

# **Resource Investors Forum 2014**

**St. John's, Canada**

**September 23, 2014**

**Presented by John Kaiser**

**The Future of the Junior  
Resource Sector**

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

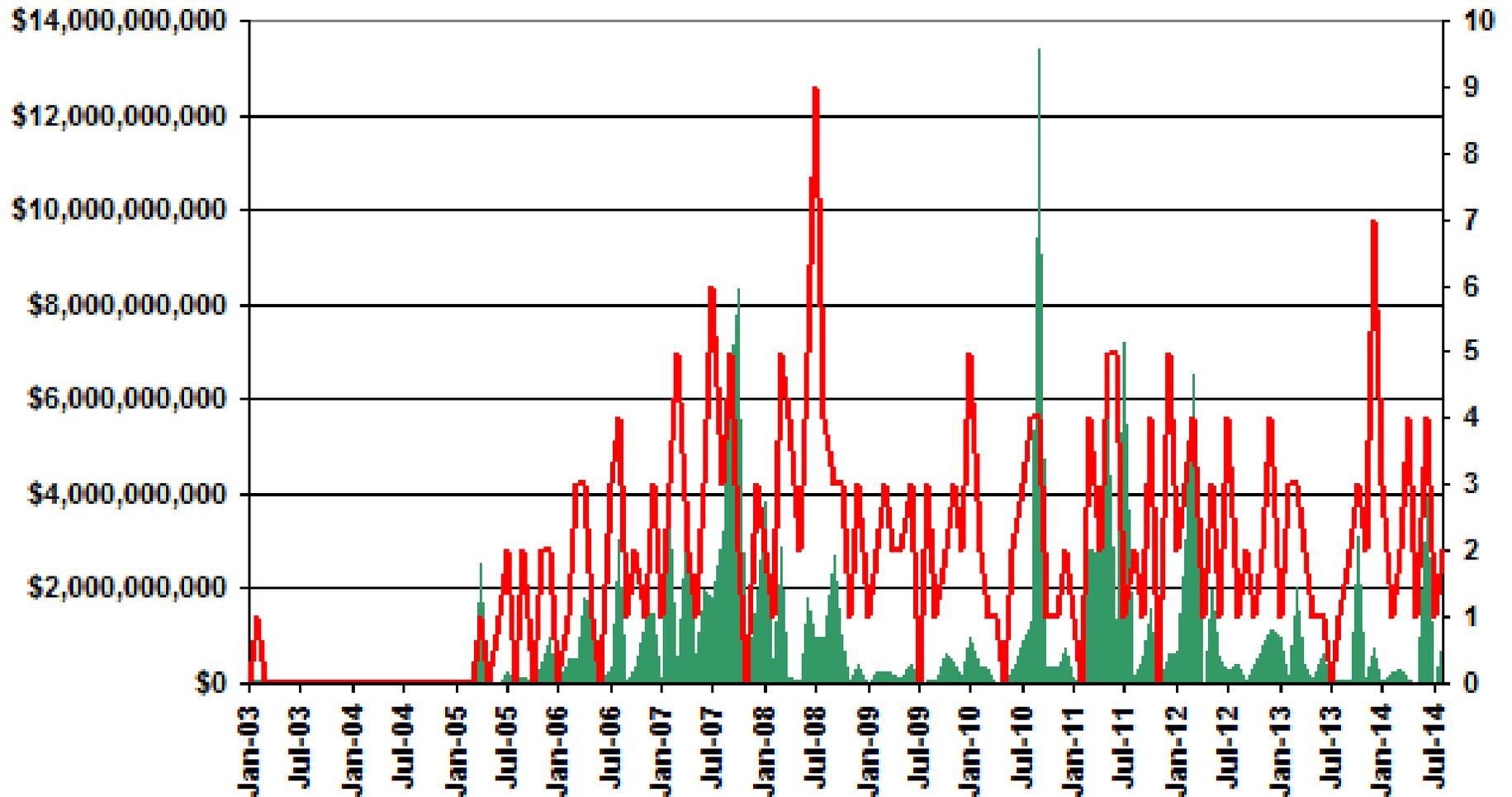
# Monthly Value TSX/TSXV Resource Junior Takeover Bids

Total \$140,097,479,823

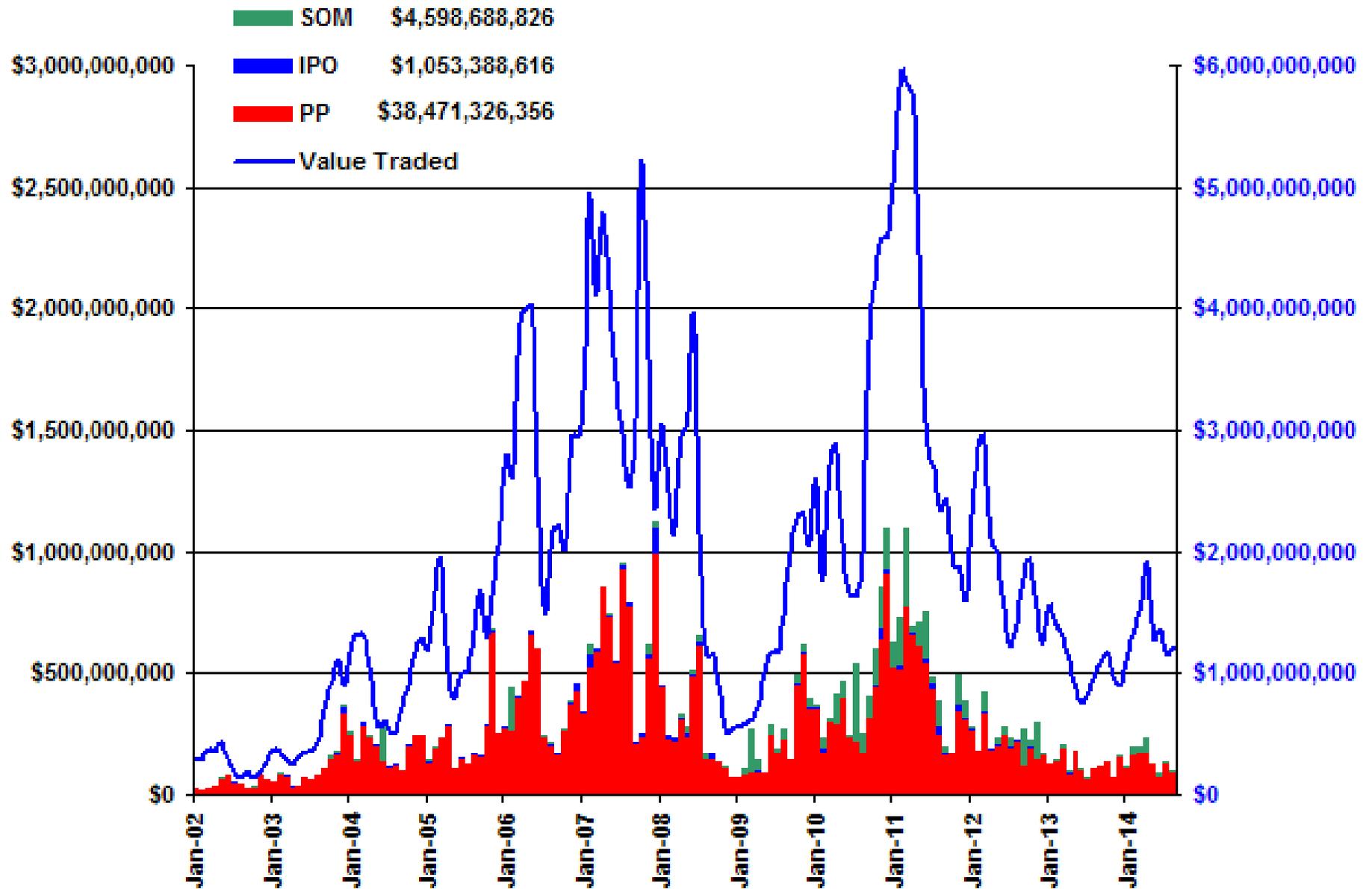
Value

Total #: 261

Number



## Monthly Value of Resource Sector TSXV Financings 2002-2014



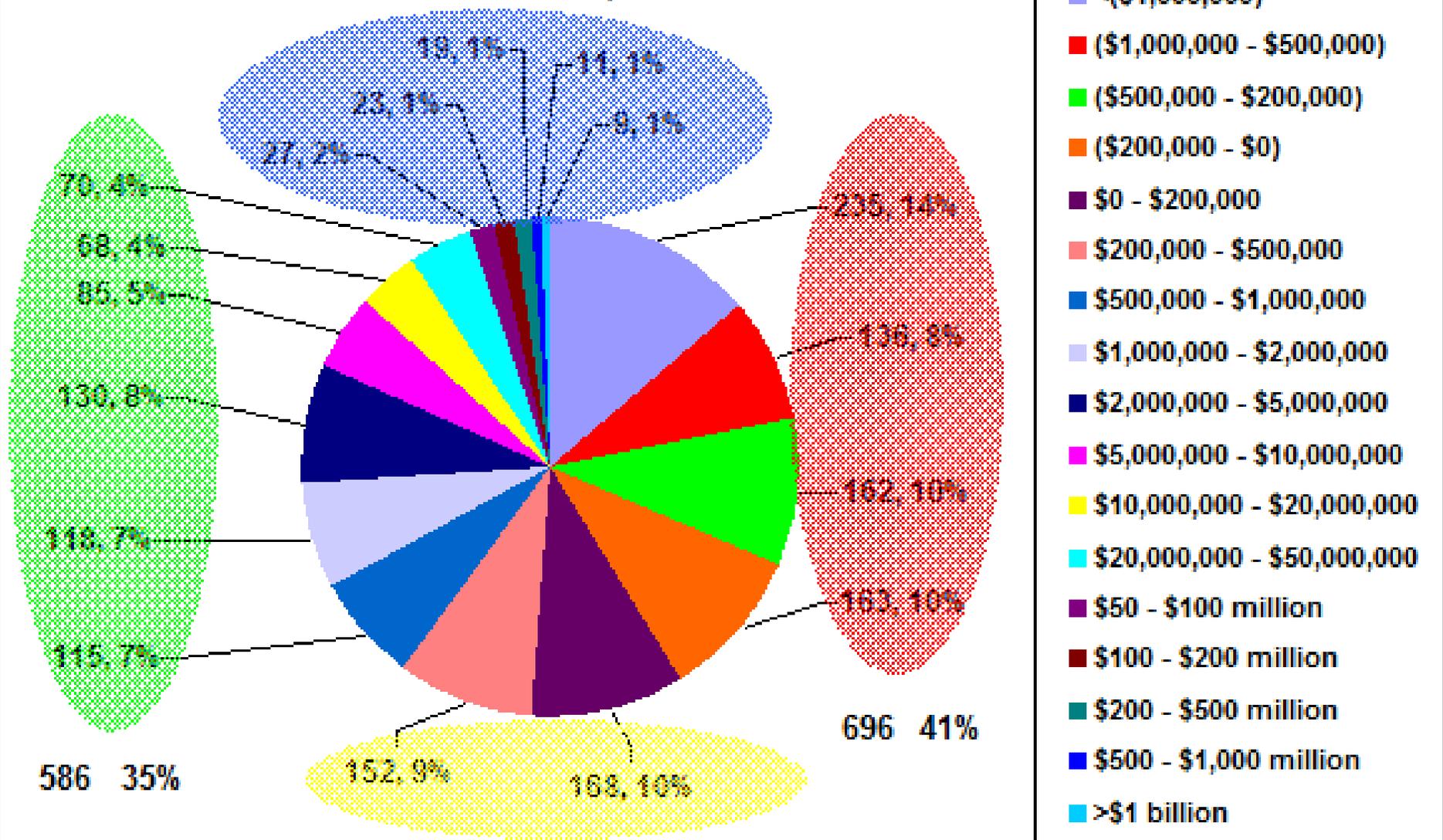
\$49,534,880,741

# Working Capital Range Breakdown

1,691

Active KRO Companies

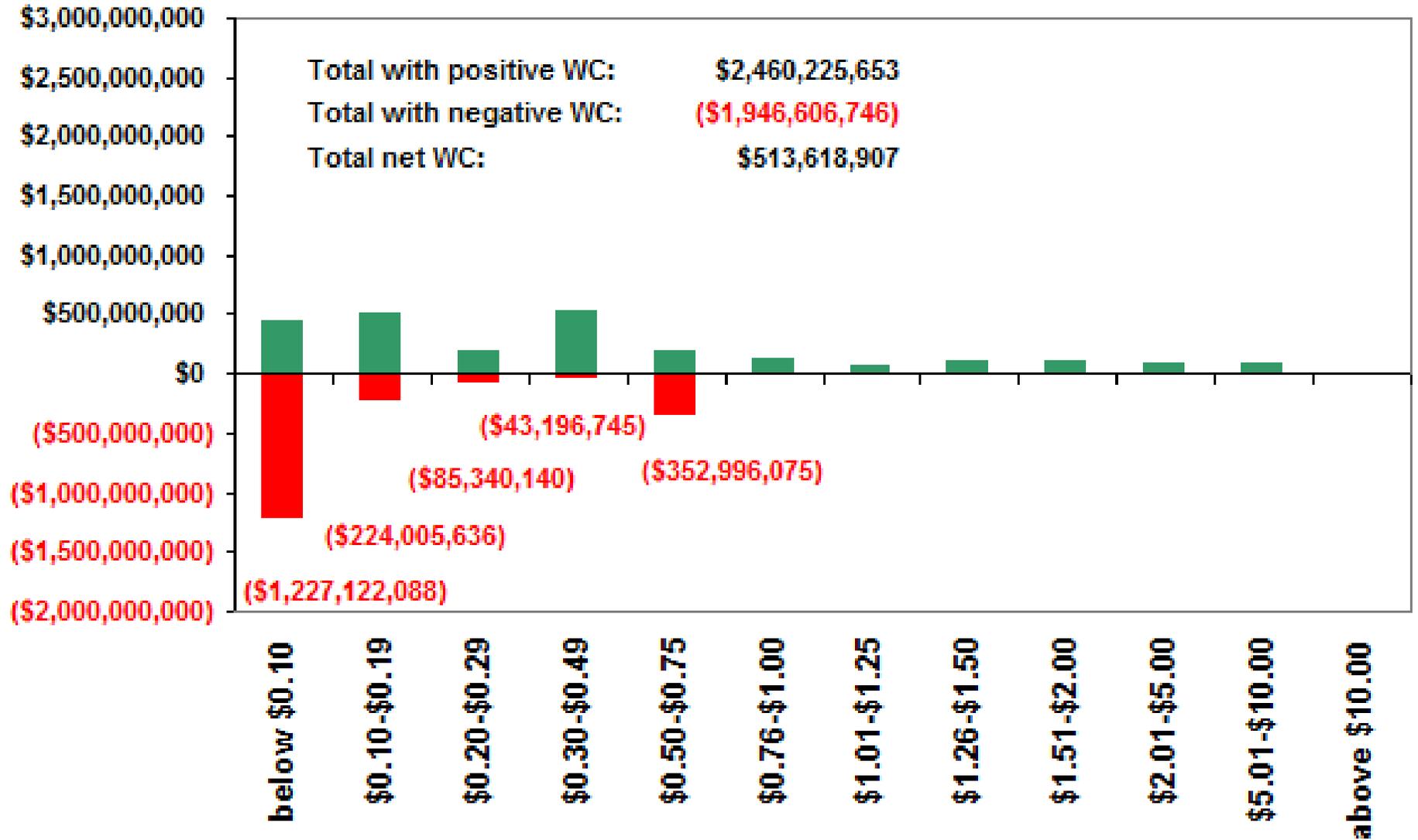
80 5% (# cos, % of Total Cos)



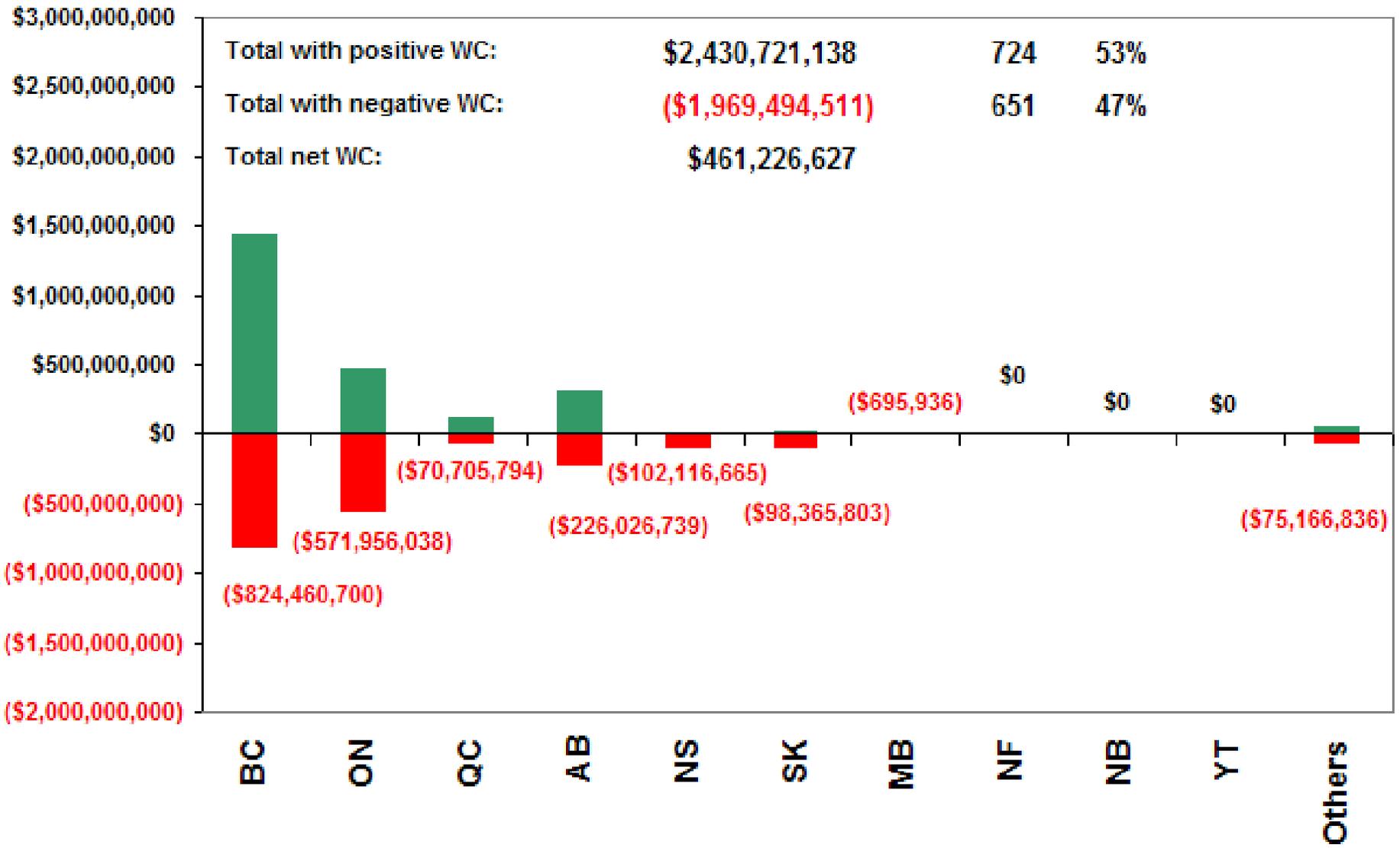
- <(\$1,000,000)
- (\$1,000,000 - \$500,000)
- (\$500,000 - \$200,000)
- (\$200,000 - \$0)
- \$0 - \$200,000
- \$200,000 - \$500,000
- \$500,000 - \$1,000,000
- \$1,000,000 - \$2,000,000
- \$2,000,000 - \$5,000,000
- \$5,000,000 - \$10,000,000
- \$10,000,000 - \$20,000,000
- \$20,000,000 - \$50,000,000
- \$50 - \$100 million
- \$100 - \$200 million
- \$200 - \$500 million
- \$500 - \$1,000 million
- >\$1 billion

# 1,354 TSXV KRO Working Capital

(Positive & Negative Working Capital tabulated separately)

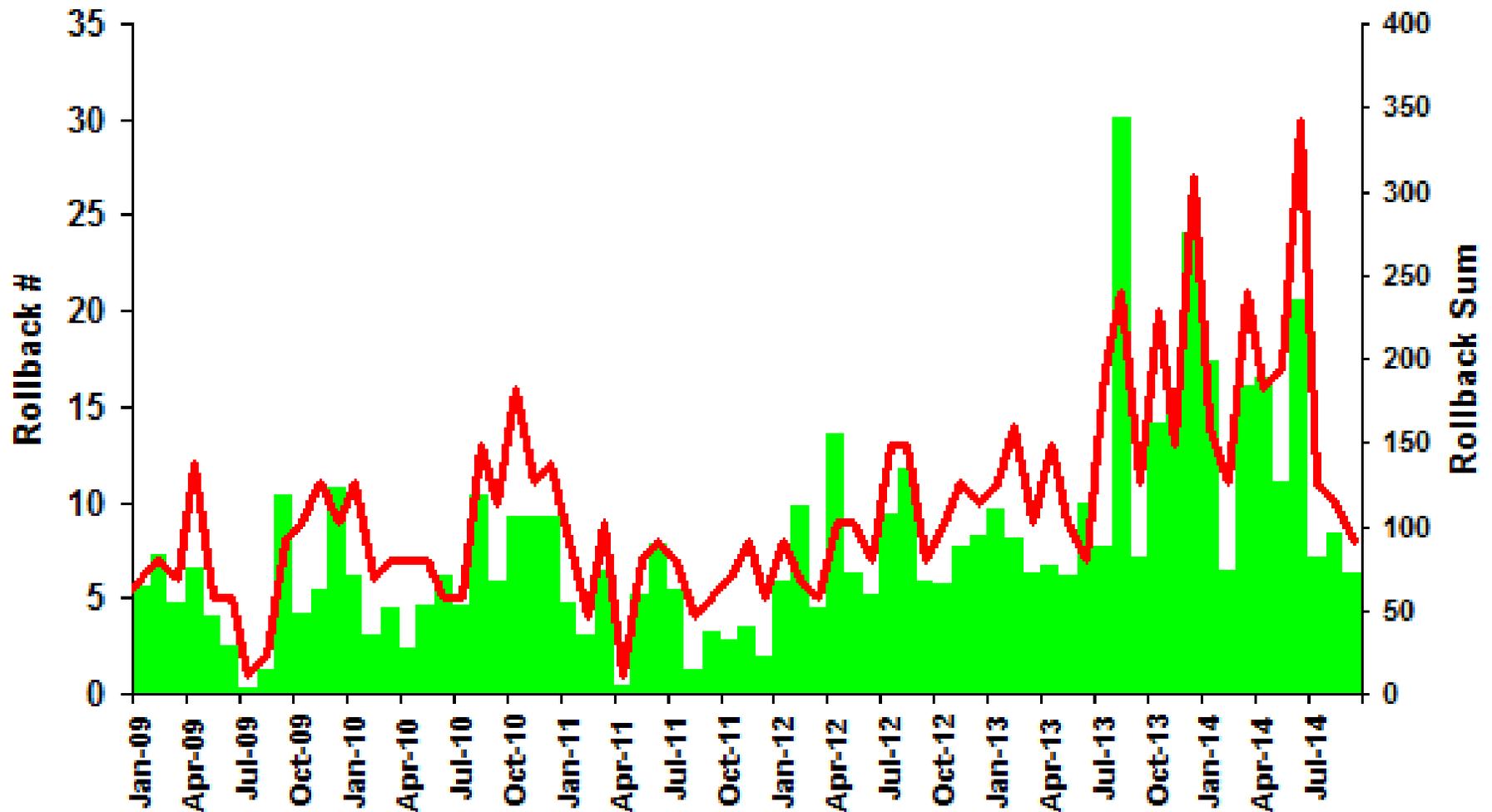


**1,375 TSXV KRO Working Capital as of latest filing**  
 (Positive & Negative Working Capital tabulated separately)



# KRO - TSXV/TSX Rollback Activity

Rollback Sum  
# Rollbacks per month



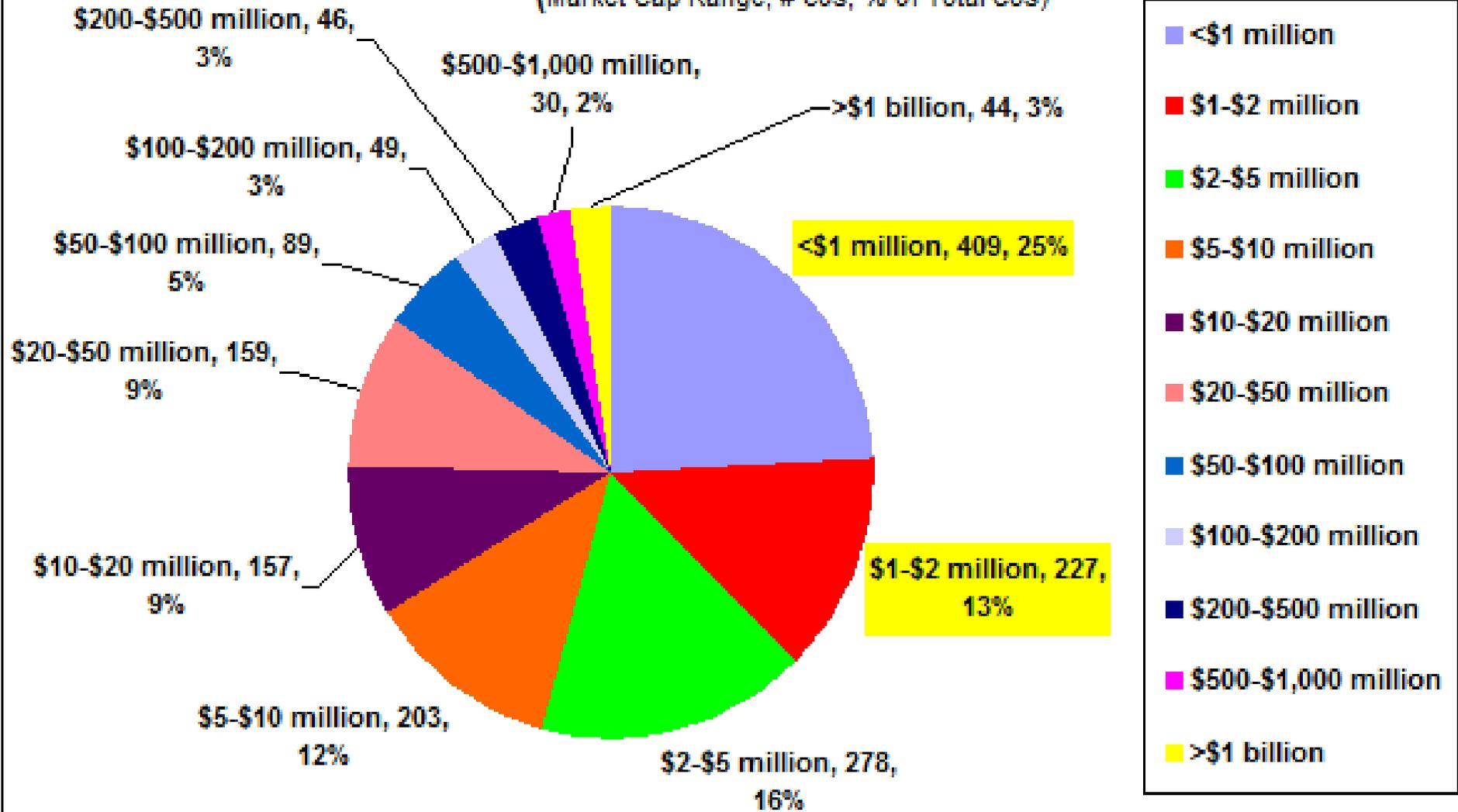
\$546,085,943,710

1,691

# Market Cap Range Breakdown

Active KRO Companies

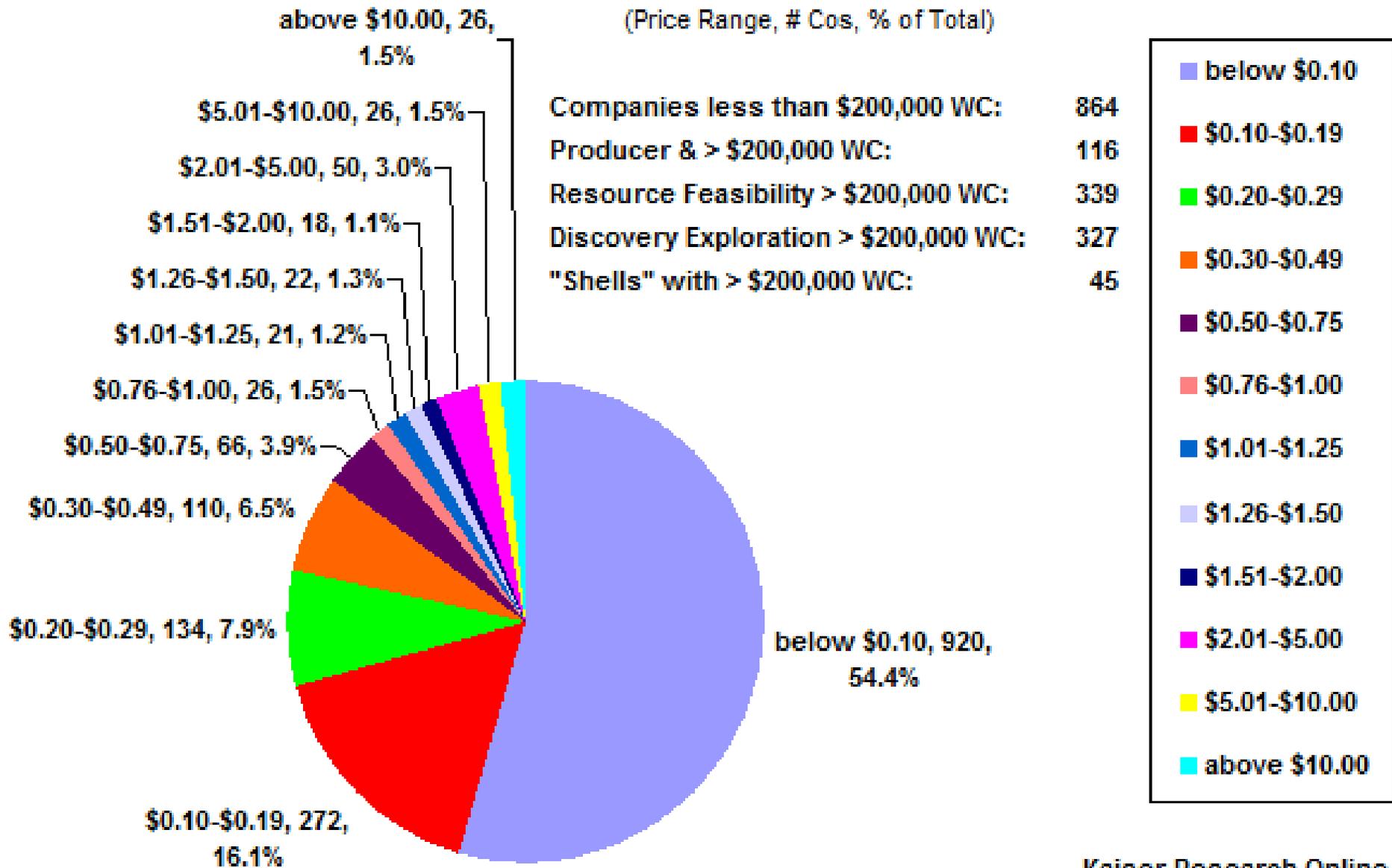
(Market Cap Range, # cos, % of Total Cos)



# 1,691 Price Range Breakdown

Active KRO Companies  
(Price Range, # Cos, % of Total)

September 19, 2014

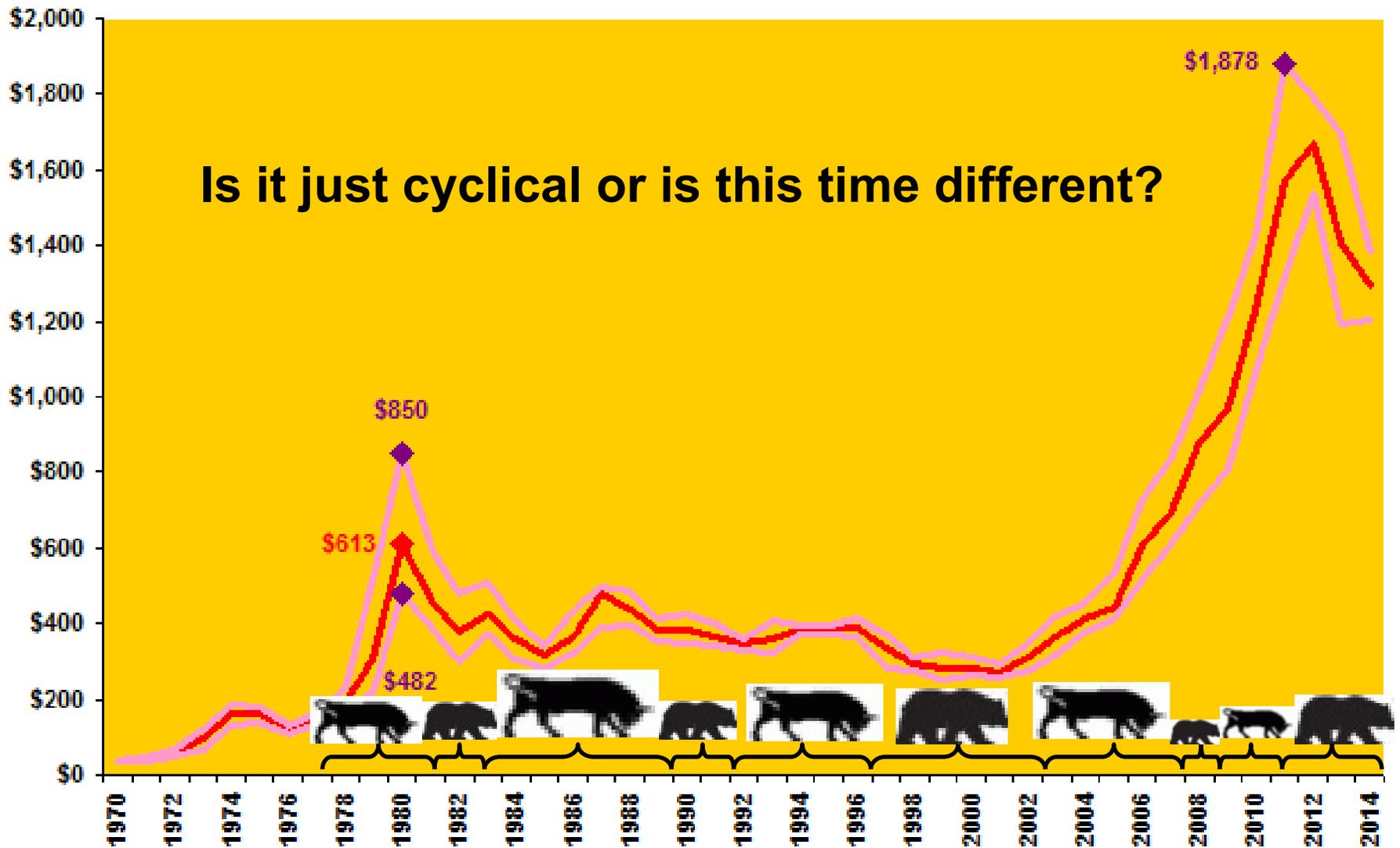


Companies less than \$200,000 WC: 864  
 Producer & > \$200,000 WC: 116  
 Resource Feasibility > \$200,000 WC: 339  
 Discovery Exploration > \$200,000 WC: 327  
 "Shells" with > \$200,000 WC: 45

# Annual Average Gold Price with High-Low Range

— Average Gold Price

— Yearly Hi-Lo Range



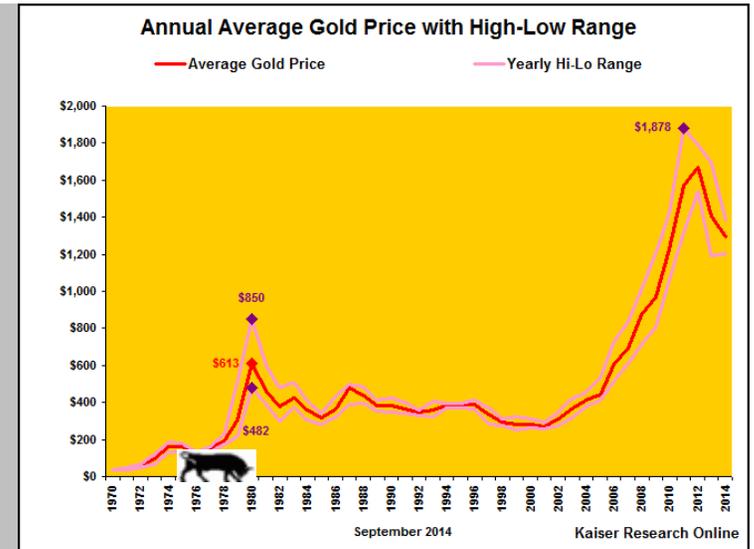
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# 1978-1980

## The First Gold Bubble

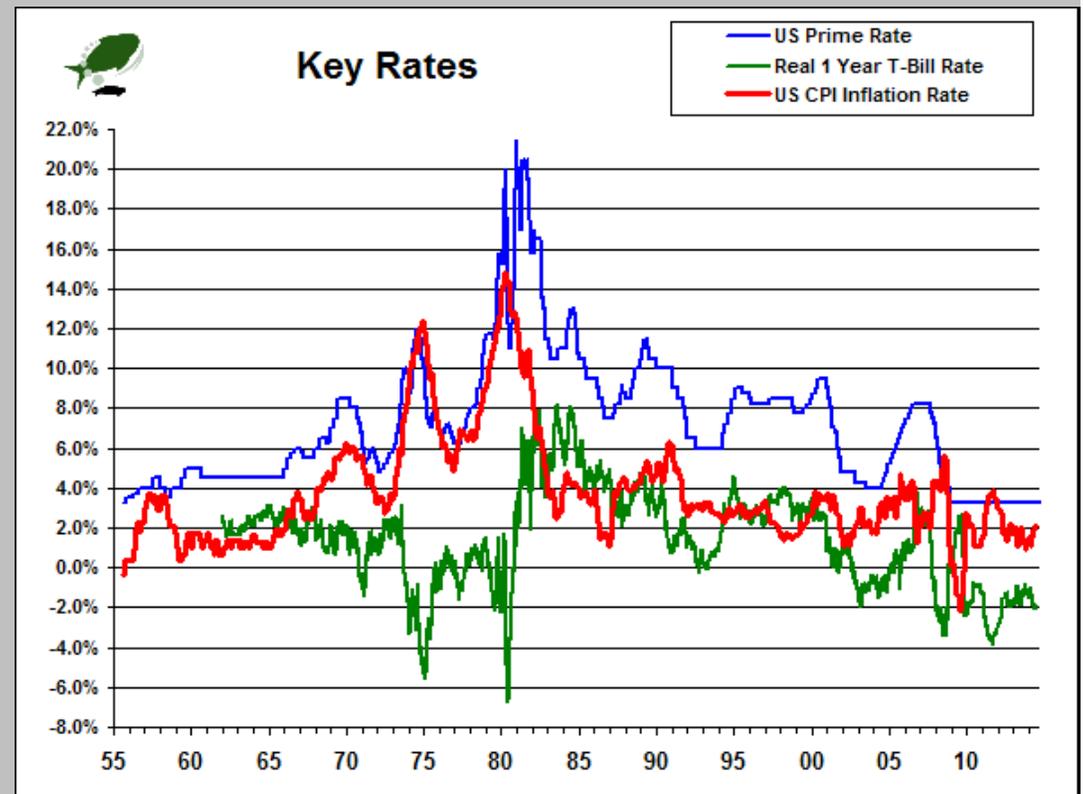
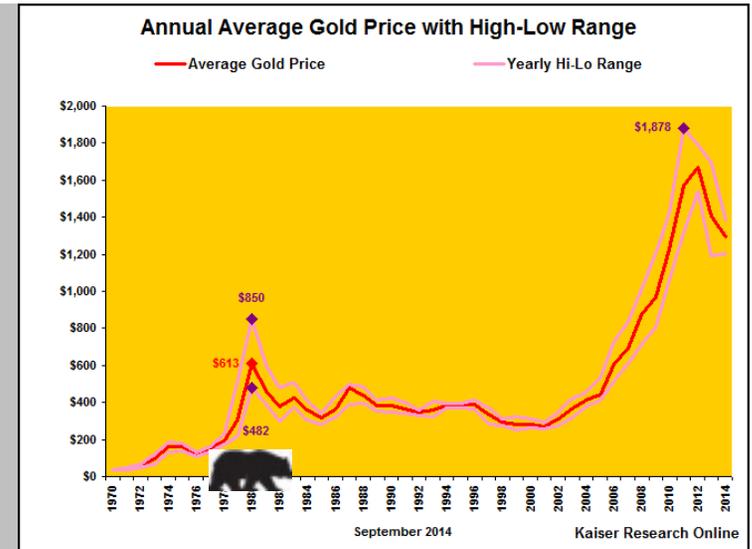
- Pre-1978 Canadian junior model is seasonal drill play pump and dump
- 1972 Nixon ends convertibility of gold at \$35 per oz
- 1972 inflation adj gold price from 1934 is \$114/oz
- OPEC oil shock spurs inflation
- 1979 Tehran Hostage Crisis & Soviet invasion of Afghanistan
- 1980 gold hits \$850, inflation adj price is \$224/oz
- Hunt silver squeeze sends it to \$50



- Gold pulls back to \$400 - a 400% real gain from \$35 in 1972
- Canada/USA are the main exploration focus for juniors as marginal ounces in the ground end up in the money
- Double digit junior stock prices as brokers extend margin on \$2 plus

# 1981-1982 Volcker Shock Treatment

- Federal Reserve Chairman Paul Volcker sets out to tame inflation by sending interest rates to 20%
- Result is a severe recession
- Liquidity in resource juniors evaporates, some brokerage firms go under
- Tighter margin requirements created
- Pundits adopt \$2,000 just around the corner gold bug mantra

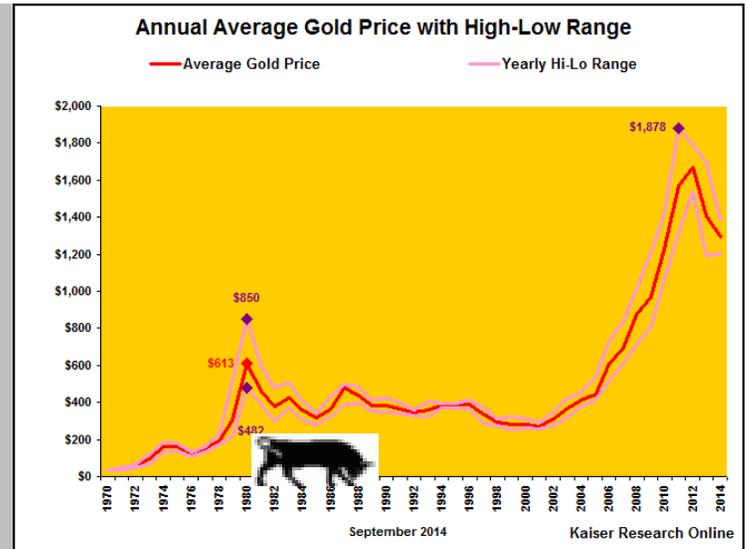


# 1983-1987

## The Hemlo Dream

- Murray Pezim makes 20 million oz Hemlo discovery on 80<sup>th</sup> drill hole
- VSE crowned as Canada's new exploration funding capital
- Heap Leaching, Friedland, Galactic
- Brokers sell "statement of material facts" financings to retail investors
- Fund driven flow-through financings lead to Casa Berardi area play
- Phone room marketing
- Mushroom vs Network Hub Brokers
- Exempt Institutions & Private Placements
- Trading floor & desk front running

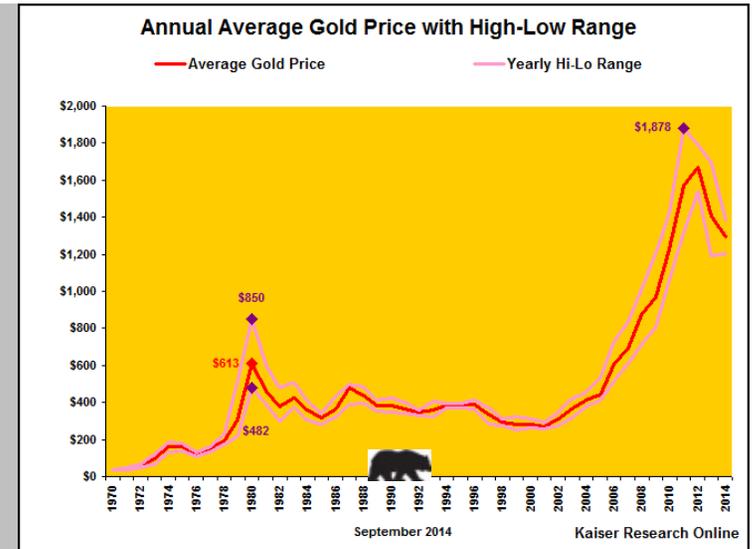
- VSE IPO "tight" shells & non-resource stories promoted in the US - Chopp Computers, Skyhigh etc
- David Baines & Adrian DuPlessis emerge as VSE media scourge
- Fleecing the Lamb, Scam Capital of the World



# 1988-1991

## The Reform Years

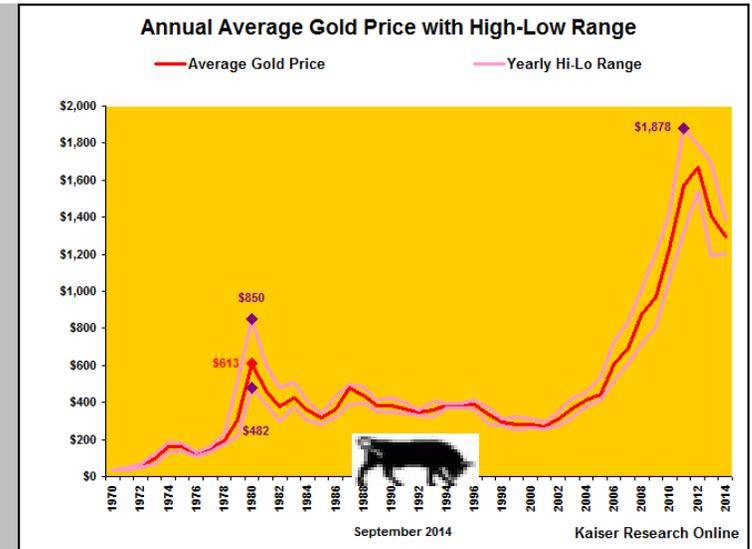
- Matkin Commission investigates bad VSE reputation
- Reverse-Takeover mechanism
- VSE develops first electronic order execution platform based on first come first serve principle
- New reporting standards that include balance sheets with quarterlies
- Stikine Arch area play – Snip, Eskay Creek, BCSC insider trading action against Murray Pezim & others
- The Return of Porphyry Deposits – Hunter Dickinson's Mt Milligan & Friedland's Fort Knox
- Capital from takeover bids is not recycled, VSE financings and volume dry up
- Brokers find new jobs as house painters and taxi drivers
- SEC invents penny stock rule to shut down American access to juniors



## 1992-1996

### The Great Discovery Boom

- 1992 Dia Met discovers Ekati, diamonds new global exploration focus for juniors
- Collapse of Soviet Union opens up third world frontiers – 1993 Kilometre 88
- Lundin secures buyout of Musto's Alumbra Cu-Au deposit in Argentina
- 1994 Tli Kwi Cho Bust wipes out \$1 billion in diamond junior market cap
- Diamond Fields discovers Voisey's Bay, area play, \$4 billion buyout
- Bre-X discovers 100 million ounce "gold" deposit – retail, sophisticated & institutional investors all make money.
- Arequipa's Pierina gold discovery in Peru bought for \$1 billion by Barrick
- Metal prices are irrelevant



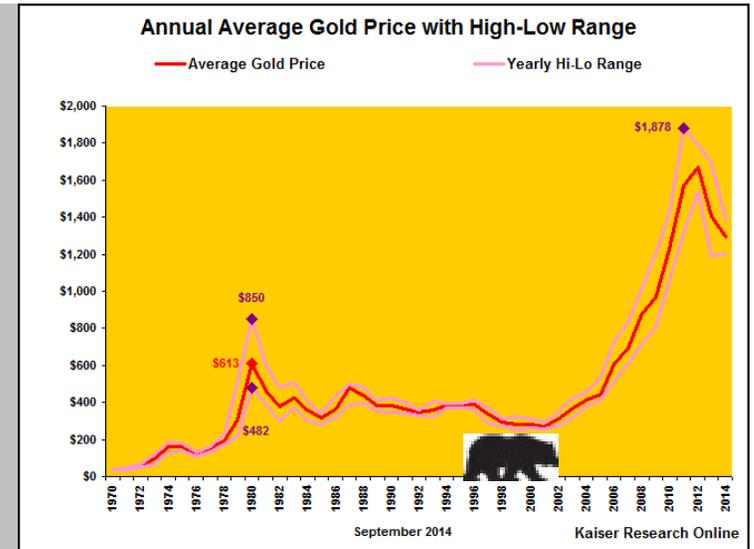
- First Marathon brokers target institutional capital for juniors
- Deregulation moves retail to discount brokers, old school promoters move to OTC BB
- Mining analysts & news letter writers become gurus , conferences flourish
- Internet stock forums become new network hubs as information goes online

# 1997-2002

## The Great Betrayal

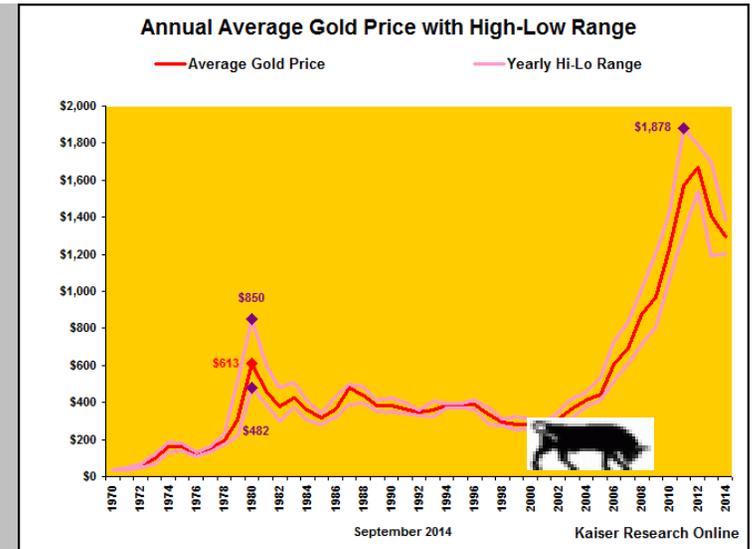
- April 1997 Bre-X revealed as fraud
- 1996 Cartaway “eyeball assay” flameout attracts conflict of interest regulatory investigation
- Desert Dirt plays attract SEC action
- Timbuktu & Golden Rule salt jobs further call in question competence of Canadian exploration teams
- SEDAR successfully launched
- NI 43-101 reporting system
- Isolated discovery plays such as Veladero & Snap Lake
- Asian crisis hurts base metal prices
- \$250,000 mass mailout pump & dumps

- Dot-Com Bubble marginalizes juniors as speculation vehicles
- Juniors jump into dot-com but get sidelined by new “change of business” rule
- After dot-com bust Canadian exchanges are reorganized
- USD & gold lease carry trade hedge drags gold to \$255, conspiracy narrative launched



## 2003-2007 The Rise of China

- China and fellow BRICs bring super-cycle narrative championed by Friedland & Sprott, mining industry wakes up in April 2006
- Securitized mortgage driven real estate bubble & USD decline help gold break above \$500 in late 2005
- Private Placement hold period reduced to 4 months, brokers target high net worth clients with clip & flip private placement strategies
- Capital pools used for RTO of deposits found in past exploration cycles and discarded as marginal
- Junior focus on feasibility work attracts institutional capital & ex-major talent, generating \$140 billion in buyouts

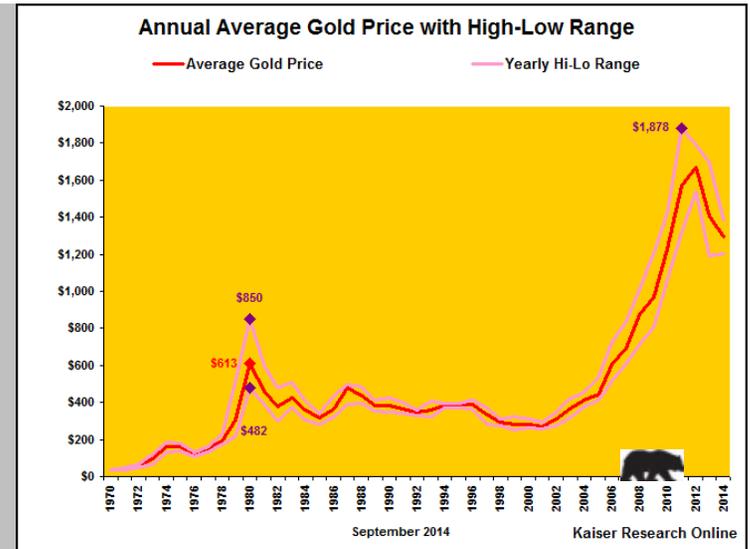


- Cortez Hills 2004-06 area play fizzles after McEwen spends \$50 million to find nothing
- Uranium Bubble
- Prospect-Generator Virginia's Eleonore bought for \$750M without 43-101 estimate
- Aurelian's Frutta del Norte caught in resource nationalism
- Ring of Fire last hurrah of Great Canadian Area Play

## 2008-2009

# Financial Crisis Blindsiding

- Collapse of the real estate bubble blindsides super-cycle narrative, temporarily sets back gold, gives cause to fear a Very Great Depression, liquidity trap sinks juniors into pennies
- Barack Obama elected president as Republicans abandon ship by offering McCain/Palin as their candidates
- American monetary QE and Chinese Keynesian fiscal response avert depression and surprise market with a V-shaped recovery
- Friedland sticks to super-cycle narrative while Sprott adopts apocalyptic gold bug narrative



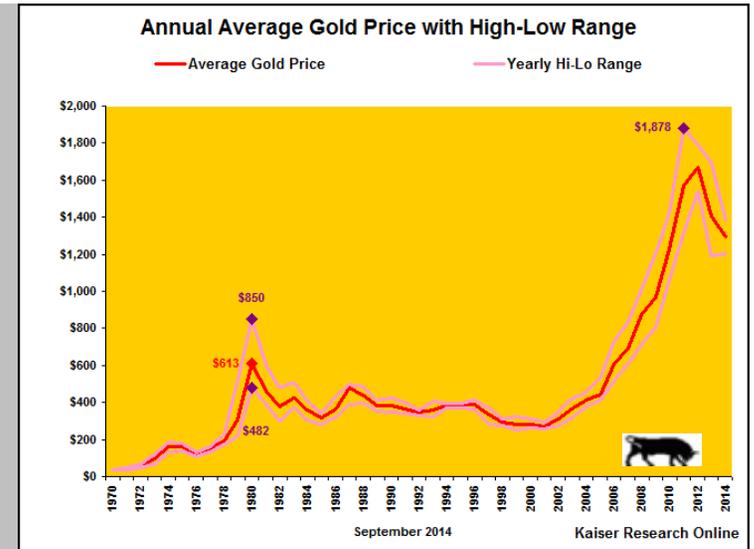
- As copper rebounds majors clean up advanced copper juniors
- Management of many juniors with cash and projects decide to carry on without a rollback

## 2009-2011

### The Second Gold Bubble

- “Fiat currency debasement”, “hyper-inflation”, “conspiracy” become mandatory catchwords for gold bugs
- Paulson buys gold juniors like Novagold that need very high real gold prices
- Security of Supply narrative emerges as a counterpoint to the success of the China super-cycle narrative
- China creates rare earth price bubble
- Hopes that Obama will pursue green infrastructure renewal stir interest in critical metals
- Eurozone adopts austerity response to PIIGS crisis

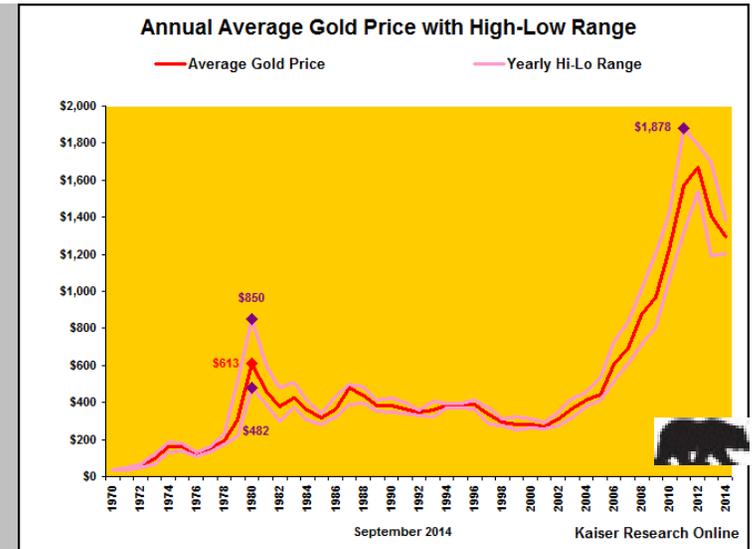
- Tea Party capture of the House in Nov 2010 is followed by gold equities disconnect from gold price well before its \$1,950 price peak in August 2011
- China & India buy gold for its own sake and as insurance, but westerners, the main audience for resource juniors, turn gold into an icon for libertarian, anti-government ideology.



## 2011-2014 The Long Bear

- Fukushima undermines uranium revival narrative pushed by Sprott-Global
- Substitution kills rare earth demand & climate change capitulation saps interest in the critical metals narrative
- US economic recovery hamstrung by Washington gridlock as historical pragmatism is abandoned in favor of ideological extremism
- Debt ceiling blackmail by Republicans leads to Wall Street backlash with the gold smackdown in April 2013
- ETF gold extraction knocks gold to levels barely above \$1,150 which is \$400 gold inflation adjusted from 1980

- Cash Cost metric of gold sector comes under pressure as misleading reporting format, replaced by “all-in” costs
- 10% annual mining cost escalation since 2008 despite general inflation below 2% wipes out much of the profit margin created by rapid metal price increases since 2003
- “It’s just cyclical”



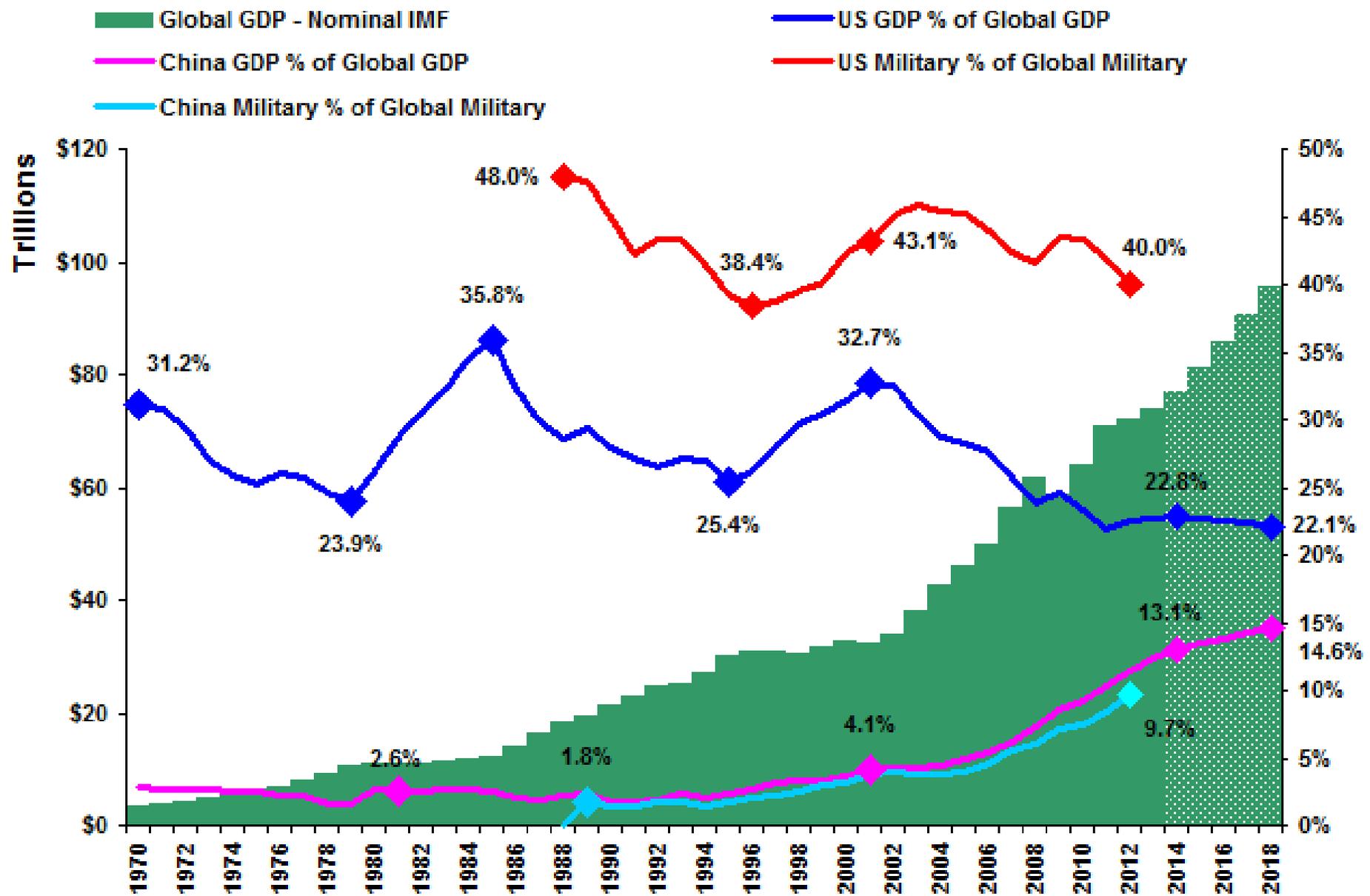
## Conceptual Industry Issues

# Discredited Gold Bug Narrative

- **Problem:** The politicization of gold as an icon for a right wing ideology by western pundits, namely the libertarian view of unfettered free markets, even though this view is not shared by the constituencies who are the bulk net buyers of gold, has done near irreparable harm to the junior resource sector.
- While the fringe that blathers about “hyper-inflation” and “fiat currency debasement” will cling to its apocalyptic vision, the backlash engendered on Wall Street and Main Street is wiping out optimism that with time a higher real price is inevitable for gold.
- For the resource juniors only higher real gold prices matter
- **Solution:** develop an alternative gold narrative that allows optimism about higher real gold prices to be compatible with the vested interests of both Wall and Main Street.

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

(2014-2018 GDP estimates by IMF)

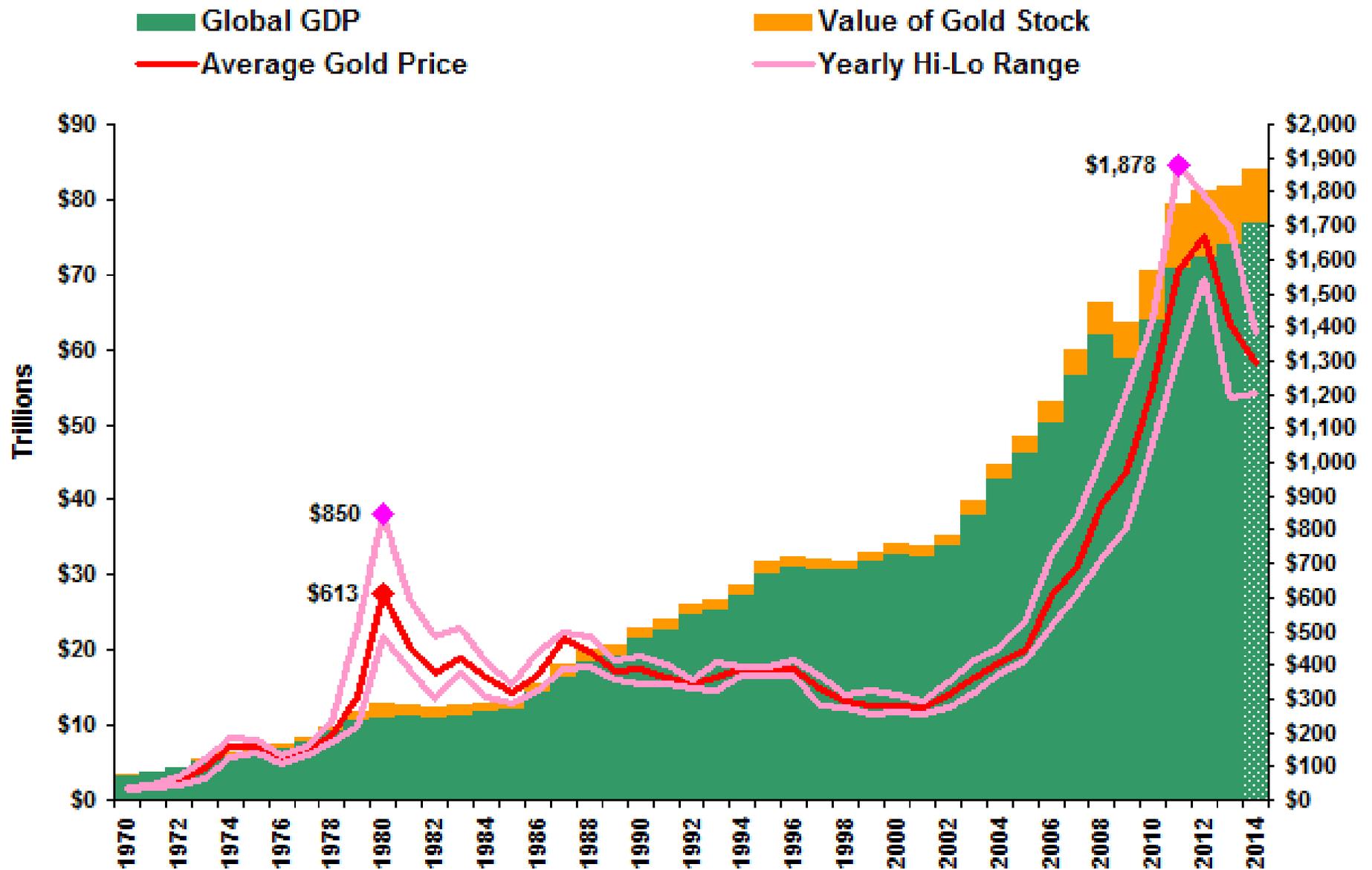


Source: IMF, SIPRI, World Bank

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## Relationship between Global GDP and Value of Existing Gold Stock (2014 onwards GDP & Mine Supply estimated)



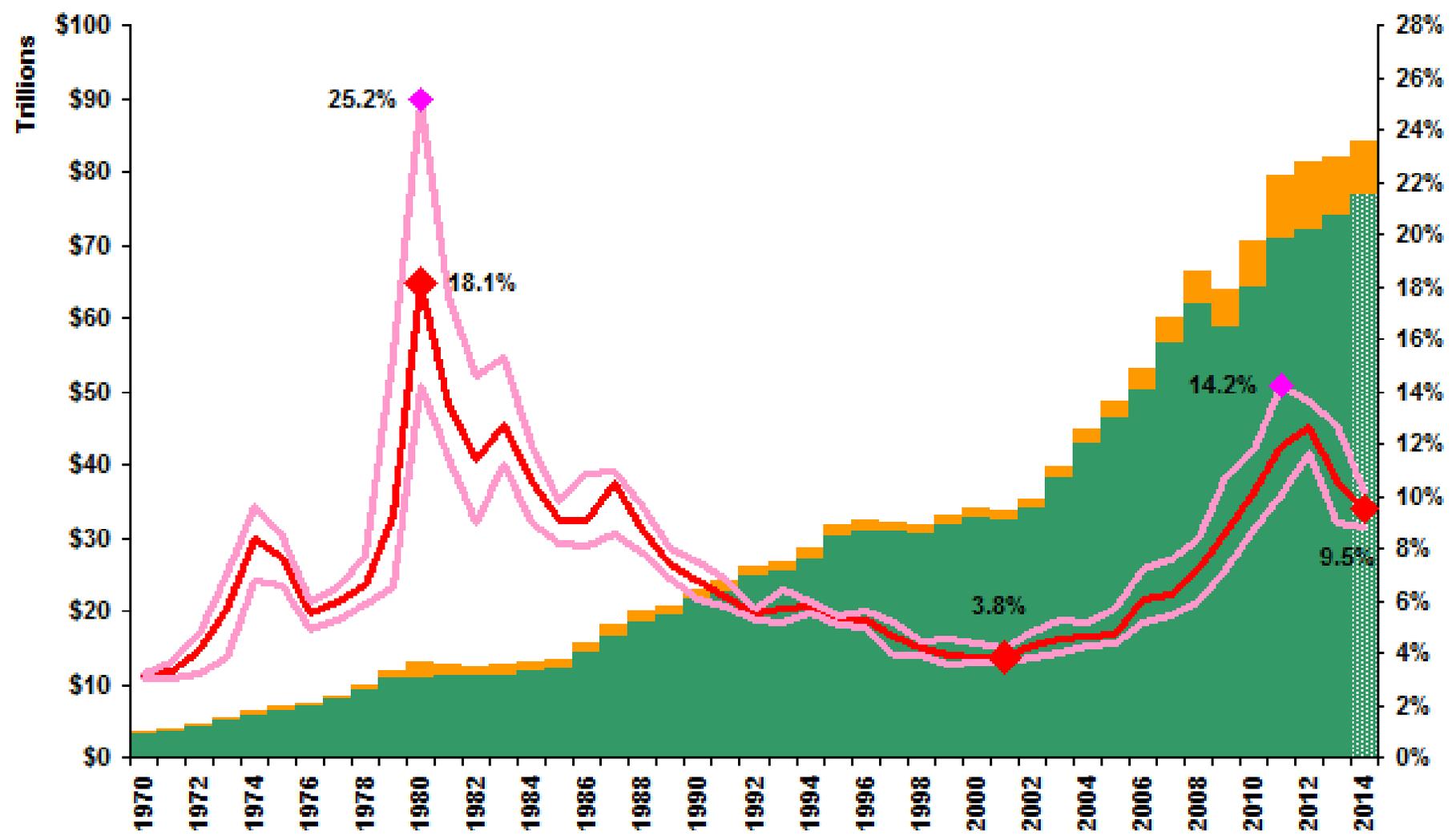
Source: CPM, IMF, World

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## Relationship between Global GDP and Value of Existing Gold Stock (2014 onwards GDP & Mine Supply estimated)

■ Global GDP   
 ■ Value of Gold Stock   
 — Gold Stock Value as % of GDP   
 — Gold % of GDP Hi-Lo Range



Source: CPM, IMF, World Bank

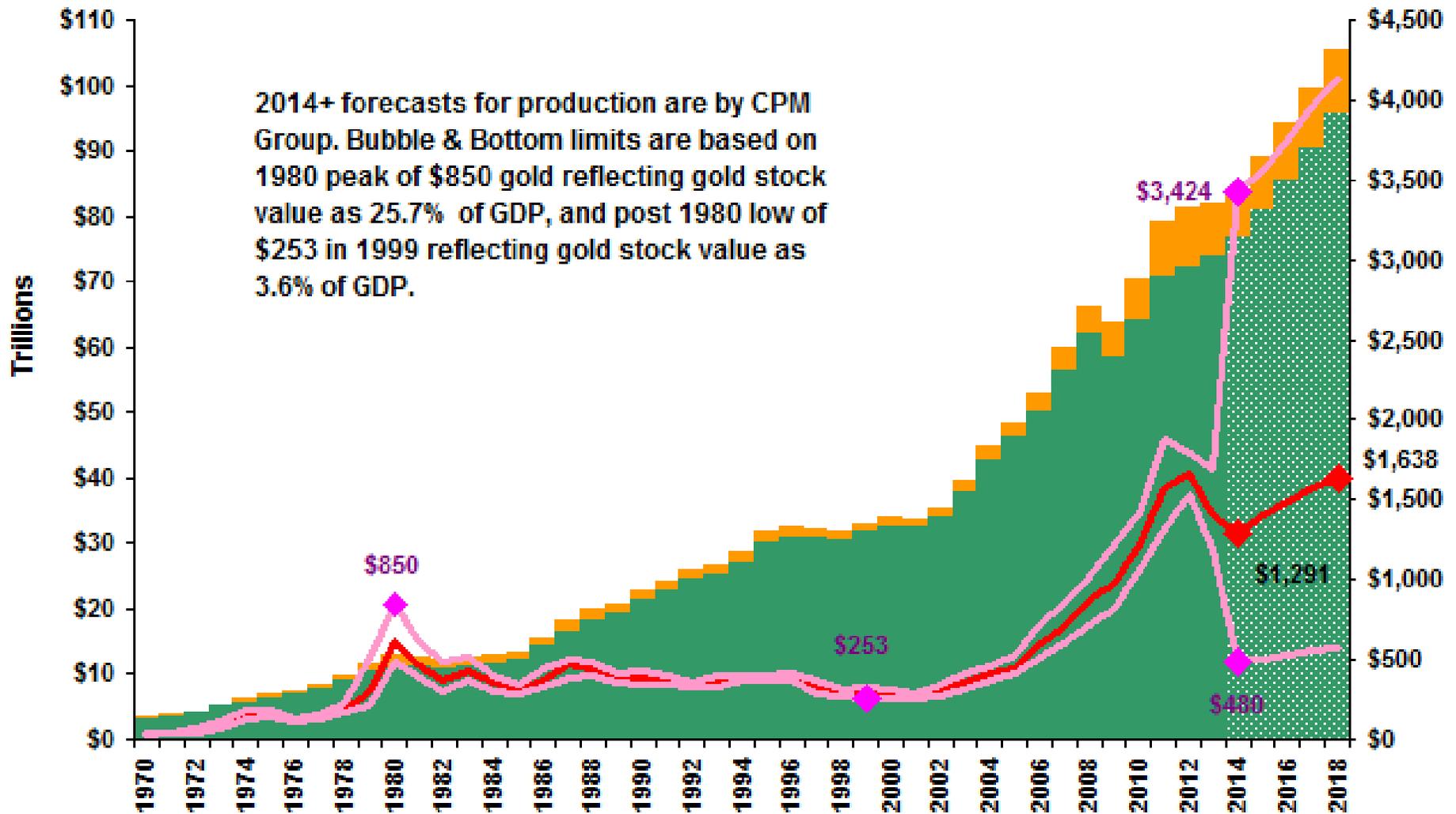
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# Past Peak & Bottom Based Bubble & Bear Limits for Gold

(2014 onwards GDP & Mine Supply estimated)

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



## Conceptual Industry Issues

### Evolution of the scope of the resource juniors

- **Problem:** The resource juniors are no longer just about generating and testing targets, with retail investors trying to outplay the promoters in the seasonal pump and dump drill play. The last bull cycle shifted their responsibility to capital intensive resource delineation and feasibility demonstration leading to a buyout by the majors, who are increasingly restricting their exploration efforts to minesite or brownfields prospects. The bar for what counts as a serious resource junior has risen substantially to the point where the majority of “resource juniors” are no longer viable.
- **Solution:** Acknowledge that resource exploration and development requires real professionals who must be properly compensated and incorporate that into the financing strategy. The era of “life-style” resource sector executives who pretend to explore is over. We do not need 1,400 TSXV listed resource juniors. Half that number is more than enough. Let the rest go to pot.

# Conceptual Industry Issues

## Maturing Super-Cycle

- **Problem:** Slowing global economic growth coupled with a lagged mining industry supply response limits near to medium term upside for real metal prices. The weakness of the global economy also chills the near term upside for gold prices. The takeover cycle of advanced projects is winding down and the remaining juniors will either lose their properties or be scooped up at rock bottom prices by parties willing to wait several years for the normal boom-bust commodity cycle to lay the groundwork for the next supply-demand imbalance that raises prices.
- **Solution:** Raising capital to advance deposits whose grades are marginal at prevailing metal prices will be difficult until the global macroeconomic outlook turns positive. Over 400 published economic studies largely make clear that at this stage most advanced projects are options on higher real metal prices. Resource juniors should focus on exploring for new discoveries whose grade and tonnage make them viable at prevailing metal prices.

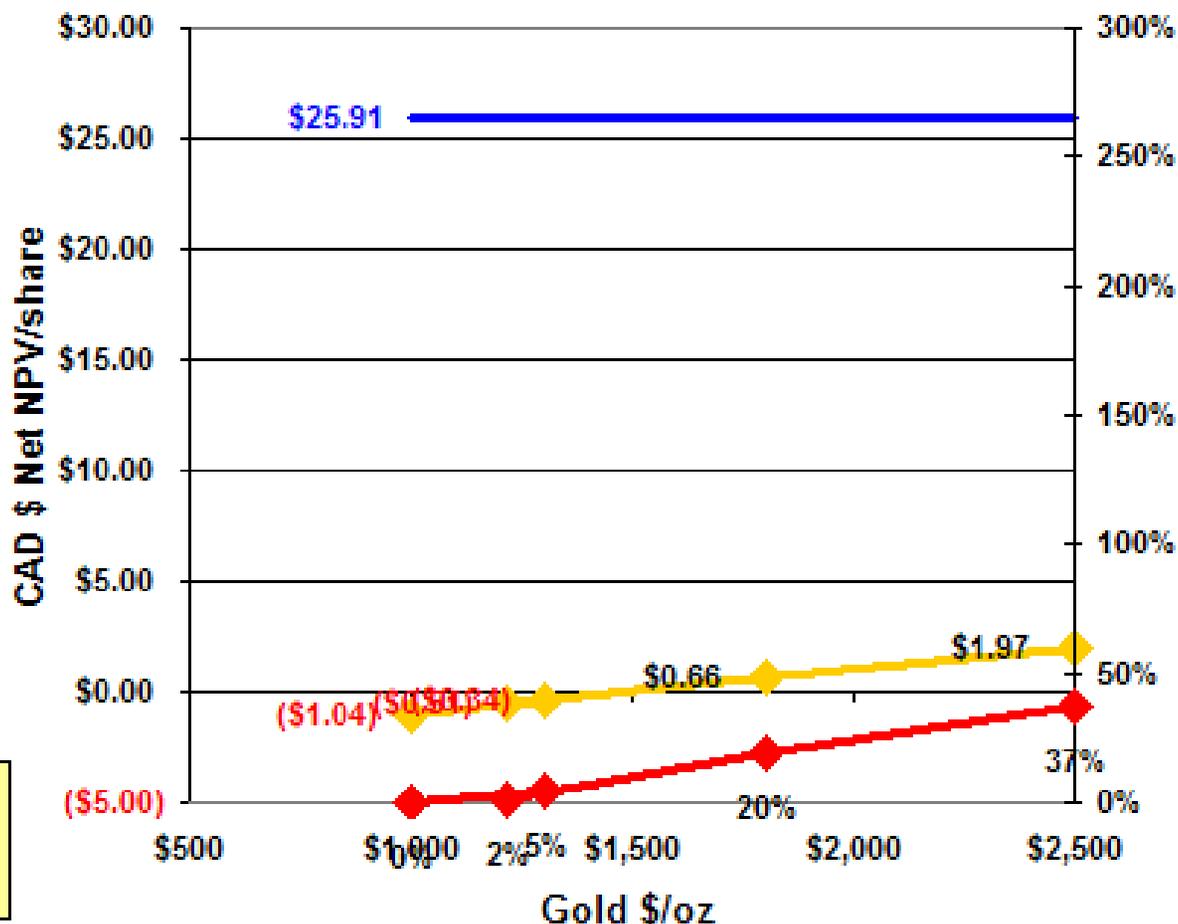
## Goldcorp - Eleonore: After-Tax Sensitivity

### 100% After-Tax Net Present Value

|              |            |                 |
|--------------|------------|-----------------|
| Pessimistic: | \$1,000/oz | (\$860,863,343) |
| Base Case:   | \$1,300/oz | (\$279,403,783) |
| Spot:        | \$1,220/oz | (\$424,002,662) |
| Optimistic:  | \$1,800/oz | \$544,929,167   |
| Fantasy:     | \$2,500/oz | \$1,639,064,727 |

- Current Stock Price
- ◆— Net NPV/SH vs \$/oz Au
- ◆— Internal Rate of Return

Net Present Value based on life of mine averages, by-products use spot prices.

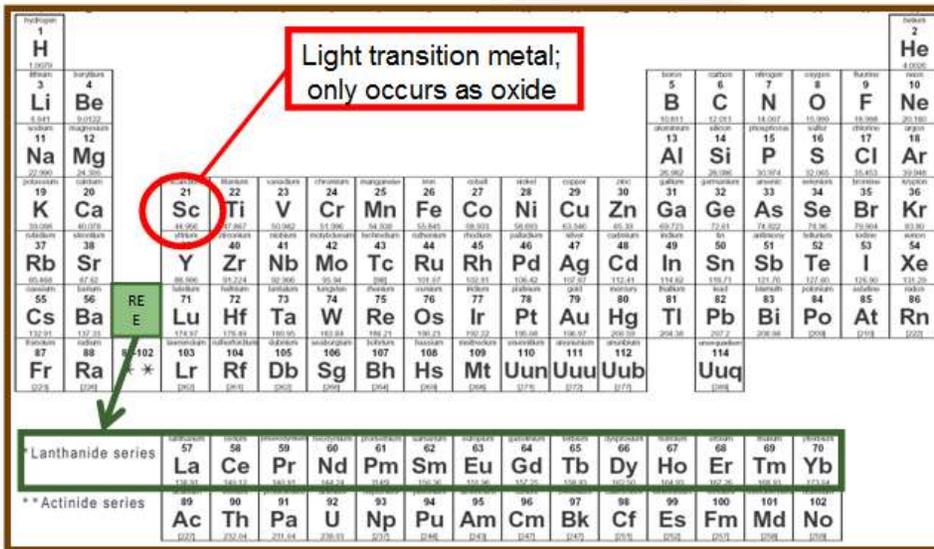


FS Jan 26, 2014: 7,000 tpd OP/UG, 7.4 yr; CapEx: \$1,850 M, SusCapEx: \$310 M, OpEx: \$106.20/t; Tax: 30% DDBM  
Fully Diluted: 830.8 M, Stock Price: \$25.91; Located: Canada - 100% WI, Discount Rate: 10%

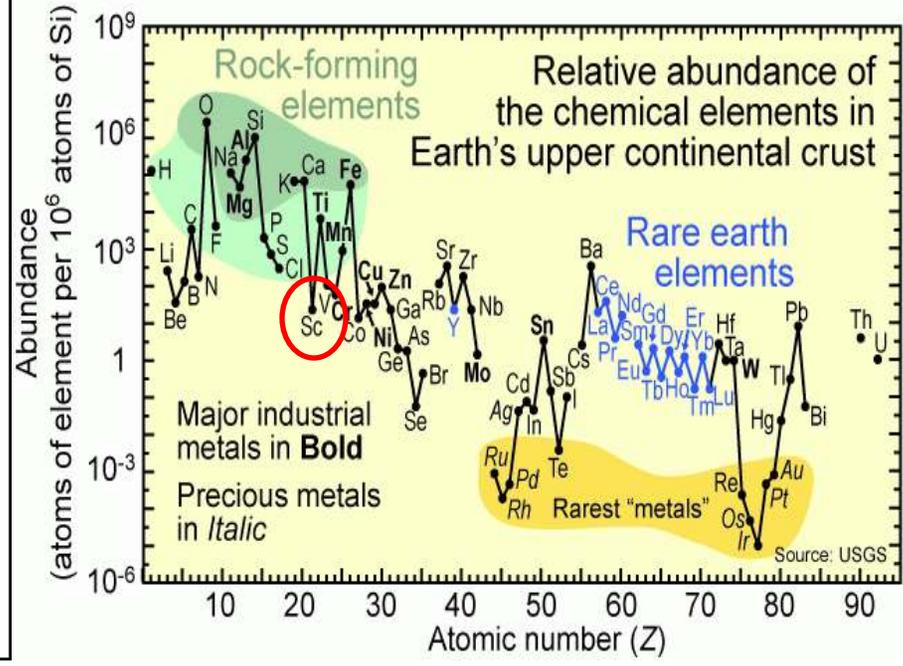
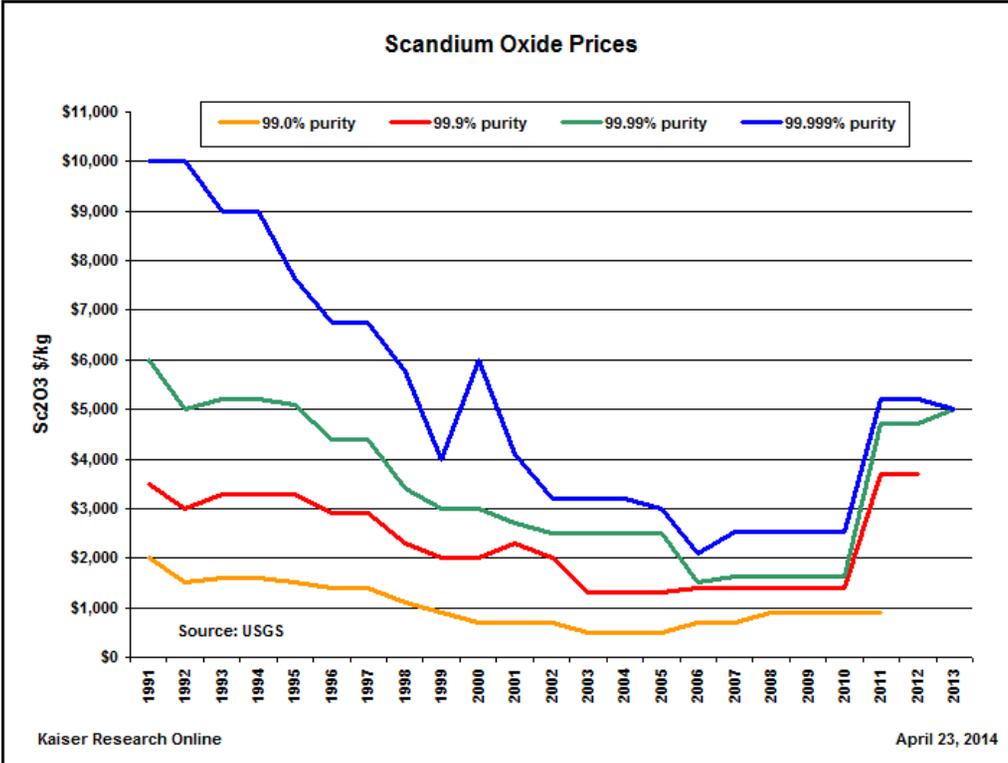
LOM Tonnage: 19,300,000 t @ 6.49 g/t Au  
LOM Output: 3,756,761 oz Au



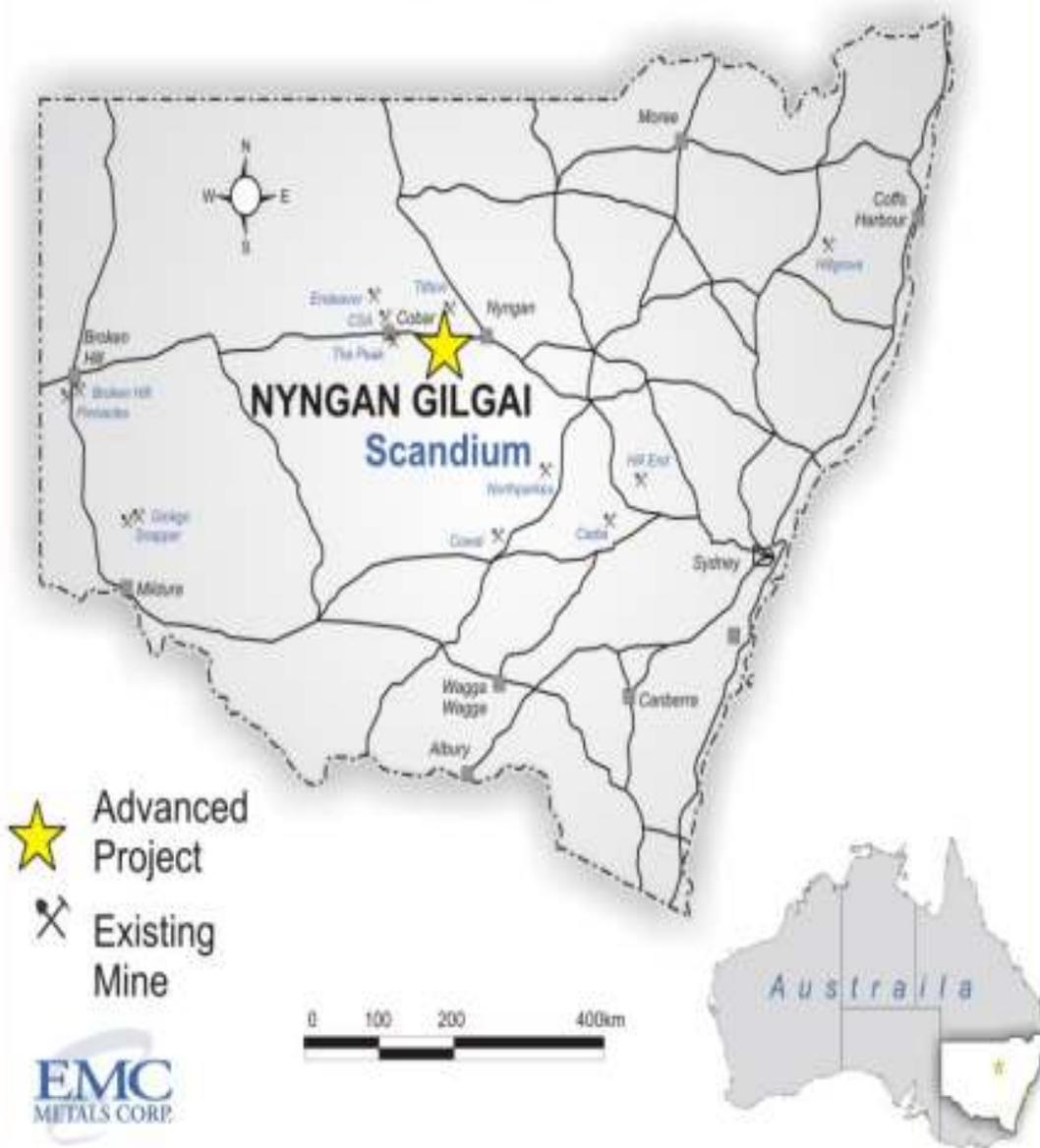
Scandium often considered a REE (as is Yttrium) – technically is not



Scandium – a new exploration target?



# New South Wales



**During last 6 years major enriched scandium deposits have been found that offer scaleable primary supply potential.**

# Aluminum Alloy Market

If you build it  
they will  
come!

# Solid Oxide Fuel Market

20-year demand for 29,230 new passenger and freight aircraft

20-year new deliveries of passenger and freight aircraft



**20,242** single-aisle aircraft  
+724 aircraft over GMF 2012



**7,273** twin-aisle aircraft  
+299 aircraft



**1,711** very large aircraft  
+5 aircraft

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**29,226** new aircraft  
+1,028 aircraft

Passenger aircraft (> 100 seats)

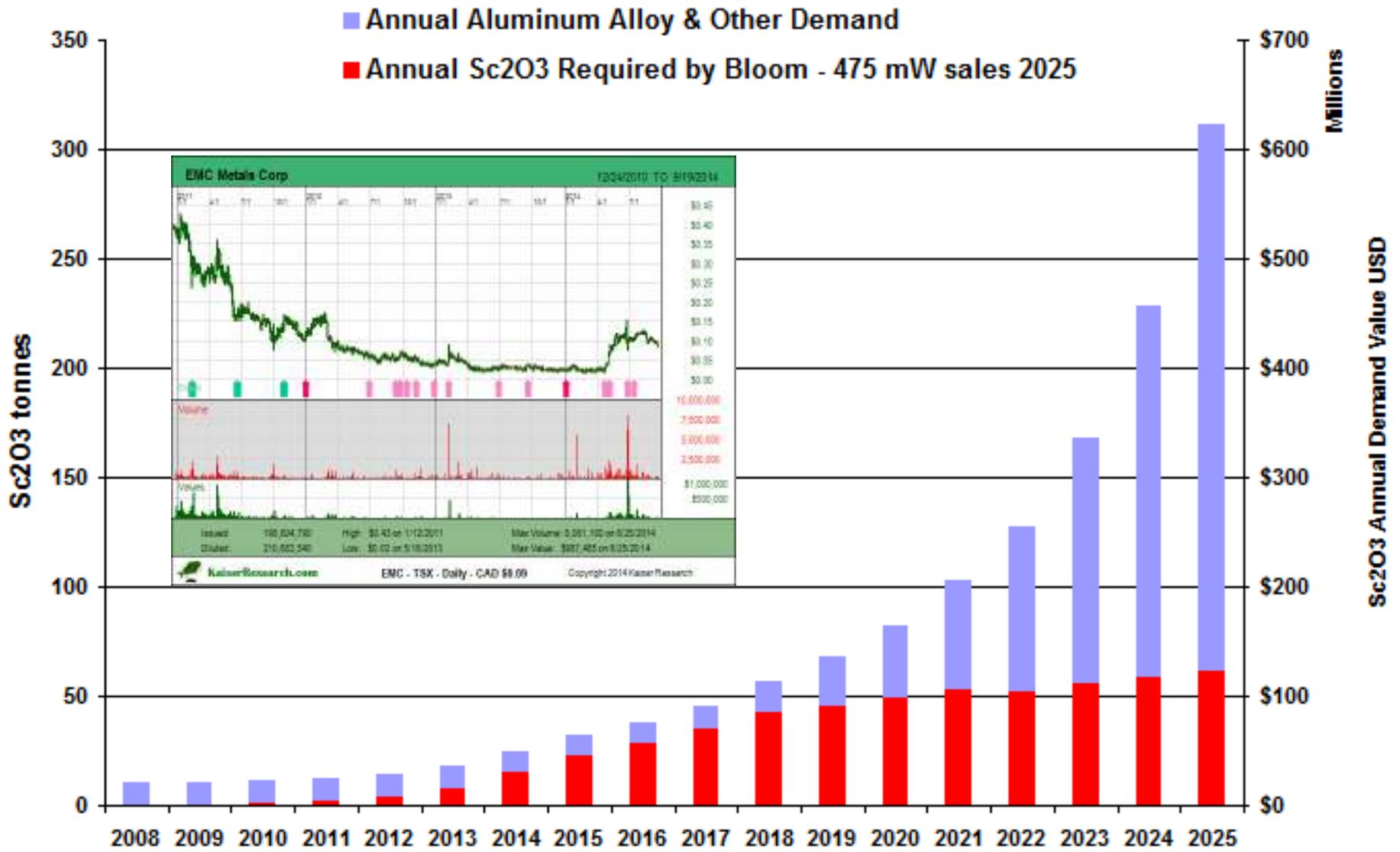
Jet freight aircraft (>10 tons)

Market value of \$4.4 trillion

Source: Airbus GMF



## Projected Scandium Market Value at \$2,000/kg Sc2O3



# Structural Industry Issues

## The Rocking Chair Nation Agenda

- **Problem:** The establishment bank agenda of turning Canadian investors into the equivalent of the human pods in the Matrix from whom the banks feed themselves through the fee based 20-2 asset management model and the fees underlying the structured products they engineer and stuff into the accounts in the name of “suitable” risk adjusted returns derived from what is at best the random walk delivered by market indices.
- Using client profiling and the “suitability” concept in the name of “investor protection” to discourage stock picking by both advisors and clients.
- The eventual reduction of the “investment advisor” to a schmoozer of high net worth clients and enforcer of profile updating with portfolio management done by algorithm.
- **Solution:** open a discount brokerage account (TFSA?), divide capital between cash equivalent securities and personally picked high risk securities in a sector one endeavors to understand.

# Structural Industry Issues

## Flash Boys

- **Problem:** The elevation of profits from volatility trading as the basis of markets, turning a price discovery mechanism into a zero sum video game that plays as long as they can harvest real capital inflows.
- High Frequency Trading: digital front-running and market manipulation.
- Algo Prop Trading & Short Selling on a down-tick: the great betrayal by the brokerage industry.
- Multiple Order Execution Platforms: undermining market transparency and fairness through fragmentation in the name of “competition”
- **Solution:** introduce a tiny fee per submitted order that goes 100% to finance a non-profit universal first-come-first-serve order execution utility with commitment privacy that restores the role of the market as a unified price discovery mechanism. Penalize day trading accounts with end of day short positions not covered with borrowed stock.

# Structural Industry Issues

## The Funding Bottleneck

- **Problem:** The increasing difficulty of getting risk capital into corporate treasuries because of “investor protection” schemes such as the “accredited investor” rule, the demise of the broker as stock picker, the marginalization of third party “finders” and the non-uniformity of private placements.
- **Accredited Investor Definition:** deliberate starvation of the resource juniors
- **Retail Investor Exemption:** dead on arrival.
- **Solution:** Acknowledge that all investing is a form of gambling, justify the regulatory reporting burden imposed on companies by allowing individuals to invest as much capital as they choose through “private placement” treasury stock purchases, regardless of “net worth”, and celebrate “slow gambling” as an alternative to “clever trading”.

# Structural Industry Issues

## Regulatory Overkill

- **Problem:** Financial reporting obligations are sledgehammers that massage the rumps of Wall Street's elephants but when imposed on resource juniors waste scarce capital to make it more difficult for investors to understand the financial condition of the juniors (ie fictitious accounting liabilities). The technical disclosure rules insist on a tapestry of near infinite dots while forbidding any effort to connect the dots so that investors can see what the junior hopes to accomplish. The result is to intimidate rather than empower the investor.
- **Solution:** Standardize the financial reporting format so that financials are submitted online as structured data which algorithms can analyze for internal historical coherence, provide online tutorials to educate the public, and enable free public access to this data so that it can apply its own analytical tools. Automate the "analysis" of submissions so that the junior quickly sees the "deficiencies", and stop turning fresh out of school bureaucrats into nitpicker tyrants.

# Structural Industry Issues

## Death of the Rumor Mill

- **Problem:** The deregulation of the brokerage industry and the emergence of the internet has wiped out the existence of network hubs which historically channeled speculative buying by offering an information edge. Now everything is assumed to be publicly known and what is whispered is easily squelched. The mystery of the junior resource sector is gone. Nobody thinks they have an edge, and all rallies driven by new capital inflows are crushed by an army of algo traders who have pessimism on their side. As far as exploration is concerned, the junior resource sector is currently dead as a gambling forum for retail and sophisticated investors, and until there are plausible macroeconomic arguments for sustainable metal price uptrends, allowing for bets on their extent and duration, the resource juniors are off limits to institutional capital.
- **Solution:** Implement a perception capture system that harnesses the wisdom of crowds in a manner that is self-regulating. **Channel the wisdom of crowds to create an online system that facilitates outcome visualizations and captures market expectations.**

## Mine Supply Speculation focuses on Future Cash Flow from a Depleting Asset: A Mine is an Annuity

**Discounted Cash Flow Model:** What is an orebody worth?

$$\sum_{n=1}^m \frac{\text{Annual Cash Flow}}{(1 + \text{Discount Rate})^n}$$

Less Capital Cost

n = year of cash

m = mine life (years of mining)

**Annual Gross Revenue**

less      Operating Costs

=            **Operating Profit**

less      Taxes

=            **After Tax Cash Flow**

NPV

**NPV(rate,value1,value2,...)**

Returns the net present value of an investment based on a discount rate and a series of future payments (negative values) and income (positive values).

# Key Cash Flow Model Inputs

| Revenue   | Cost   | Risk  |
|---|--|---|
| <ul style="list-style-type: none"> <li>• Tonnage</li> <li>• Grade</li> <li>• Recovery</li> <li>• Payable</li> <li>• Mining Rate</li> <li>• Metal Price</li> </ul> | <ul style="list-style-type: none"> <li>• Mining</li> <li>• Processing</li> <li>• Royalties</li> <li>• Concentrate Shipping</li> <li>• G &amp; A</li> <li>• Initial Capital</li> <li>• Sustaining Cost</li> <li>• Tax Rate</li> <li>• Depreciation</li> </ul> | <ul style="list-style-type: none"> <li>• Environmental Permitting</li> <li>• Social License</li> <li>• Title</li> <li>• Tax</li> <li>• Geopolitical</li> <li>• Technical</li> <li>• Infrastructure</li> <li>• Management</li> </ul> |
| <p><b>NSR / tonne</b></p>   | <p><b>Cash Cost / metal unit</b><br/> <b>All-In Cost / metal unit</b><br/> <b>\$ Cost / tonne</b></p>  | <p><b>Discount Rate %</b></p>   |

# Build your deposit, mine it, and share it!

**Builder:** JKaiser **BuildName:** Colorado North Rok **Build Status:** No public BP yet **BuildPlanName:** North Rok Test Close Form

Main Deposit Mining Cost Revenue Risk

BPDepositSourceID:

BPTonnageID:

BPTonnage:

Validate Deposit Choices

**Tonnage**

- None
- Very Unsure
- Somewhat Unsure
- Somewhat Sure
- Very Sure

BPTonnageNote is public:

| Metal 1   | Metal 2   | Metal 3   | Metal 4   |
|---|---|---|---|
| <input type="text" value="Copper (%)"/>   | <input type="text" value="Gold (g/t)"/>   | <input type="text" value="Molybdenum (%)"/>   | <input type="text" value="Blank ()"/>   |
| Grade: <input type="text" value="0.60%"/>   | <input type="text" value="0.60"/>   | <input type="text" value="0.00"/>   | <input type="text" value="0.00"/>   |
| <ul style="list-style-type: none"><li><input type="radio"/> None</li><li><input checked="" type="radio"/> Very Unsure</li><li><input type="radio"/> Somewhat Unsure</li><li><input type="radio"/> Somewhat Sure</li><li><input type="radio"/> Very Sure</li></ul> | <ul style="list-style-type: none"><li><input type="radio"/> None</li><li><input type="radio"/> Very Unsure</li><li><input checked="" type="radio"/> Somewhat Unsure</li><li><input type="radio"/> Somewhat Sure</li><li><input type="radio"/> Very Sure</li></ul> | <ul style="list-style-type: none"><li><input type="radio"/> None</li><li><input type="radio"/> Very Unsure</li><li><input type="radio"/> Somewhat Unsure</li><li><input checked="" type="radio"/> Somewhat Sure</li><li><input type="radio"/> Very Sure</li></ul> | <ul style="list-style-type: none"><li><input type="radio"/> None</li><li><input checked="" type="radio"/> Very Unsure</li><li><input type="radio"/> Somewhat Unsure</li><li><input type="radio"/> Somewhat Sure</li><li><input type="radio"/> Very Sure</li></ul> |

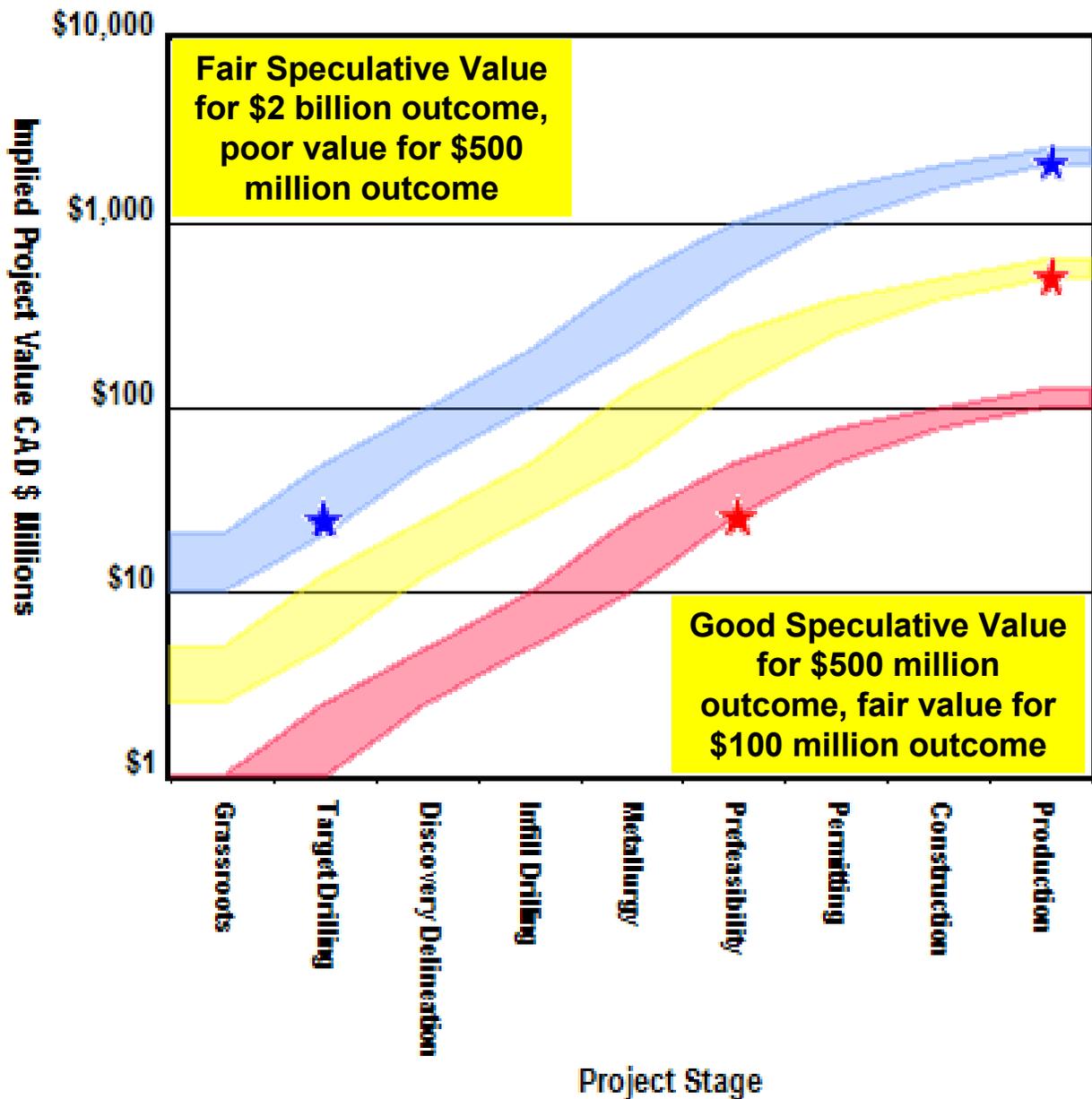
(Screenshot of prototype under development by Kaiser Research Online)

## Rational Speculation Model – Uncertainty Ladder for Metal Projects

| Exploration Cycle Stages |                                     | Success Probability |          | Outcome Target Fair Value Channels<br>(\$ Millions) |           |               |
|--------------------------|-------------------------------------|---------------------|----------|---|-----------|---------------|
|                          |                                     | Chance              | Leverage | \$100   | \$500     | \$2,000       |
| 1                        | Grassroots                          | 0.5-1%              | 100-200  | <\$1  | \$2.5-5   | \$10-20       |
| 2                        | Target Drilling                     | 1-2.5%              | 40-100   | \$1-2.5   | \$5-12.5  | \$20-50       |
| 3                        | Discovery Delineation               | 2.5-5%              | 20-40    | \$2.5-5   | \$12.5-25 | \$50-100      |
| 4                        | Infill Drilling                     | 5-10%               | 10-20    | \$5-10  | \$25-50   | \$100-200     |
| 5                        | Metallurgy                          | 10-25%              | 4-10     | \$10-25   | \$50-125  | \$200-500     |
| 6                        | Prefeasibility                      | 25-50%              | 2-4      | \$25-50   | \$125-250 | \$500-1,000   |
| 7                        | Permitting, Marketing & Feasibility | 50-75%              | 1.3-2    | \$50-75   | \$250-375 | \$1,000-1,500 |
| 8                        | Construction                        | 75-100%             | 1        | \$75-100  | \$375-500 | \$1,500-2,000 |
| 9                        | Production                          | 100%                |          | \$100   | \$500     | \$2,000       |

Note: the fair value range in each exploration stage row for each outcome target column is calculated by multiplying the target value by the success chance. ie stage 4 target \$500:  $0.05 \times \$500 = \$25$ ,  $0.1 \times \$500 = \$50$

# Mineral Exploration Cycle



**Dream Target Channels**

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

The speculative value depends on the stage of the project, the value implied by the market, and the visualized outcome.

# **Rational Speculation Model**

**A formal system for valuing a spec stock**

## **Three Steps**

- **Outcome Analysis – what is the potential fundamental outcome and what would it be worth?**
- **Probability Analysis – where in the exploration cycle is the project and what is it “worth” now?**
- **Risk-Reward Analysis – does the market price offer a good, fair, or poor bet?**

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