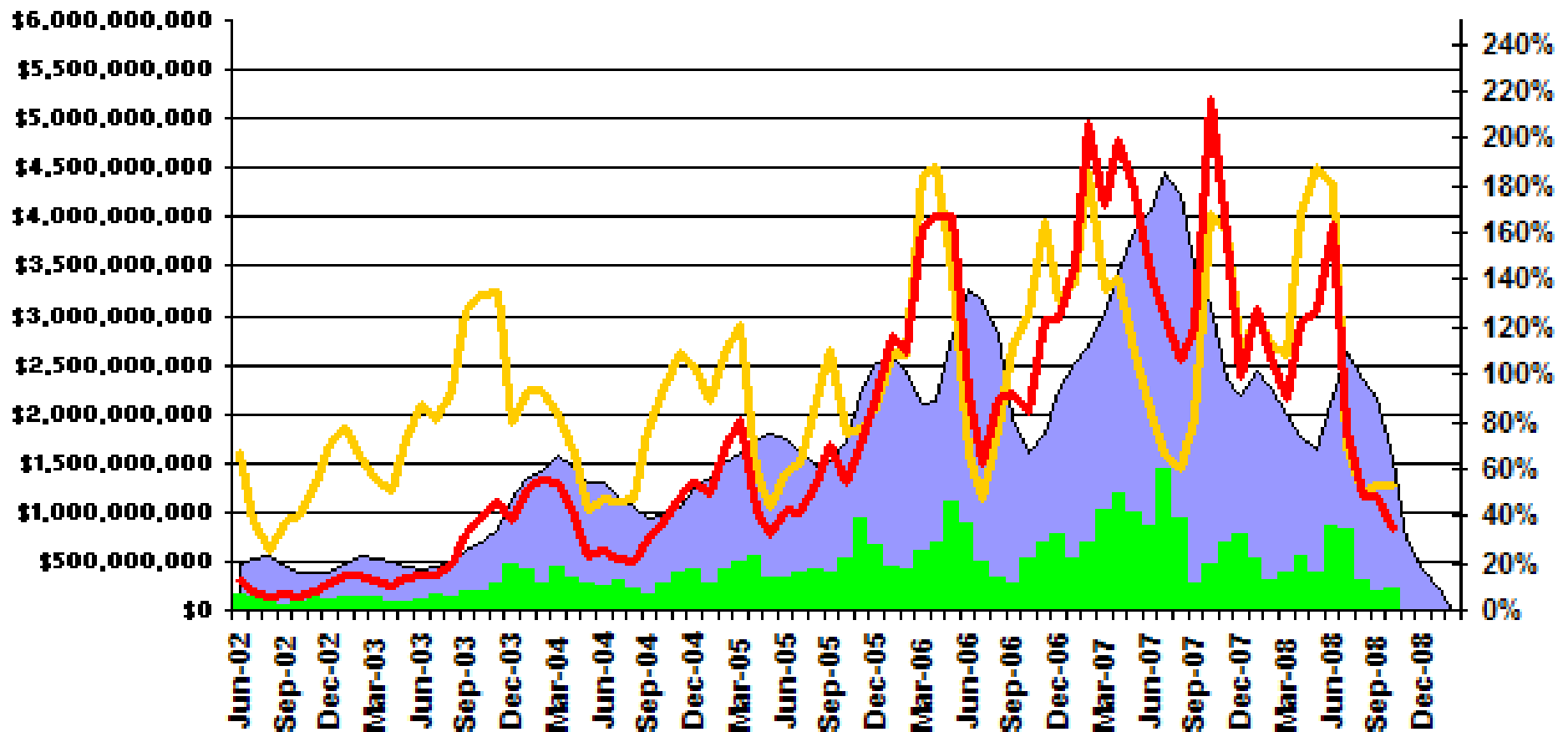
# The Ultimate Washout

	30-Jun-08	21-Nov-08
Trading below \$2.00:	1345	1501
Market Cap:	\$42 billion	\$23 billion
Trading below \$0.10	176	843
% below \$0.10	13%	56%



# TSXV Private Placement Timebomb

as of October 2008



- PP Value tied up by 4 month hold
- Monthly Value of Financings
- Traded Value as % of Timebomb
- Monthly Value Traded

# Post-Financing Boom Hazards

- **Bankruptcy, Suspension, Delisting** – projects under construction not fully funded are particularly vulnerable.
- **Corporate Reorganizations (RollBacks)** – large 10:1 or more stock consolidations followed by post-rollback 80-90% further price declines.
- **Massive Equity Dilution at rock bottom** – hail mary financings or vulture capitalism
- **Convertible Debenture Financing** – large financings with the asset as security and a high conversion price – investors are seeking high interest yield with twofold expectation of a brief bear market followed by higher stock prices that justify conversion into equity, or an extended bear market that causes the junior to default and allows the debenture holders to acquire the asset through massive dilution of existing equity holders by conversion of debt into paper at rock bottom.
- **Major Shareholder Advances** – management at mercy of parent who has no incentive to support stock price boosting initiatives, eventually converts debt into paper at cheap prices or privatizes the company.
- **Friendly Paper Takeover Bids by stronger juniors or intermediates** – desire by management to be relieved of financing burden in bear market and secure liquidity.
- **Hostile Paper Takeover Bids** by stronger juniors seeking cash of weaker junior
- **Cash Vanishing Acts** - bad acquisitions, normal course issuer bids, investments in other juniors, merger with private companies, foolish farm-ins, high paid management paralysis.

# Cash Vanishing Acts

- Spending it rapidly in hope of a homerun
- Down the road acquisition related balloon payments coming due
- Farming into other juniors' projects
- Spending it to facilitate service sector kickbacks
- Spending it because it is "flow-through" money
- Lending it to related juniors
- Investing it in other juniors' paper
- Advancing it into a planned acquisition black hole
- Buying "cash flow"
- Purchasing a debt laden asset
- Diluting the capital structure through cheap financings to "insiders"
- Amalgamating with a cash poor junior
- Conserving the cash for overhead and "new project investigation costs"
- Normal Course Issuer Bid

# **Two Basic Story Types in the Resource Sector**

## **Commodity Speculation**

**Ounces and Pounds in the Ground**

**Development Focused**

**DCF & Peer Group Comparison**

## **Discovery Speculation**

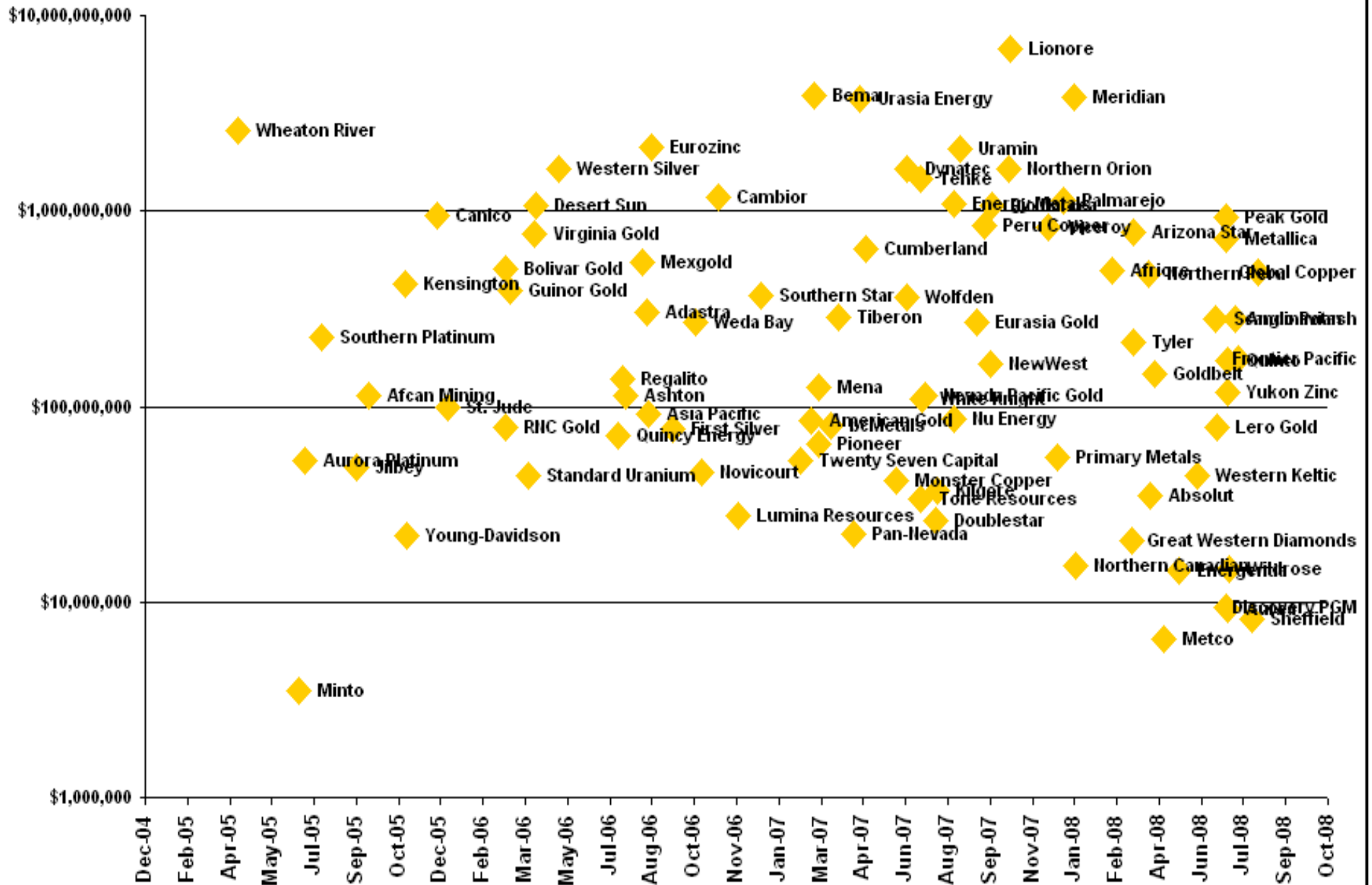
**No Resource Estimate**

**Exploration Focused**

**Rational Speculation Model**

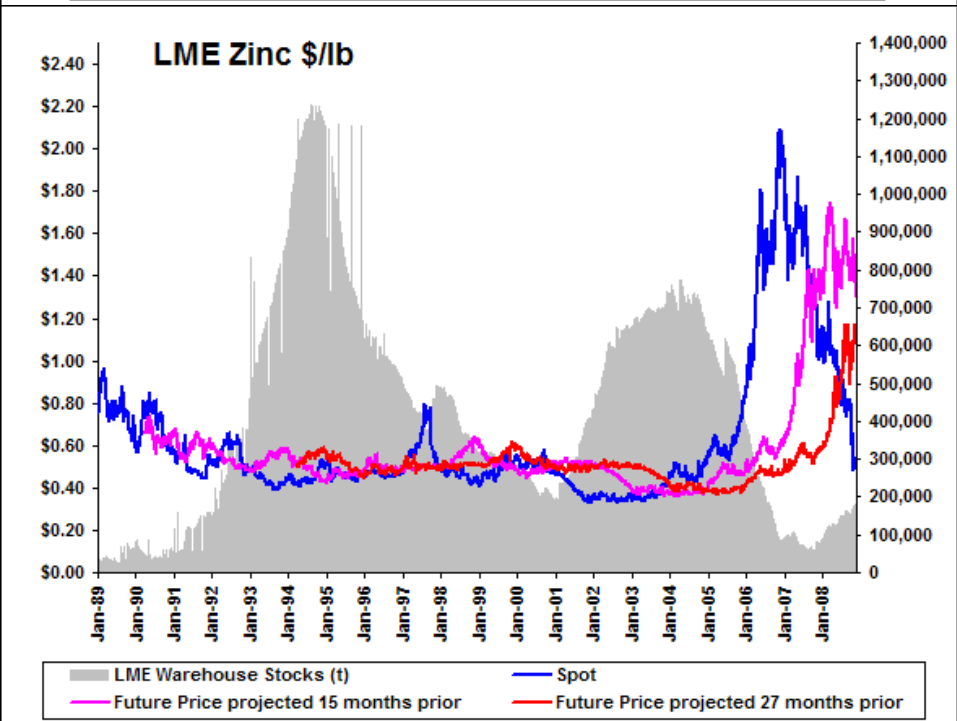
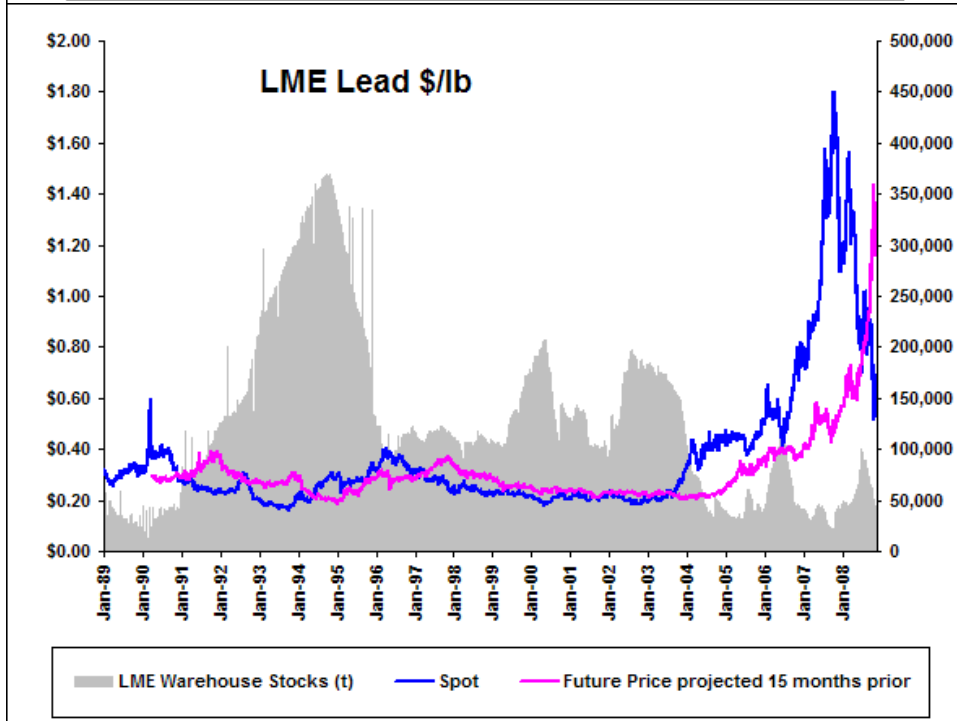
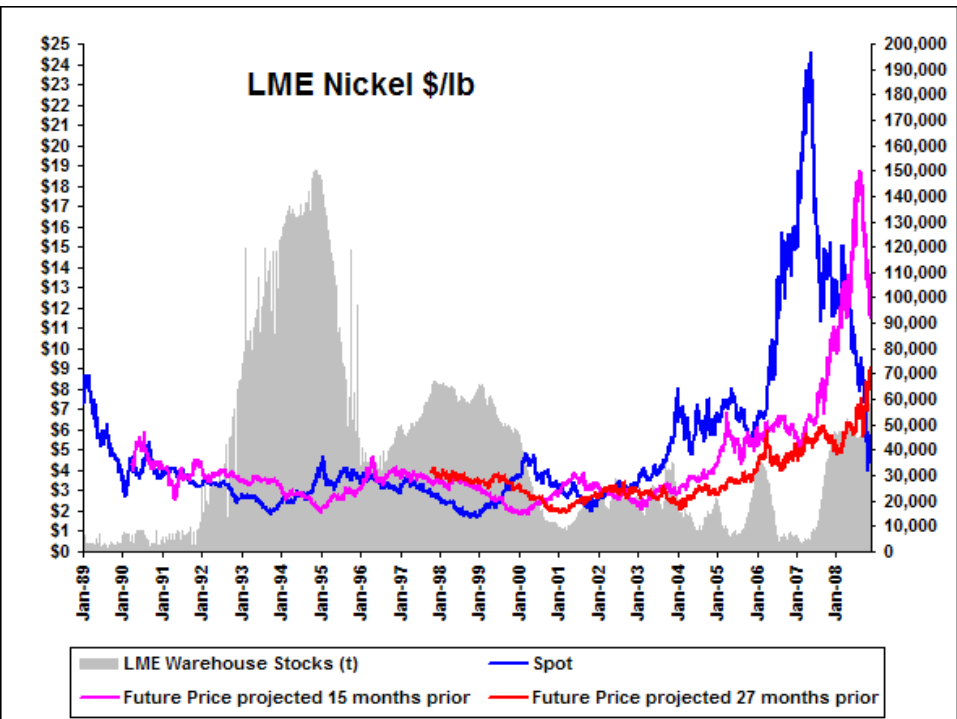
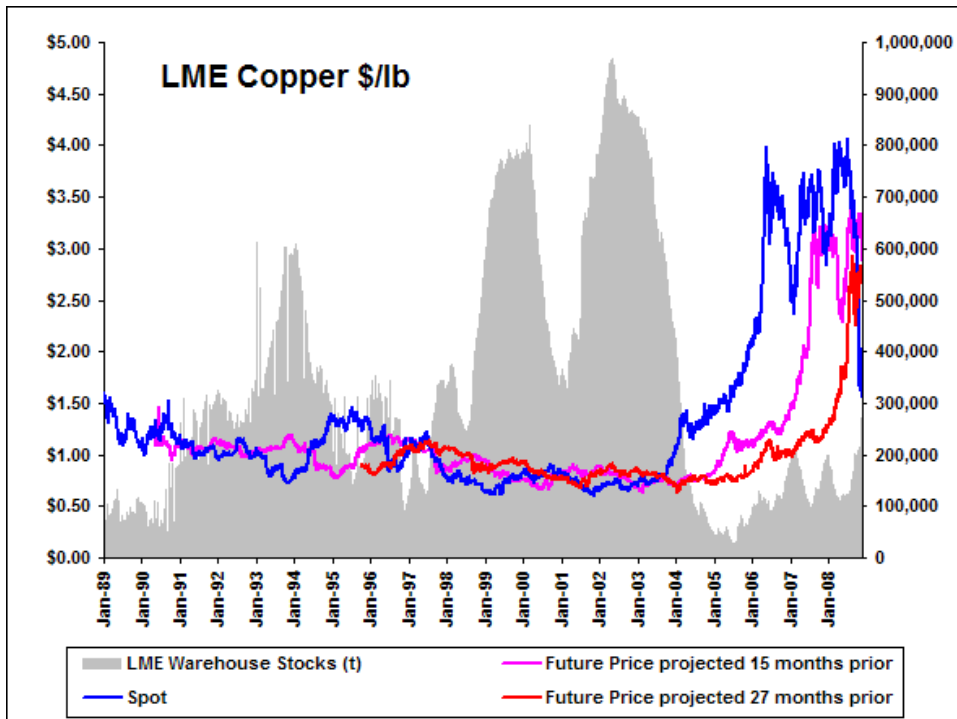


## Value of Takeover Bids - \$53 billion



# Ounces & Pounds in the Ground

Gold	1,301,656,659	oz
Silver	12,944,652,803	oz
Platinum	24,897,219	oz
Palladium	45,094,590	oz
Copper	583,169,169,622	lb
Nickel	63,897,427,564	lb
Zinc	218,743,411,976	lb
Lead	69,905,459,755	lb
Molybdenum	25,096,129,098	lb
Uranium	1,747,902,708	lb
Vanadium	575,578,759	lb
Tungsten	4,311,163,366	lb
Spot GMV:	\$3,411,047,451,402	
3 Year Average GMV:	\$5,072,880,566,728	



# The China Price

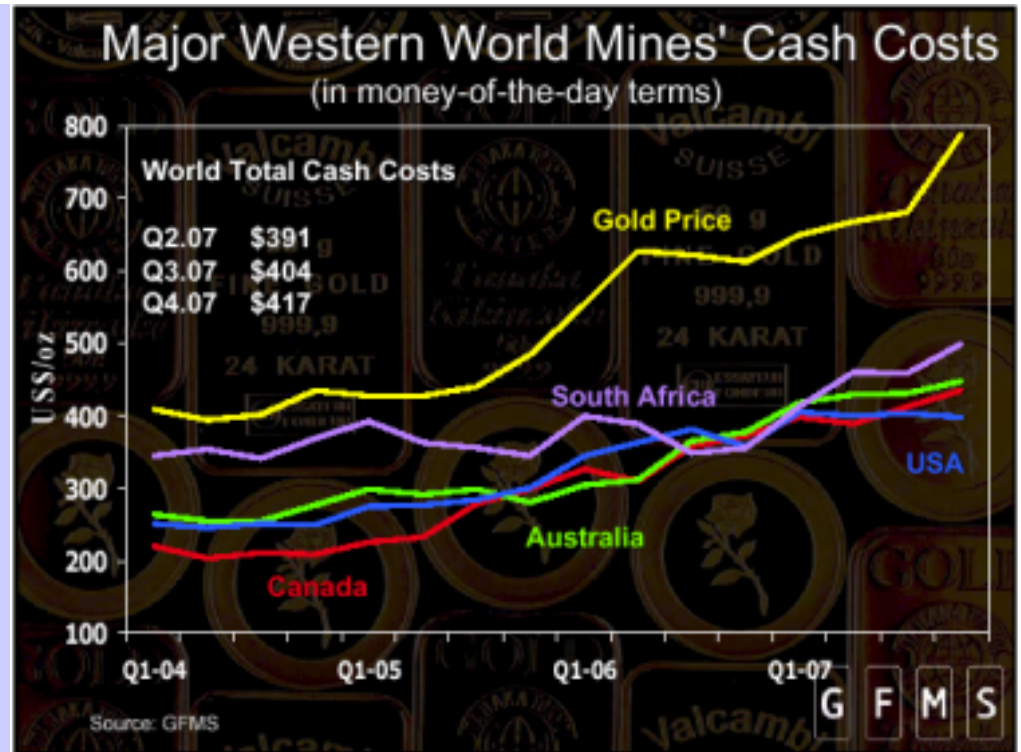
- Cheap Labor – urbanization of rural China and the dismantlement of state run enterprises
- No Health & Safety for Workers
- No environmental emission controls
- No Unions to secure medical or pension benefits
- US Dollar Peg: the devil's bargain of maintaining an undervalued yuan by bankrolling the US trade deficit through the accumulation of US treasury debt
- Piracy and Counterfeiting
- FDI: foreign direct investment and technology transfer

**Made in China and Packed with  
Pride in America**

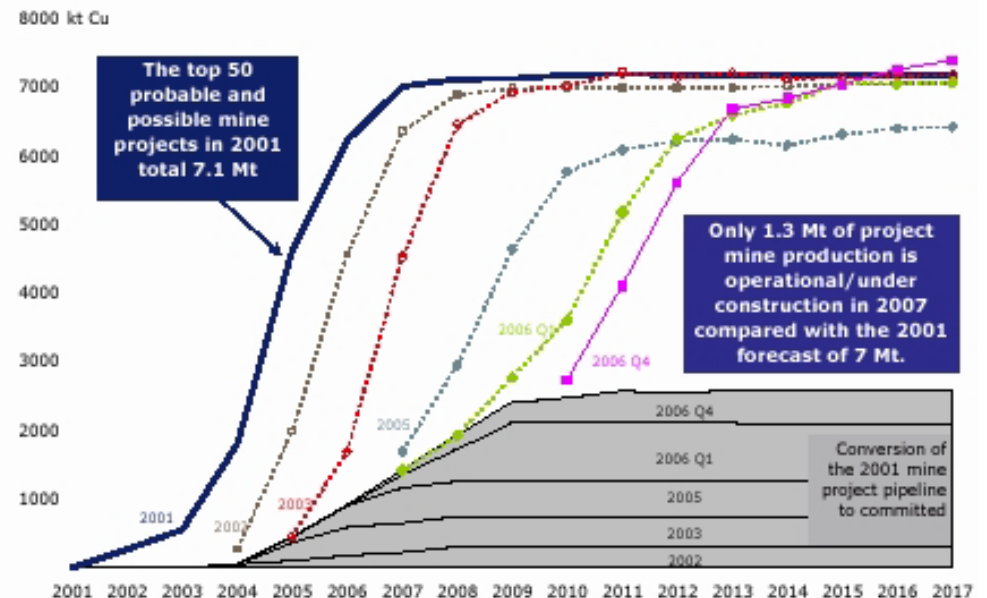


## Why do we think these costs will never go down but metal prices will?

- Higher Capital Costs
- Higher Energy Costs
- Personnel Shortages
- Water & Power Shortages
- Labor Disruptions
- Grade Flexing Errors
- Permitting Delays
- NGO Opposition
- Government Revenue Grab
- Commodity Price Uncertainty



Copper Output Growth from New Projects: Expectations vs Reality

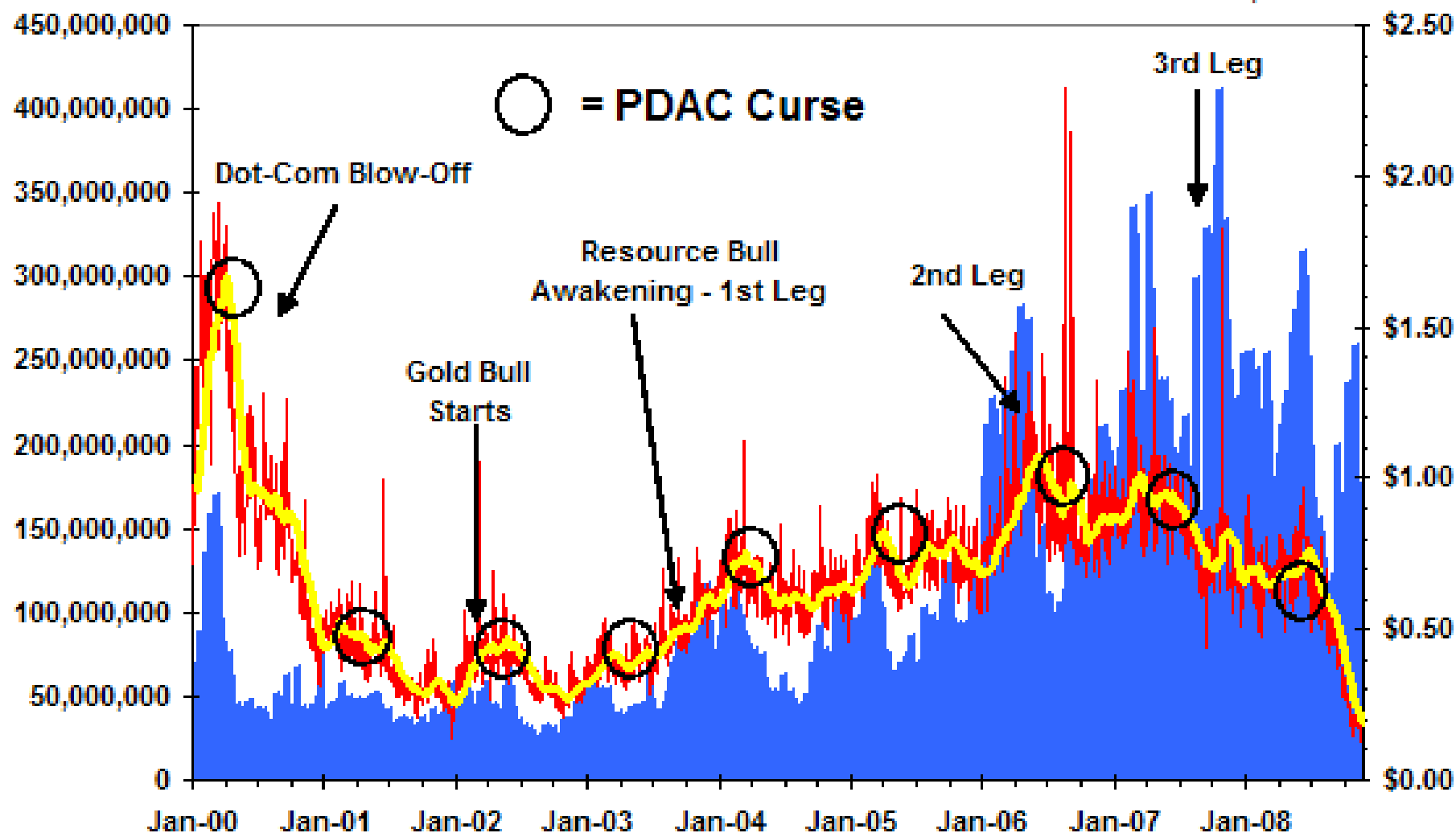


# Daily TSXV Volume and Average Trading Share Price



Volume — Average Share Price — 30 Day Average Price

November 21, 2008



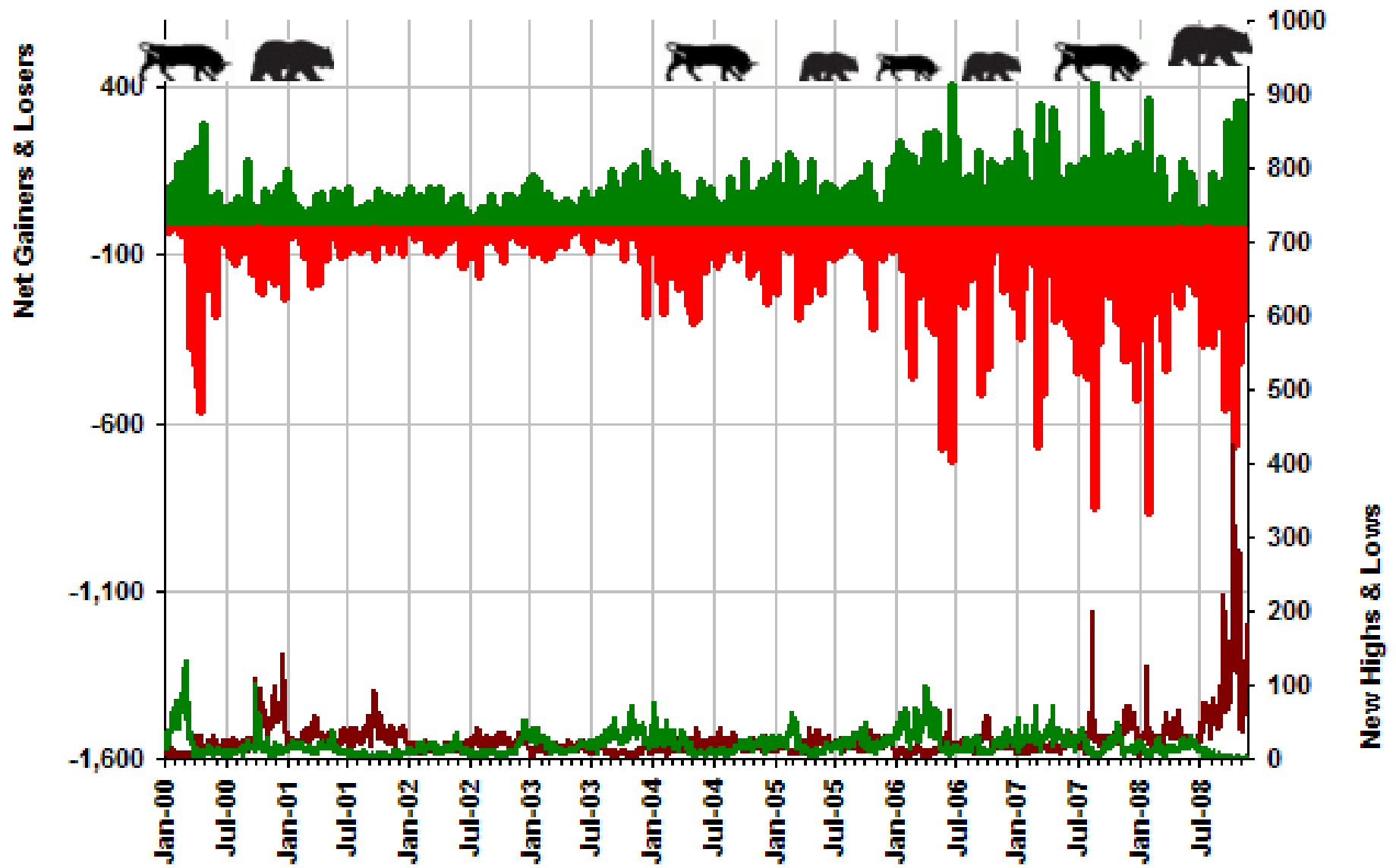
PDAC Curse: the tendency of the new year rally to fizzle right after the PDAC mining convention held annually in March in Toronto.

# Daily TSXV Market Trends - Long Term



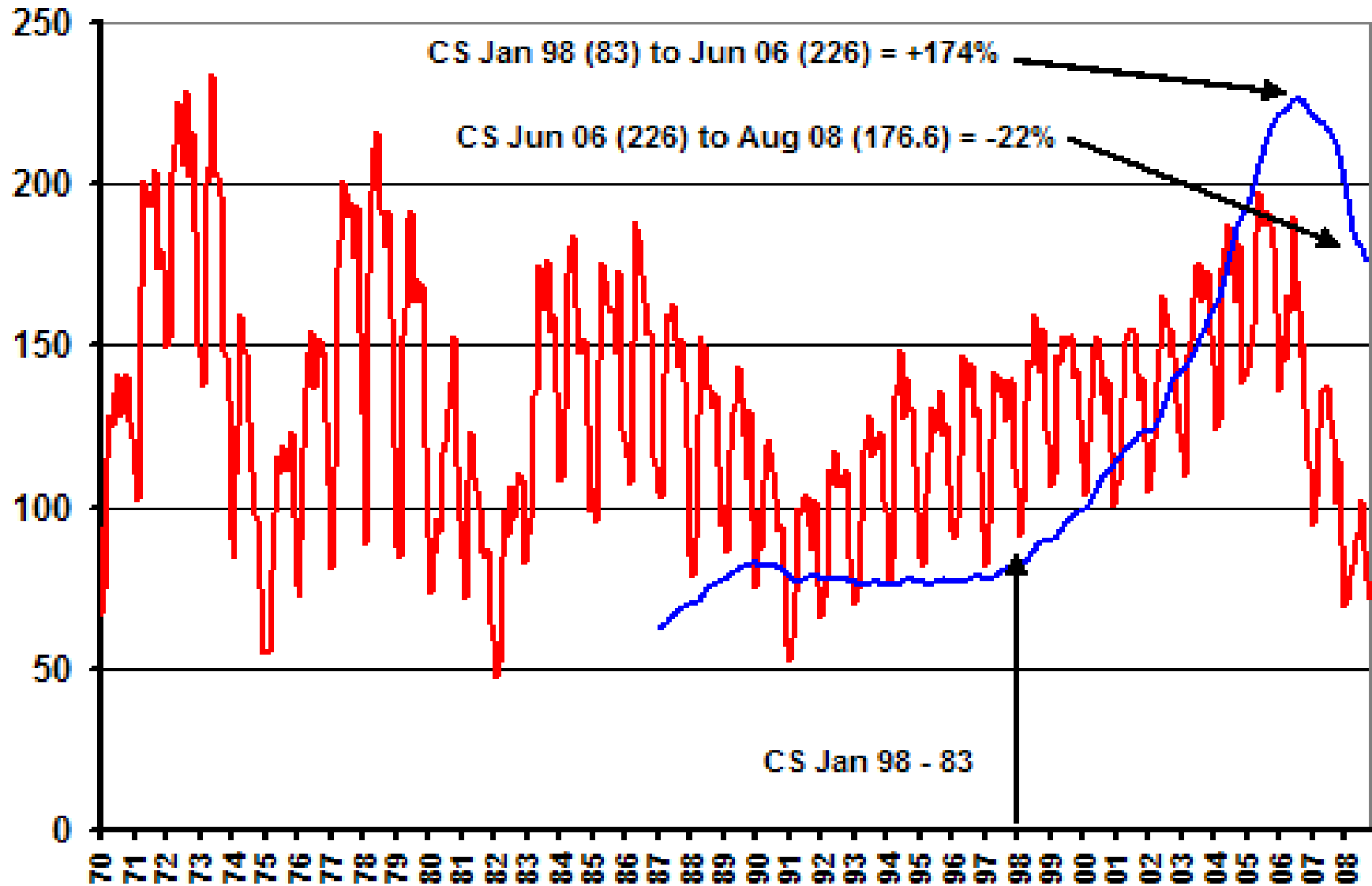
Cyclical Bears vs Structural Bulls

November 21, 2008



# US Residential Home Data

- Monthly New Housing Starts - no seasonal adj. (000's) Sept 08
- S&P Case Schiller Home Price Index (10 city) Aug 08





# Real Estate Bubble Collapse



Securitized Mortgage Debt: Fruitcake done the Wall Street Way



Cockroach Bit?

Rat Turd?

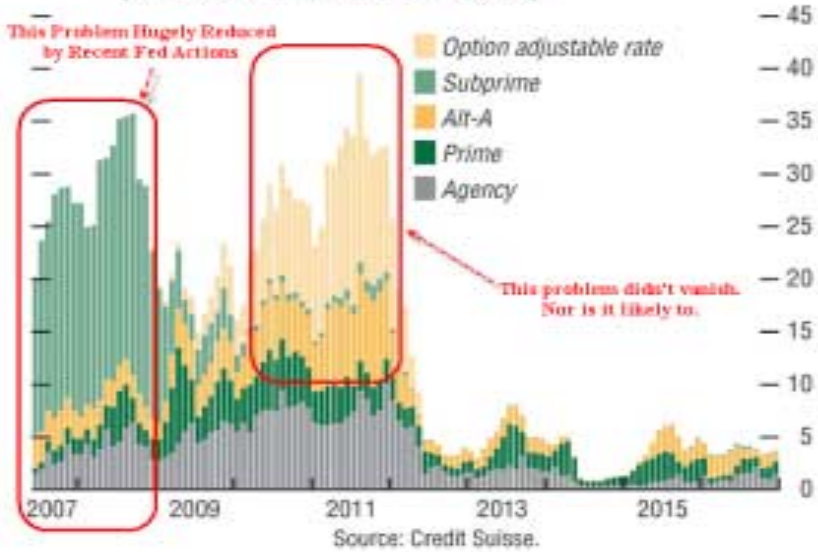
Rotten Nut?



A Nasty Bitter Thing?

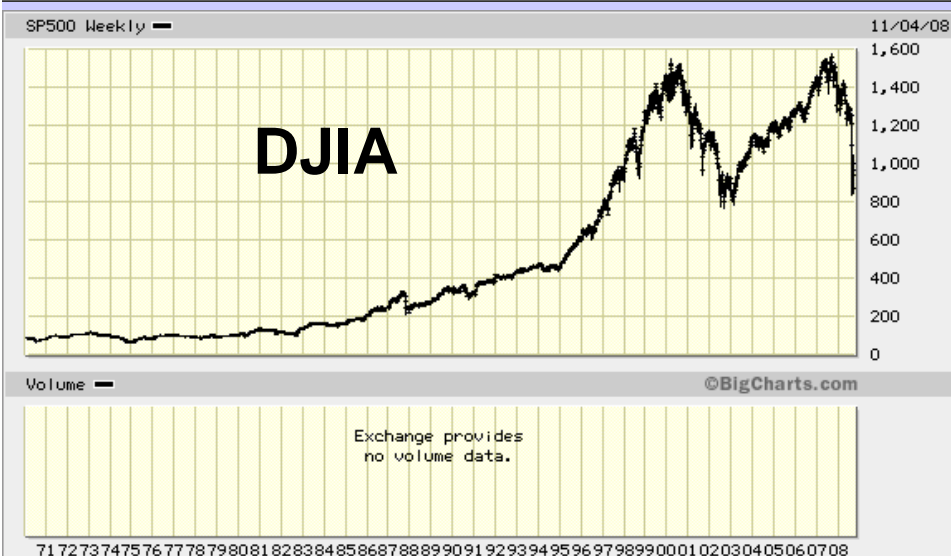
Moldy Raisin?

**Figure 1.7. Monthly Mortgage Rate Resets**  
(First reset in billions of U.S. dollars)





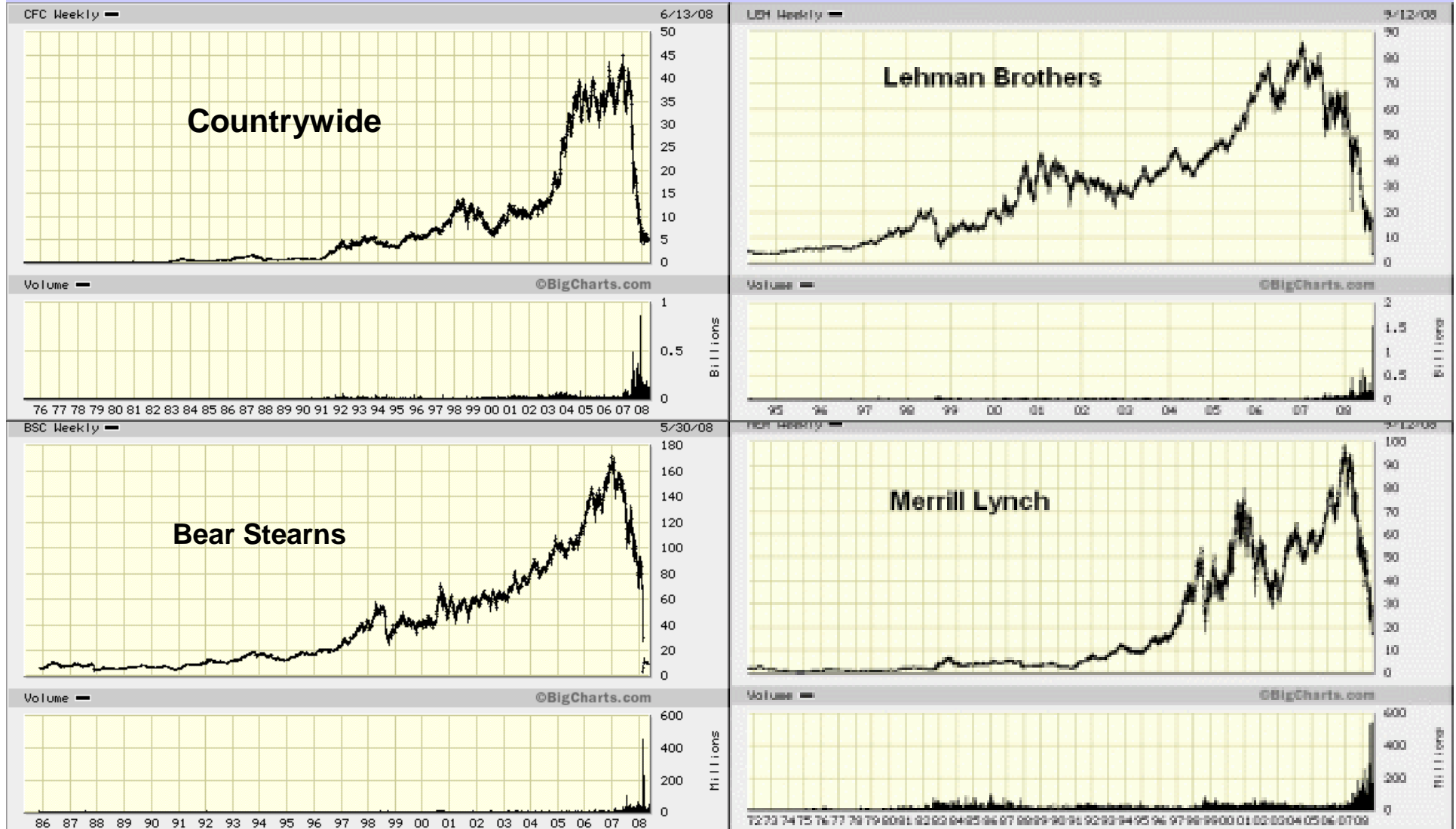
# Hank, are you sure these things bounce?

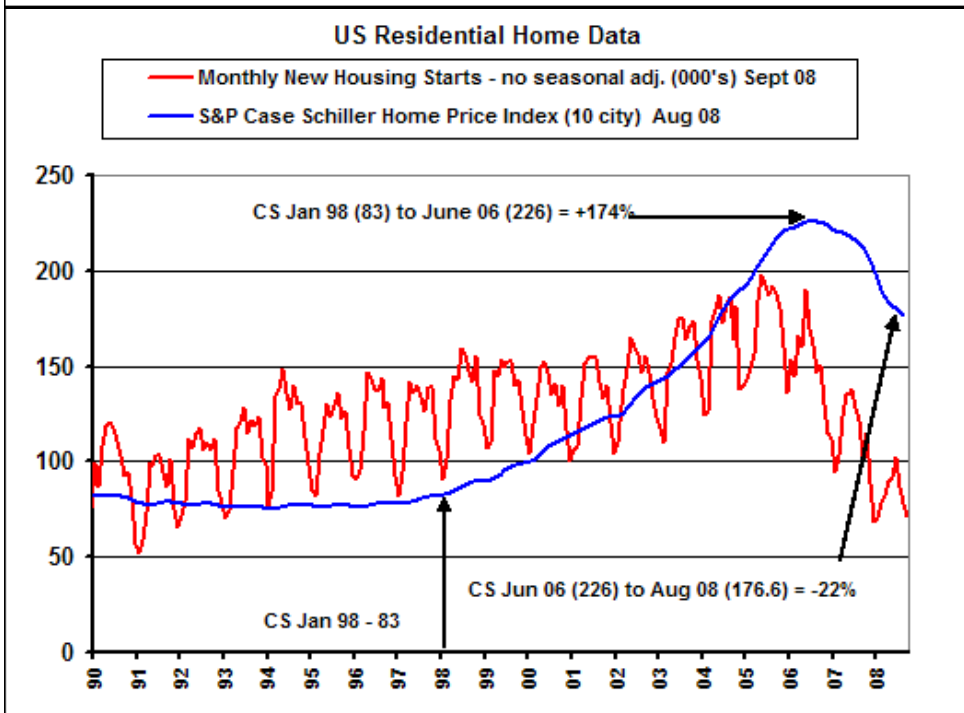
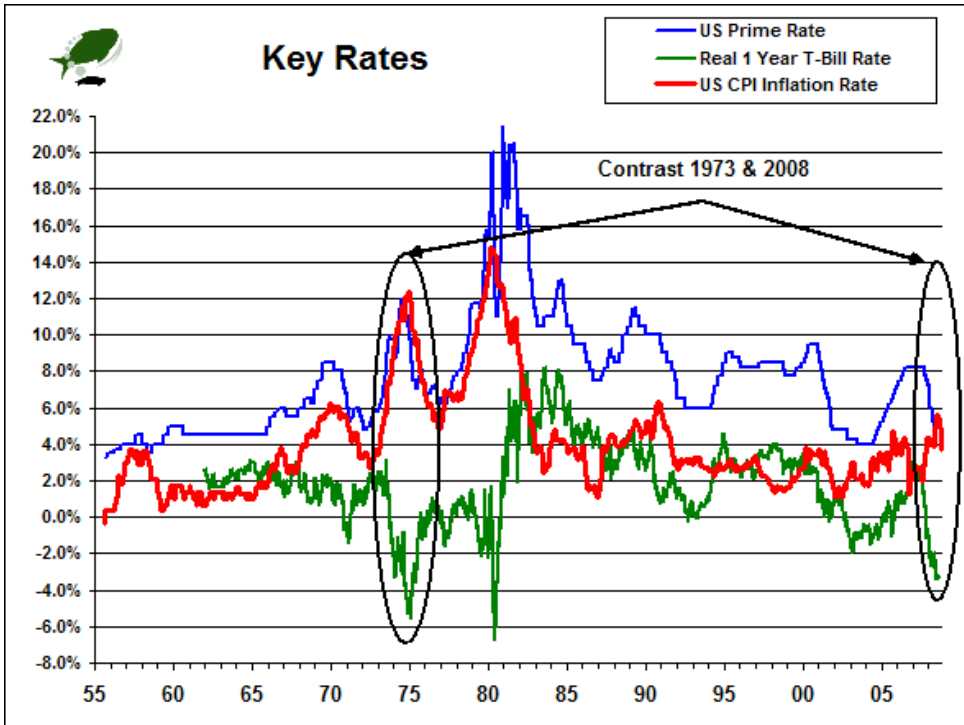


# Financial Services Bubble

**IMF estimates losses from non-government debt will reach \$1 trillion!**

(adjusted for splits and rollbacks)



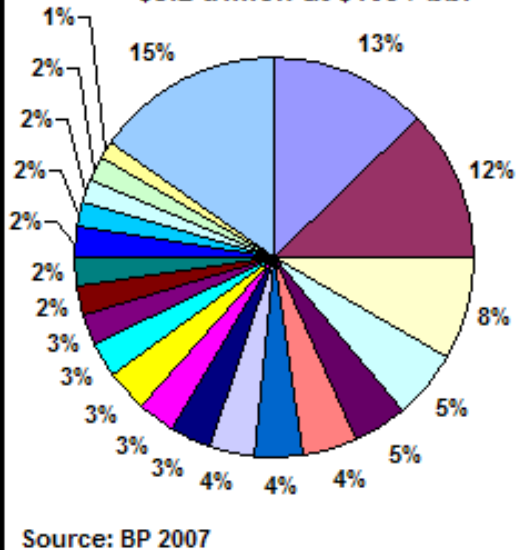


## The New Problem: Funding the Boomer Retirement

- Social Security
- Health Care
- Longevity
- Quality of Life



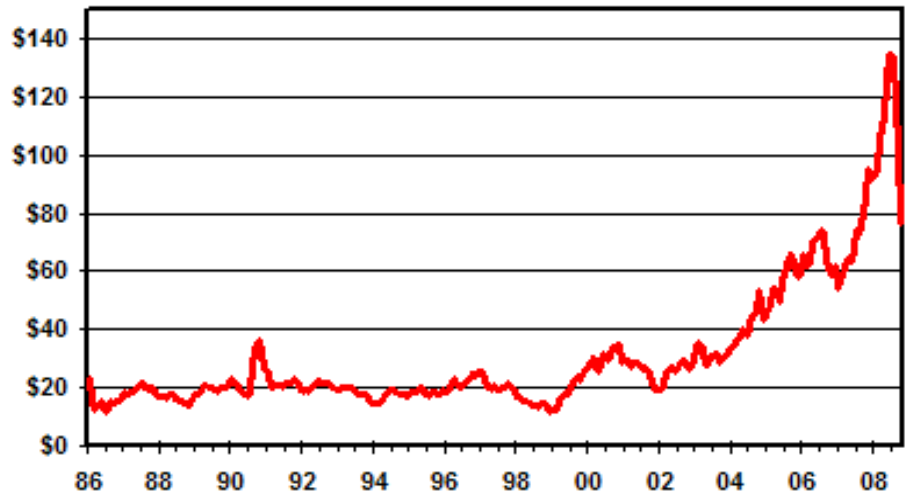
**Global Crude Oil Production**  
 2007 Total: 29.8 billion bbl  
 \$3.2 trillion at \$108 / bbl



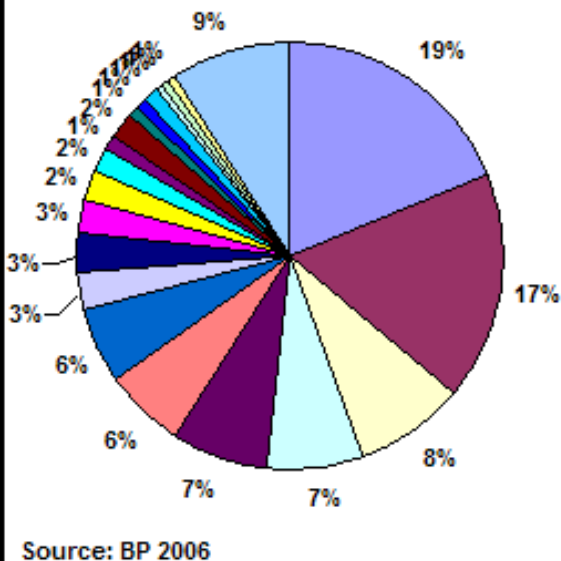
Source: BP 2007

- Saudi Arabia
- Russian Federation
- USA
- Iran
- China
- Mexico
- Canada
- United Arab Emirates
- Kuwait
- Venezuela
- Norway
- Nigeria
- Iraq
- Algeria
- Libya
- Brazil
- Angola
- United Kingdom
- Kazakhstan
- Qatar
- Other

**Monthly Average Prices**  
 US \$/barrel



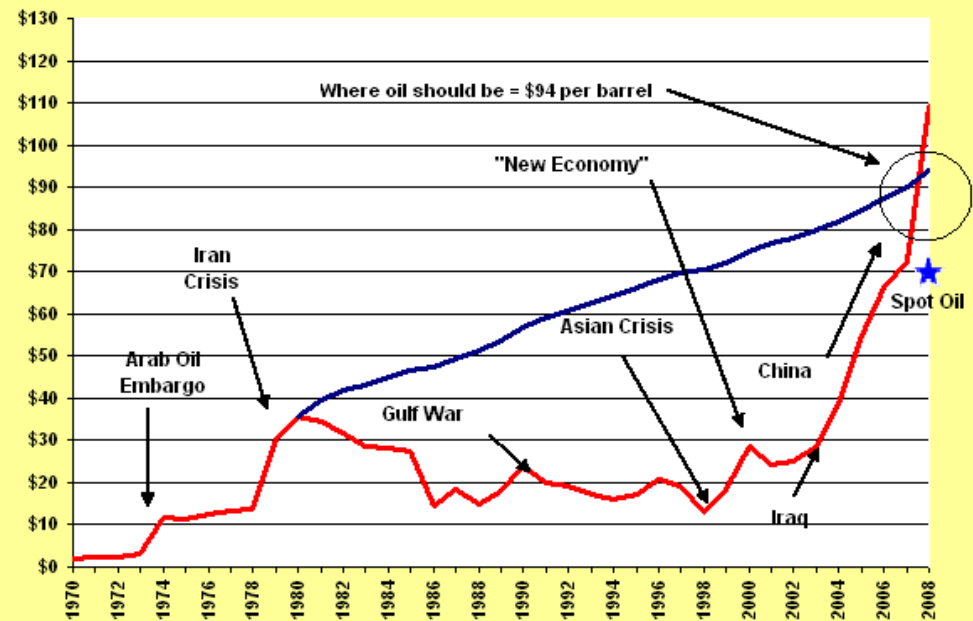
**Global Crude Oil Reserves**  
 2007 Total: 1.4 trillion bbls



Source: BP 2006

- Saudi Arabia
- Iran
- Iraq
- Kuwait
- United Arab Emirates
- Venezuela
- Russian Federation
- Libya
- Kazakhstan
- Nigeria
- USA
- Canada
- China
- Qatar
- Mexico
- Algeria
- Brazil
- Angola
- Norway
- Azerbaijan
- Other

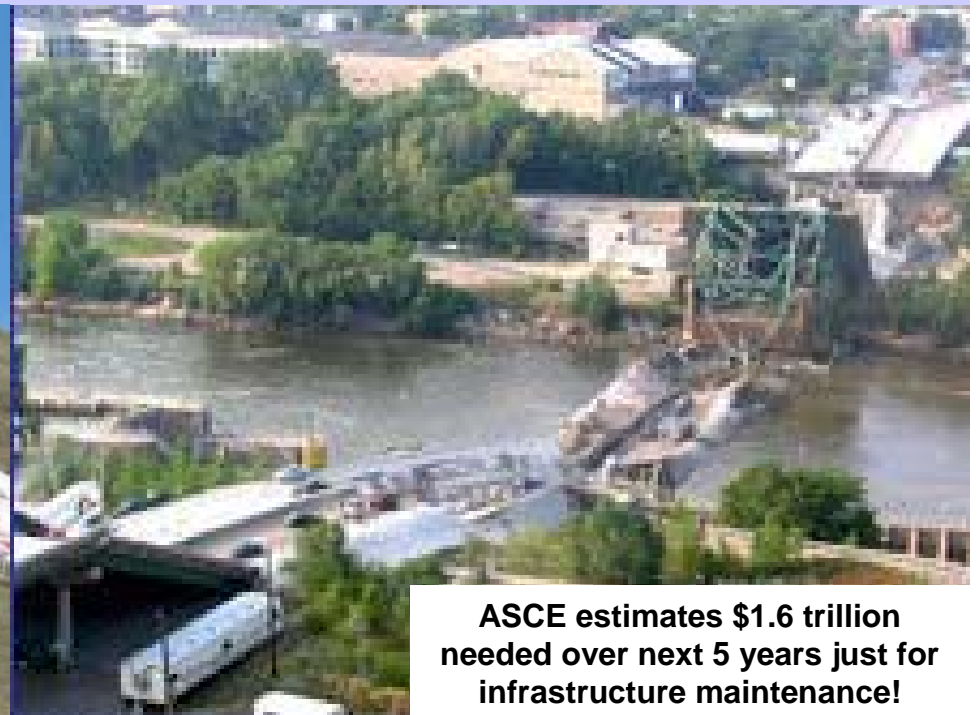
**Brent Oil - annual average**



# Green Economy & Infrastructure Renewal Boom

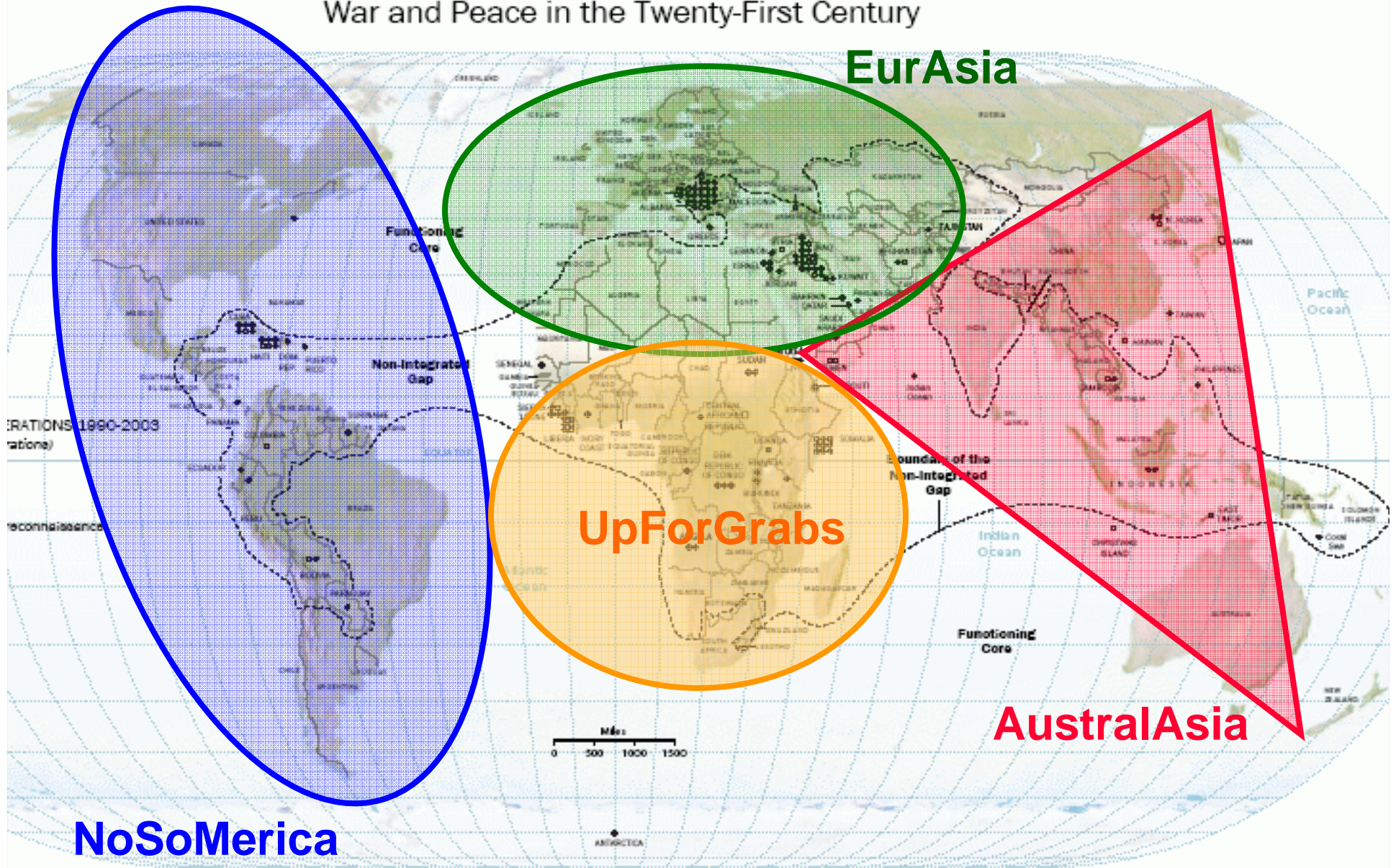
- Watch footprint consciousness driven by climate change and the environmental impact of the Rise of Asia change the way people consume, helped along by the end of consumer debt.
- Watch for a capital spending boom based on “transformative infrastructure renewal” in the US that keeps Americans busy while China transitions to a self-sustaining economy
- Watch the growing Silicon Valley venture capital boom in green technology
- Watch for manufacturing to return to the OECD in a highly automated form
- Watch raw material and energy prices never go back to the bear market levels of 5 years ago
- Watch for a US foreign policy that reflects the end of American hegemony

Watch the November Elections!



**ASCE estimates \$1.6 trillion needed over next 5 years just for infrastructure maintenance!**

# The Pentagon's New Map: War and Peace in the Twenty-First Century

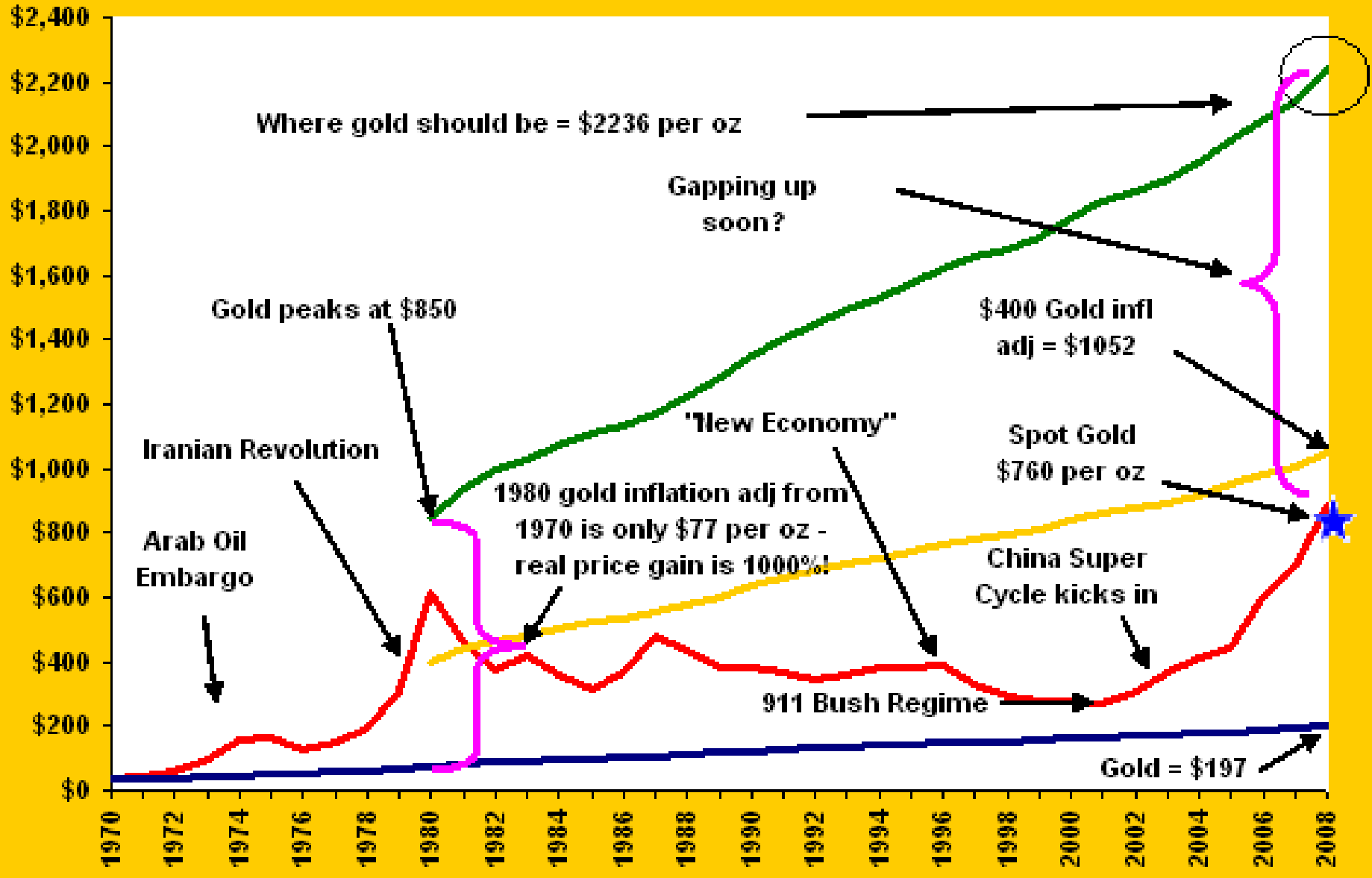


Response data source: U.S. Military Services via  
Dr. Henry Gaffey Jr. / The CNA Corporation

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# Gold in Perspective

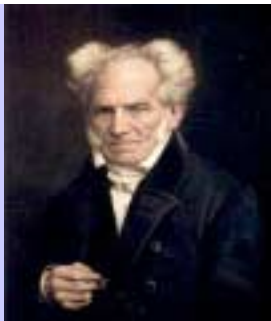
- Actual Average Annual Gold Price
- 1970 Base \$36 per oz inflation adjusted
- 1980 Base \$850 per oz inflation adjusted
- 1980 Base \$400 per oz inflation adjusted





# Sector Priorities

- **Gold** – greatest potential for substantial move in near term, if of a quantum nature, will stimulate exploration boom
- **Silver** – potential to track an upward gold move
- **Platinum Group** – is South Africa destabilizing?
- **Copper** – supply expectations hinge on development in geopolitically unstable regions
- **Uranium**- watch Obama administration's attitude
- **Specialty Metals** – strategic shortages hamper commercialization of new technology
- **Molybdenum** – key incremental input for infrastructure
- **Fertilizer Minerals** – starvation is not a global option
- **Nickel** – needs \$10 lid to limit laterite supply
- **Zinc** – need to ignore price for next two years



# The Wall of Worry



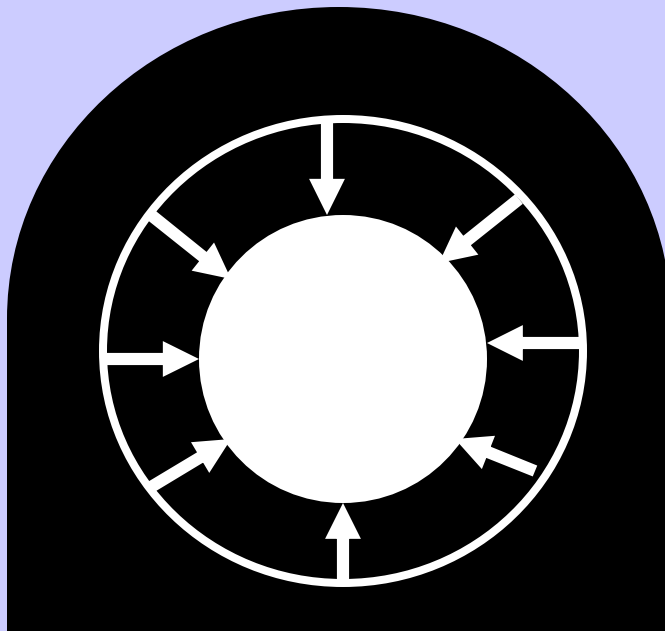
- Securitized Mortgage Paper
- Subprime Defaults
- Asset Backed Commercial Paper
- Liquidity Crunch
- Foreclosure
- Real Estate Collapse
- Reverse Wealth Effect
- Bankruptcy
- Globalization
- OECD Deindustrialization
- Energy Costs & Peak Oil
- Derivative Pyramid Collapse
- Collapsing US Dollar
- Stock Market Collapse
- Minneapolis Bridge Collapse
- Iraqi Quagmire
- Pakistan and Iran
- Osama bin Laden
- Implosion of China
- Resurgence of Russia
- Creationism
- Pandemic
- Global Warming
- Food Price Inflation
- Satellite Orbit Demolition
- Aging Boomer Bubble
- Health Cost Inflation
- Depression
- Haldron Collider Black Hole
- Asteroid Collision

**To worry or not to worry?**

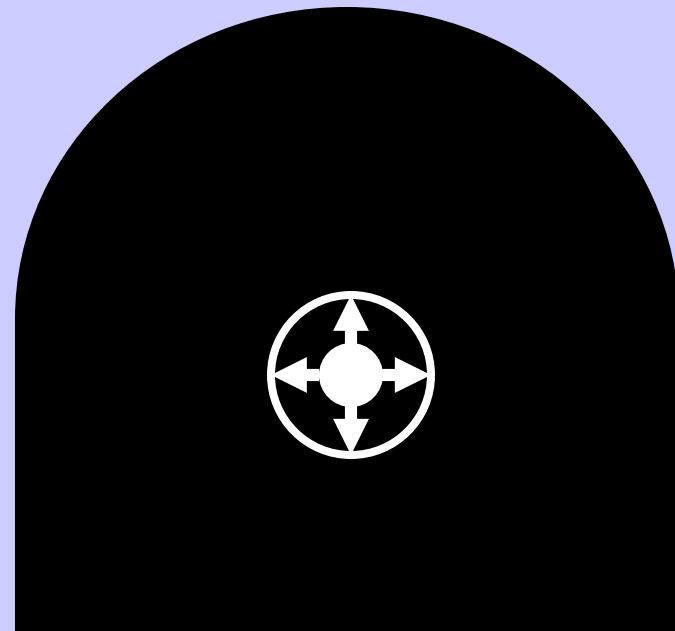
# A Matter of Perspective

Is your standard of living shrinking or growing?

Is your footprint growing or shrinking?



**1 Billion OECD**



**3 Billion BRIC**

**Thank You**

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