A TALE OF TWO CITIES

Toronto Geological Discussion Group
November 8, 2012
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Messrs Munk and Regent. Source: Ottawa Citizen
Month-to-month changes 1960 - 2012

% change in the level of the TSX’s gold sub-index =

0.4% *(t-stat = 1.25)*

plus

0.836 x % change in the level of the TSX Composite Index *(t-stat = 10.12)*

plus

0.085 x % change in the price of gold in Canadian dollars *(t-stat = 1.53)*
Month-to-month changes October 2008 - 2012

% change in the level of the TSX’s gold sub-index =

0.7% \hspace{1cm} (t-stat = 0.56)

plus

0.882 \times \% \ change \ in \ the \ level \ of \ the \ TSX \ Composite \ Index \hspace{1cm} (t-stat = 2.31)

minus

0.128 \times \% \ change \ in \ the \ price \ of \ gold \ in \ Canadian \ dollars \hspace{1cm} (t-stat = -0.77)
“All 500 S&P companies have the same chairman and his name is Ben Bernanke”

Source: Fidelity Global Strategies Fund, as quoted by London’s Financial Times (September 11, 2012).
Month-to-month changes 1960 - 2012

% change in the level of the TSX’s diversified (i.e. non-precious) mining index = -0.1%  
\( (t\text{-stat} = -0.66) \)

plus

1.115 x % change in the level of the TSX Composite Index \( (t\text{-stat} = 24.46) \)

plus

0.356 x % change in the price of metals* in Canadian dollars \( (t\text{-stat} = 1.53) \)

*An unweighted average of changes in Al, Cu, Ni & Zn prices, with Al excluded after Alcan was delisted October 2007
% change in the level of the TSX’s diversified mining index =

-1.2% \hspace{1cm} (t-stat = 0.91)

plus

0.653 \times \%\ change in the level of the TSX Composite Index \hspace{1cm} (t-stat = 1.42)

plus

0.784 \times \%\ change in the price of metals* in Canadian dollars \hspace{1cm} (t-stat = 4.24)

*An unweighted average of changes in Cu, Ni & Zn prices
TORONTO
STOCK
EXCHANGE

Source: CityTV
Mixed signals as miners battle tougher times

*Sydney Morning Herald*, October 13, 2012

**Boart Longyear**... last week dumped its respected chief executive after a surprise profit warning a few weeks earlier. ...the canary in the mine is the low level of capital raised by junior explorers, which has remained depressed for several years now, and is forcing them to curtail spending. The majors, too, are harbouring cash.

Thompson Creek to axe 100 jobs at Ohio mine

*Proactiveinvestors.com*, October 3, 2012

**Thompson Creek Metals Co.** (TSE: TCM) said Wednesday it would halt stripping activity at its Ohio molybdenum mine and slash 100 jobs, as the company seeks to boost its balance sheet and conserve cash.
London, September 2012 (photo by Raymond Goldie)
THE LONDON METAL EXCHANGE, LME

Source: Thomson Reuters
IMPLIED COPPER PRICE vs MKT. CAP.

Source: Salman Partners’ estimate of the price of copper in 2013 (assumed to rise every year thereafter at the rate of US CPI inflation) that would be required to make the company’s Net Asset Value equal to its share price.
Copper Prices, US$/lb, as implied by LME forward strips

Source: LME, interpolation by Salman Partners inc., using exponential least-squares regression analysis
IS SUPPLY MANAGEMENT RELEVANT TO THE MINERALS THAT THIS COMPANY INTENDS TO PRODUCE?
Comparative Consolidation Rates

Share of the total production which is attributed to the top 5 companies in the industry.

More Competitive
Low Pricing Power

Less Competitive
High Pricing Power

<table>
<thead>
<tr>
<th>Industry</th>
<th>Share (%)</th>
</tr>
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<tbody>
<tr>
<td>Carbon Steel</td>
<td>18%</td>
</tr>
<tr>
<td>Copper (refined)</td>
<td>27%</td>
</tr>
<tr>
<td>Zinc (refined)</td>
<td>29%</td>
</tr>
<tr>
<td>Gold</td>
<td>32%</td>
</tr>
<tr>
<td>Aluminium (refined)</td>
<td>42%</td>
</tr>
<tr>
<td>Stainless Steel (slab)</td>
<td>44%</td>
</tr>
<tr>
<td>Automotive</td>
<td>48%</td>
</tr>
<tr>
<td>Cooking Coal (traded)</td>
<td>56%</td>
</tr>
<tr>
<td>Nickel (refined)</td>
<td>61%</td>
</tr>
<tr>
<td>Potash</td>
<td>65%</td>
</tr>
<tr>
<td>Iron Ore (traded)</td>
<td>72%</td>
</tr>
</tbody>
</table>

Source: CRU Strategies

Chart courtesy Western Potash Corp. (NB: read “coking” for “cooking”)
BHP Billiton’s commodity marketing philosophy:

“to run at full capacity and take the market prices”

Source: M. Kloppers, CEO, BHP Billiton, as quoted by The Globe and Mail.
Source: NBC News. We note that the Olympian volley-ball player apparently is not standing on a podium
China’s moves to shut inefficient, dirty plants
The Rare Earths

SCANDIUM  LANTHANUM  CERIUM  THULIUM

PRASEODYMIUM  NEODYMIUM  EUROPINIUM  GADOLINIUM

TERBIUM  DYSPROSIUM  HOLMIUM  ERBIUM

YTTERBIUM  LUTETIUM  ALLVOICES

Source: windpowerstockstowatch.blogspot.com
RARE EARTHS DEAL

SASKATOON, SASKATCHEWAN, Jan 31, 2011
(MARKETWIRE via COMTEX) --

Great Western Group Ltd. (TSX VENTURE: GWG) announces that it has signed a Letter of Intent with Electron Energy of Landisville, Pennsylvania to supply samarium metal, gadolinium metal and samarium-cobalt alloys used by EEC to manufacture magnets and magnet systems.
Who We Are/What We Do

Brush Wellman Beryllium Products is the premier integrated global producer of beryllium-based metals & metal matrix composites. We provide high-performance metals & metal-matrix composites for mission-critical commercial, aerospace, medical, research & engineering applications that require the highest levels of performance.
SMELTER/REFINERY SURPLUS
Copper pipes. Source: etoro.com
FORECASTING METHOD #1:

TECHNICAL ANALYSIS
PROJECTED SEASONAL TRENDS IN THE PRICE OF COPPER

(as projected by Statistics Canada's "X-11" program)

% above or below long-term trend

month-end figures

Sep '12 | Oct | Nov | Dec '12 | Jan '13 | Feb | Mar | Apr | May | Jun | Jul | Aug '13

Source: LME, calculations by Salman Partners Inc.
FORECASTING METHOD #2:
FUNDAMENTAL ANALYSIS
"pinch-point™" chart for COPPER

MONTH-END FIGURES
JUL '84 TO DEC '88

Source: ABMS, CRU, ICSG, WBMS, GFMS; adjustments and estimates by Salman Partners Inc. “Pinch-point™” is a trademark registered to Raymond Goldie
“pinch-point”™ is a trademark registered to Raymond Goldie
"pinch-point™" chart for COPPER

MONTH-END FIGURES
JUNE 2005 TO JULY 2012

Based on average consumption in preceding 3 months, seasonally adjusted

Source: ABMS, CRU, ICSG, WBMS, GFMS; adjustments and estimates by Salman Partners Inc. “Pinch-point™” is a trademark registered to Raymond Goldie
PINCH POINT
CAN CAUSE SEVERE
PERSONAL INJURY

Source:b-protected.com.au
Concentrate Production Disruptions - are Continuing

- Production disruptions to mine production continue into 2012.
- Before 3rd quarter guidance had been released disruptions already exceeded our estimate of 5%.
- Mine production was to have increased 1.2 million tonnes in 2012, we are now likely to get less than half. In 2011 no increase in mine production.
- For 2013 we are projecting an increase of 1.8 million tonnes of new production.
- Lower grades have increased the unpredictability of production forecasts.

Source: TCSB, Moody Maclean Bick Hunt, Teck, Company Reports
“pinch-point”™ chart for COPPER

COPPER PRICE US$/LB

PRODUCERS' PLUS EXCHANGE INVENTORIES (DAYS’ CONSUMPTION)

MONTH-END FIGURES JUNE 2005 TO JULY 2012

Based on average consumption in preceding 3 months, seasonally adjusted

Source: ABMS, CRU, ICSG, WBMS, GFMS; adjustments and estimates by Salman Partners Inc. “Pinch-point™” is a trademark registered to Raymond Goldie
“Only gold is money”
Based on average consumption in preceding 3 months, seasonally adjusted

MONTH-END FIGURES JUNE 2005 TO JULY 2012

Source: ABMS, CRU, ICSG, WBMS, GFMS; Bloomberg; adjustments and estimates by Salman Partners Inc.
“Pinch-point™” is a trademark registered to Raymond Goldie
FORECASTING METHOD #3:
FORWARD STRIPS
Copper Prices, US$/lb, as implied by LME forward strips

Source: LME, interpolation by Salman Partners inc., using exponential least-squares regression analysis
PROJECTED SEASONAL TRENDS IN THE PRICE OF NICKEL
(as projected by Statistics Canada's "X-11" program)

% above or below long-term trend

month-end figures

Source: LME, calculations by Salman Partners Inc.
NICKEL FUNDAMENTALS
The beauty of nickel (in the form of stainless steel): 8 Spruce St., New York, as designed by Frank Gehry. Mr. Gehry has expressed interest in building three towers, modelled on this one, on King St. West in Toronto.
Source: dezzen.com
NICKEL SUPPLY ISSUES - 4 different nickel sources

1) NICKEL SULPHIDES
   mature nickel camps contribute ~40% global production
   NO MAJOR NEW DISCOVERIES

2) NICKEL LATERITES
   Laterite & Ferro Nickel contribute ~50% global production
   KEY: HIGH CAPEX = HIGH COST

3) NICKEL PIG IRON
   Chinese nickel pig iron, 10% global production. Announced cut backs
   KEY: ENERGY INTENSIVE, POLLUTING

4) BACTERIAL LEACHING
   Talvivaara in Finland is first large scale commercial mine.
   KEY: LOW CAPEX, LOW ENERGY

Source: Western Areas NL (WSA – TSX)
The Ambatovy nickel mine, Madagascar, May 2010 (photo by Raymond Goldie)
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   - Talvivaara in Finland is first large scale commercial mine.
   - Key: Low CAPEX, Low Energy

Source: Western Areas NL (WSA – TSX)
"pinch-point™ chart for NICKEL

WESTERN WORLD NICKEL INVENTORIES (DAYS' CONSUMPTION)

Source: INSG, WBMS, CRU, LME, GFMS, adjustments by Salman Partners Inc. “pinch-point™” is a trademark registered to Raymond Goldie. Note that our definition of Western world inventories includes those held by producers. Unlike the inventories registered with the London Metal Exchange (whose levels are published daily), producers’ inventories are published only once a quarter.
Stainless steel scrap. Source: okokchina.com
Nickel Prices as implied by LME forward strips

Source: LME, interpolation by Salman Partners Inc., using exponential least-squares regression analysis
Cash out of gold and send kids to college

“All the gold that has ever been mined is still in existence, but it continues to exist because it is sterile – quite literally useless.”

Source: Financial Times, August 7 2012
WHY MORE AND MORE MINISTERS CRACK UP
NEW PHOTOS EXPOSE A HISTORIC HOAX:
THE CASE OF DR. COOK AND MT. MCKINLEY

AUDREY HEPBURN
AS TOLSTOY HEROINE
IN ‘WAR AND PEACE’

AUGUST 20, 1956

20 CENTS

Source: Life magazine
Approximation of Tiffany & Co's seasonally-adjusted, quarterly sales per store in the Americas (sales x $'000)

Note: These are fiscal years beginning on Feb. 1 (e.g. "2012" refers to the year beginning Feb. 1, 2012)

quarter ended July 31, 2012: down 2.8% (seasonally adjusted) from preceding quarter

Source: Tiffany & Co., estimates and adjustments by Salman Partners Inc.
PROJECTED SEASONAL TRENDS IN GOLD BULLION PRICES, US$

(as estimated by Statistics Canada's "X-11" program)

PROJECTED SEASONAL TRENDS IN SILVER PRICES, US$

(as estimated by Statistics Canada's "X-11" program)

PROJECTED SEASONAL TRENDS IN GOLD BULLION PRICES, US$

(as estimated by Statistics Canada’s "X-11" program)

% above or below long-term trend

October 9-14, 2012 Annual Meetings of the International Monetary Fund and the World Bank Group

Tokyo

Source: IMF
When is Diwali celebrated?

*Diwali* is celebrated for 5 days according to the lunar Hindu Calendar. It begins in late *Ashwin* (September–October) and ends in early *Kartika* (October–November).

Wealthy Indian brides can spend $2 million on gold they wear on their big wedding day

Source: ABC News

India is the world’s number one consumer of gold, accounting for almost a fifth of gold sales.

There are spikes in gold demands both January and September … to meet the demands of the two Indian wedding seasons. The first… starts in November and ends in December. The second starts in late March and runs through into early May.

Source: currentbusinessnews.net
India’s “demographic dividend”

“when a country’s population includes a disproportionate number of young, educated, working age adults, it has a highly positive effect on the country’s economy… a large and relatively young population is entering the [India] workplace and … in 20 years, the middleclass population of India will equal half a billion”.

Source: Nandan Nilekani, Unique Identification Authority of India ; CFA Digest, CFA Institute, 2010
China Population, 2030

Source: stillgoingnative.com
RECAPPING
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3. Big companies can buy ounces of gold or pounds of copper much more cheaply on the Toronto Stock Exchange than on the metals markets.
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3. Big companies can buy ounces of gold or pounds of copper much more cheaply on the Toronto Stock Exchange than on the metals markets.

4. Junior companies are more likely to reduce spending on exploration to conserve cash.

5. Junior companies are more ready takeover targets than are big mining companies.
The End
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