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Why I Don't Own Mining Companies

PDAC Toronto March 3, 2009



A Thought Experiment : Mines Are an Investment

- Prospecting, Exploration, & Discovery
- Economic Assessment & Permitting
- Financing & Development
- Mining & Reclamation
- Success or Failure ?

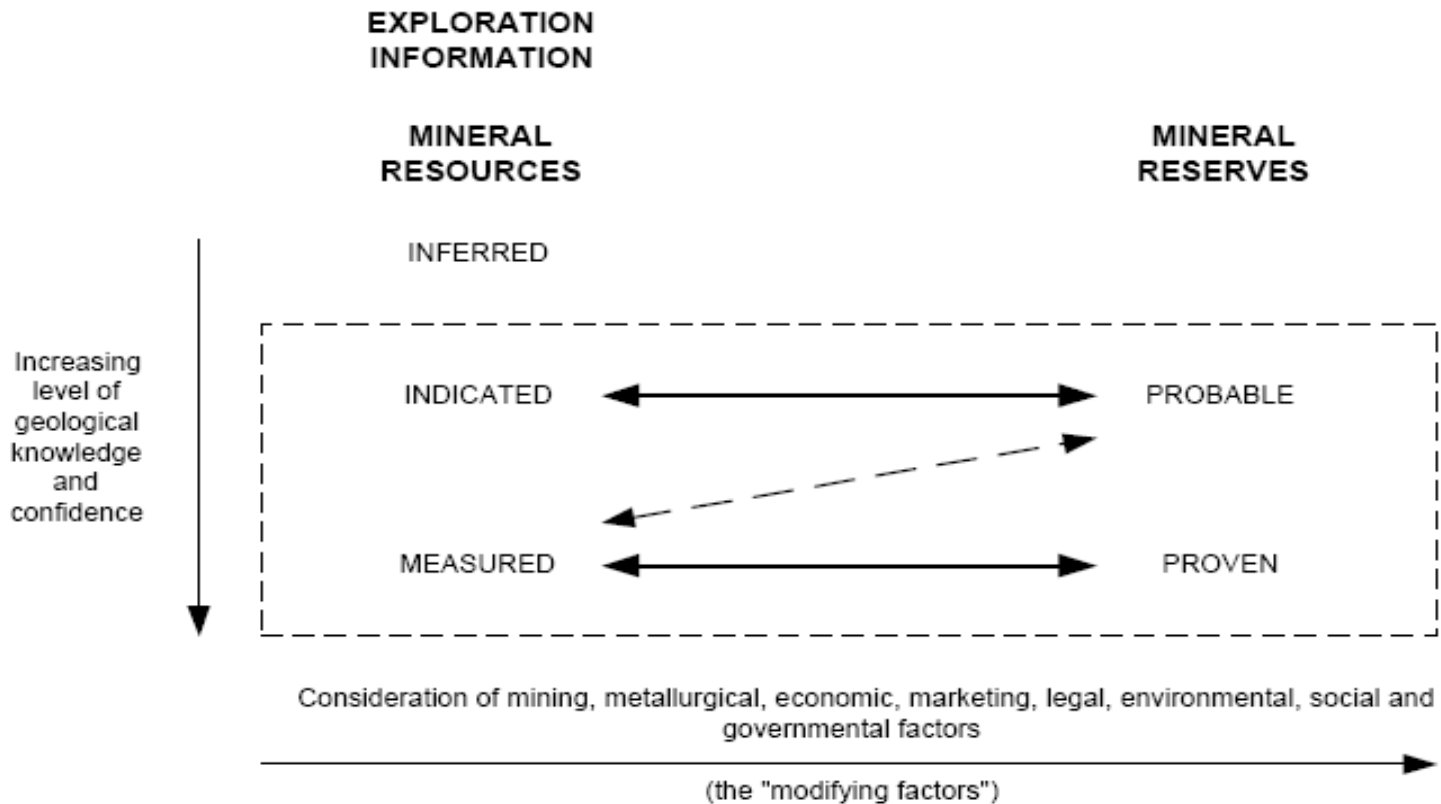


Mining or Hope-to-Be Mining Company

- Prospecting : Discover a Mineral Showing
- Exploration : Mapping, Sampling, Drilling, etc
- Mineral Resource Estimates (Inf, Ind, Meas)
- Metallurgy & Geotechnical Work
- Bulk Sample or Small - Scale Test Mining



Mineral Resources to Mineral Reserves (CIM)





Positive Technical Results

- Economic Evaluation via Feasibility Study
- M & I Resources to P & P Reserves
- Modifying Factors : Mining, Metallurgical,
- Economic, Environmental, Marketing,
- Legal, Social, & Government
- Mineralized Body = Ore Deposit ?



What is an “Ore Deposit” ?

Ore Deposits, Park and MacDiarmid, 1975

*“Ores are rocks and minerals that can be recovered **at a profit.**”*



Exploration & Mining : Four Dimensional World

- Exploration : Converts 2-D Data to 3-D **Model**
- Mining : Depends on the Fourth Dimension
- Ore = **At a Profit ... Time**
- *What is Ore Today ...*
- *May or May Not Have Been Ore Yesterday ...*
- *And May or May Not Be Ore Tomorrow.*



Ore Deposit to Operating Mine to Mined - Out

- Proven & Probable Mineral Reserves
- Feasibility Study = Positive (IRR / NPV)
- Government Approval & Permits
- Funds Raised for Construction & Development
- Mine Startup & Enters Commercial Production
- # of Years Production, Depleted, & Reclaimed



Was the Mine Profitable Over Its Life Span ?

- Paid Back Initial Capital in < 5 years
- Invested Capital Was Never Written - Down
- No Ownership Entity Declared Bankruptcy
- No Ownership Entity Defaulted on Loans
- Investors Rewarded w/ Positive Returns LOM
- Reclaimed at Fraction of Returns to Investors



Mining is a Tough Business

- 4 of 10 Mines (40 %) : **Fail** to Return Capital
- 4 of 10 Mines (40 %) : Trade Dollars
- 2 of 10 Mines (20 %) : Windfall Profits

*For Every **Failed** Mine ...*

There Was a Positive Feasibility Study



A Thought Experiment : Mines Are an Investment

- Prospecting, Exploration, & Discovery
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Hypothesis : Mines are an Investment

- 80 % of Mines Fail or Break - Even
- 20 % of Mines Generate Profits
- Investment : Outlay of Money for Income or Profit
- Therefore, Mining is **Not an Investment.**

Q.E.D.



Sam Clemens : Comstock Lode (1861 - 1864)

A Mine is a Hole in the Ground With a Liar Standing Beside It





Cipher Research : 7 Gold Miners 2003 - 2013

- Adequacy Ratio = Sales Revenues / **All** Costs
- = Operating Costs + IMP + Debt Repay + Dividends
- > 1.0 = Profitable & Sustainable Business Strategy
- < 1.0 = Revenues Cannot Sustain Business Model



11 - Year Record : Adequacy Ratio > 1.0

- Agnico Eagle 2 years 0.75 average
- Barrick Gold 2 years 0.83 average
- Eldorado Gold 2 years 0.80 average
- Goldcorp Inc 2 years 0.82 average
- Newmont 2 years 0.81 average
- **Randgold 4 years 0.90 average**
- Yamana Gold 3 years 0.87 average



The Obvious Solution for Gold Miners

- Growing Production & Reserves = Flawed Strategy
- Focus on Value of Ounces Extracted
- **Quality** of Ounces versus **Quantity** of Ounces
- High - Margin Deposits: Lowest Quartile of Costs
- Mining is a **Value** Industry Not a **Growth** Industry

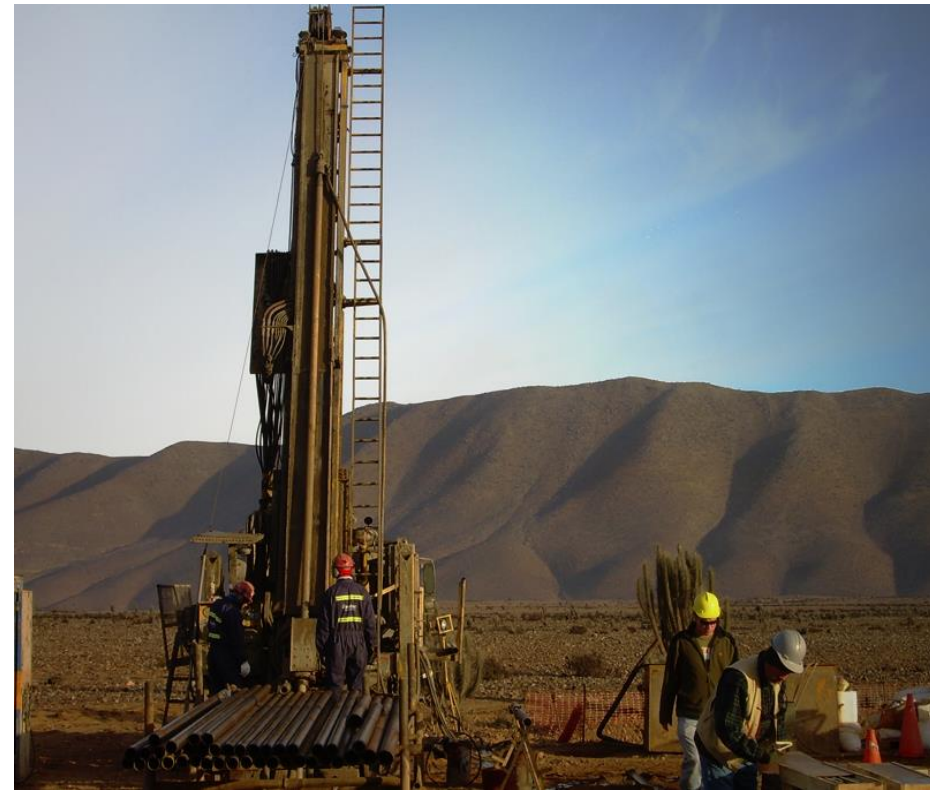


What Should a Mining “Investor” Do?

- Stop Investing & Start **Speculating**
- Junior **Exploration** Stocks
- Early - Stage Opportunities
- Contrarian Ideas & Principles
- Unknown, Unloved, Unwanted, & Undervalued



Exploration : Boot Leather & Drilling



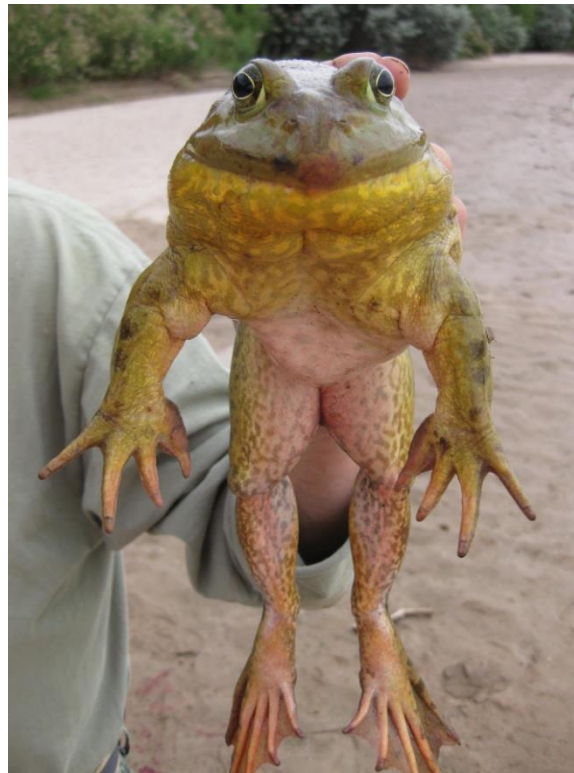


Speculating in Junior Resource Stocks

- Share Structure : Tight & Insiders with \$\$ In
- People : Technical, Experienced, Successful
- Projects : Flagship, Commodity, Jurisdiction
- Cash : In the Bank or Raise without Dilution
- Trading Methodology : Power of Two



Beware of Frogs Masquerading as Princes





Ely Gold Royalties (EPL.V; ELYGF. OTCQB)





Trilogy Metals Inc (TMQ.NYSE; TMQ.TSX)





Monday Morning Musings from Mickey the Mercenary Geologist





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