"What to look for with investing or share trading (mostly in speculative junior resource companies) – an insiders and outsiders perspective from over 35 years on both sides of the fence as a Geologist, Entrepreneur, Managing Director and as an Investor and Trader always on the lookout for new strategies and opportunities".

IMHO & DYOR etc

DRAFT Work in Progress

Andrew Gillies

30 April 2018

0416 137 556

Disclaimer

Statements & material contained in this presentation, particularly those regarding possible market trends or particular share companies are used as examples for discussion purposes only.

Although reasonable care has been taken to ensure that the facts, opinions or comments stated in this presentation are accurate & or that the opinions expressed are fair & reasonable, no reliance can be placed for any purpose whatsoever on the information contained in this document or on its completeness.

Nothing in this presentation should be construed as either an offer to sell or a solicitation of an offer to buy or sell shares.

This material is used as a summary for informal discussion purposes only.

Background Snapshot last 35+ year relevance

- 1980 – gold spike US$800/oz – year 12 High school TGS strong interest natural science
- 81/85 – University Qld - Marine Biology/Geology – target Mining Industry
- Early 1986 start BHP Exploration Geologist – gold exploration roaring 80's, lots discoveries, exciting
- October 87 Crash (lucky had no shares) – left BHP. started Perseverance Mining (PSM), interested and started buying shares post crash levels
- Project Geo at Nagambie Gold Mine - 27 months drilling discovery-gold pour late 89
- 88-89 Some share trading Morgan's – Peko Oil, Niugini Mining etc.
- 90-91 Cracow Gold Mine – mine geologist – recession, high interest rates
- Mid 90's Consultant geo e.g. Valdora, Int Pursuit Canada etc, limited trading - Ross mining 9c/160c
- Founded Metallica early 97 but by late 07 downturn 6 yrs and (New Economy) Dot.com - Bust 00/01
- Improvement commodities (Real Economy) late 2013 EIS, core team, Prospectus IPO - Listed late 04
- Metallica Group (MLM-MTE-CBX-ORM-PGM) 2 IPOs 1999 boom (2004-8) bust (2013-15)
- Pass baton as Managing Director July 2015 (life changes FHW) retire as MLM non-exec June 2017
- Initiate regular share trading (mostly in resources) Sept/Oct 2017 with "Trend is Friend Investment Theme" and seeking share, real estate, business opportunities (in and outside resources sector)

Exiting Times in 1980’s for junior companies especially gold up until the October 1987 CRASH

- Two benefits companies and investors which <u>we don’t have today</u>
- 1. No Capital Gains Tax
- 2. Accumulated tax losses could be on sold to other companies to offset their taxable income regardless of continuity of business

1987 Crash! "I cant get you out of these stocks because there are No Buyers!"


THE AUSTRALIAN
FINANCIAL REVIEW
WEDNESDAY, JANUARY 7, 1987

Markets soar as All Ords and Dow record new highs

Tax debate opens rifts within Opposition

But US economists cool on Australia

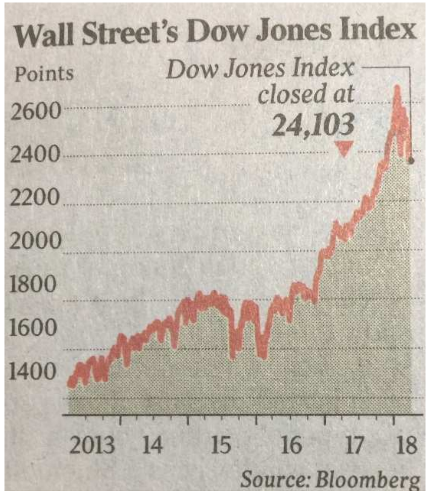
Murdoch keeps options open on HWT

Stocks | West Australia | Banking and Finance | Resources

Editorial 6 Investment 8 Business 11 Banking & Finance 15 People 18 National Markets 19 News Digest 28

Figure 12: The ASX All Ordinaries Index

Source: Global Financial Data, Inc.




THE AUSTRALIAN
FINANCIAL REVIEW
TUESDAY, OCTOBER 20, 1987

World markets collapse

Shares fall $9bn despite late rise

New York follows London wipe-out

US bombs Iranian oil platforms

Bond falls push rates higher

FEATURE | BUYING UP | TURNING POINT | LATEST MARKETS

Business moves in Japan to block Takeshita.3 Profile.10

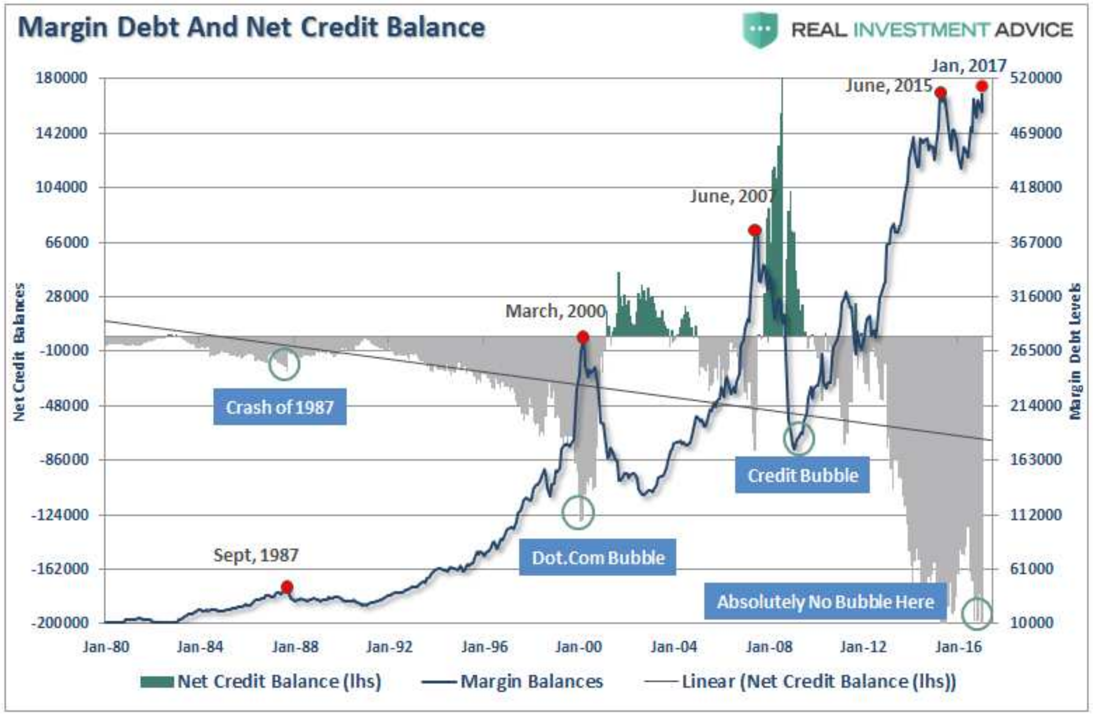
Qintex plans to buy up small shareholdings in Universal Telecasters.18

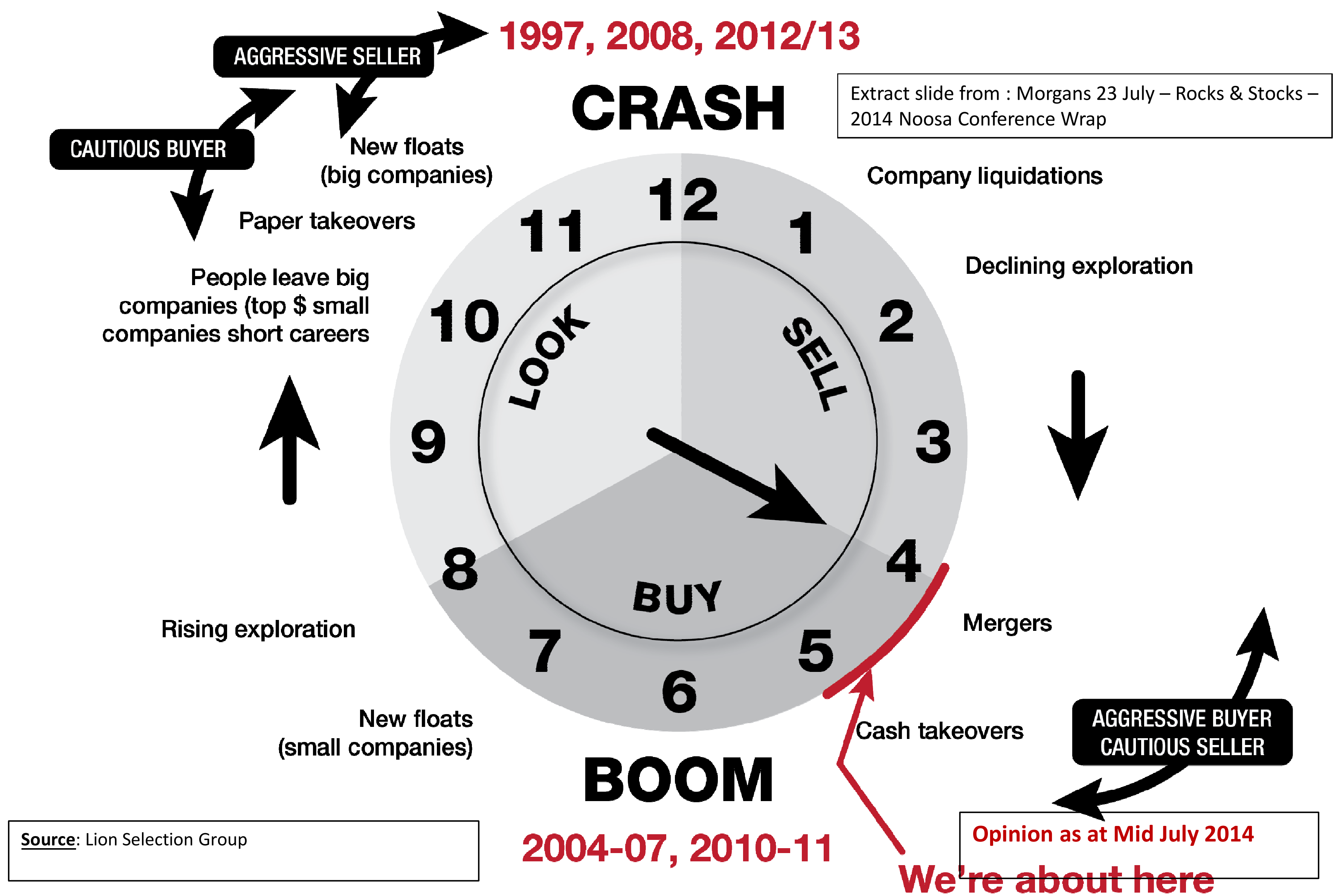
Hard times ahead for Japanese banks and customers.56

Editorial 12 Investment 14 Business 41 Marketing & Media 47 Banking & Finance 54 National Markets 58 News Digest 68

Debt….We often say **there is no new way to go broke.. it is ALWAYS too much debt**. Debt has been by far and away the biggest facilitator of our economic growth since the GFC (and ironically up to and ultimately causing the GFC). We say 'ironically' because we are doing the same thing but on a bigger scale now. *Vern Gowdie of The Daily Reckoning*

- Based on the laws of 'yin and yang', the more debt that's in the system, the more painful the process of expunging it becomes. It's not rocket science to comprehend the process which says that, the higher you climb, the harder you fall.
- Here we are sitting atop THE greatest debt pile in history — US$60 trillion more than we had in 2008 — and such is our misplaced mindset that we expect to add even more debt to this pile, without the slightest risk of triggering an avalanche.
- Now let's look at debt supporting the biggest sharemarket in the world, the US. The graph below shows the amount of margin debt in the US sharemarket. Such is the mindset of the herd that not only are they piling into the sharemarket, they are doing so on record amounts of borrowed money.




1997, 2008, 2012/13
AGGRESSIVE SELLER
CAUTIOUS BUYER
New floats
(big companies)
CRASH
Extract slide from : Morgans 23 July – Rocks & Stocks – 2014 Noosa Conference Wrap
Company liquidations
Paper takeovers
People leave big companies (top $ small companies short careers
Declining exploration
12
1
2
3
4
5
6
7
8
9
10
11
LOOK
SELL
BUY
Mergers
Rising exploration
New floats
(small companies)
Cash takeovers
AGGRESSIVE BUYER
CAUTIOUS SELLER
BOOM
2004-07, 2010-11
Source: Lion Selection Group
Opinion as at Mid July 2014
We're about here

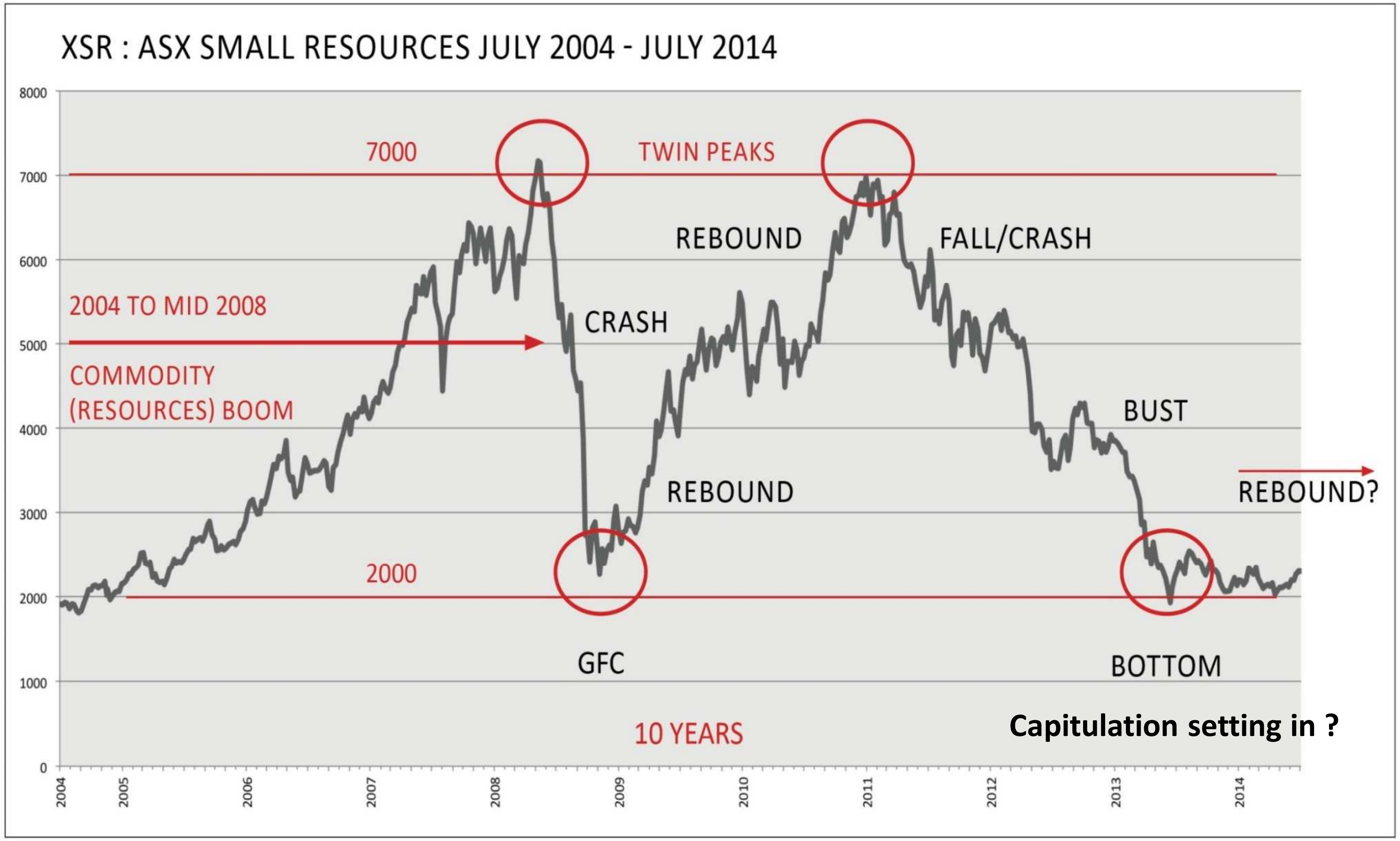
“The futures uncertain and the end is always near"

Timing is Critical

It always is -
with everything

“But one never
knows unless
You have a go”

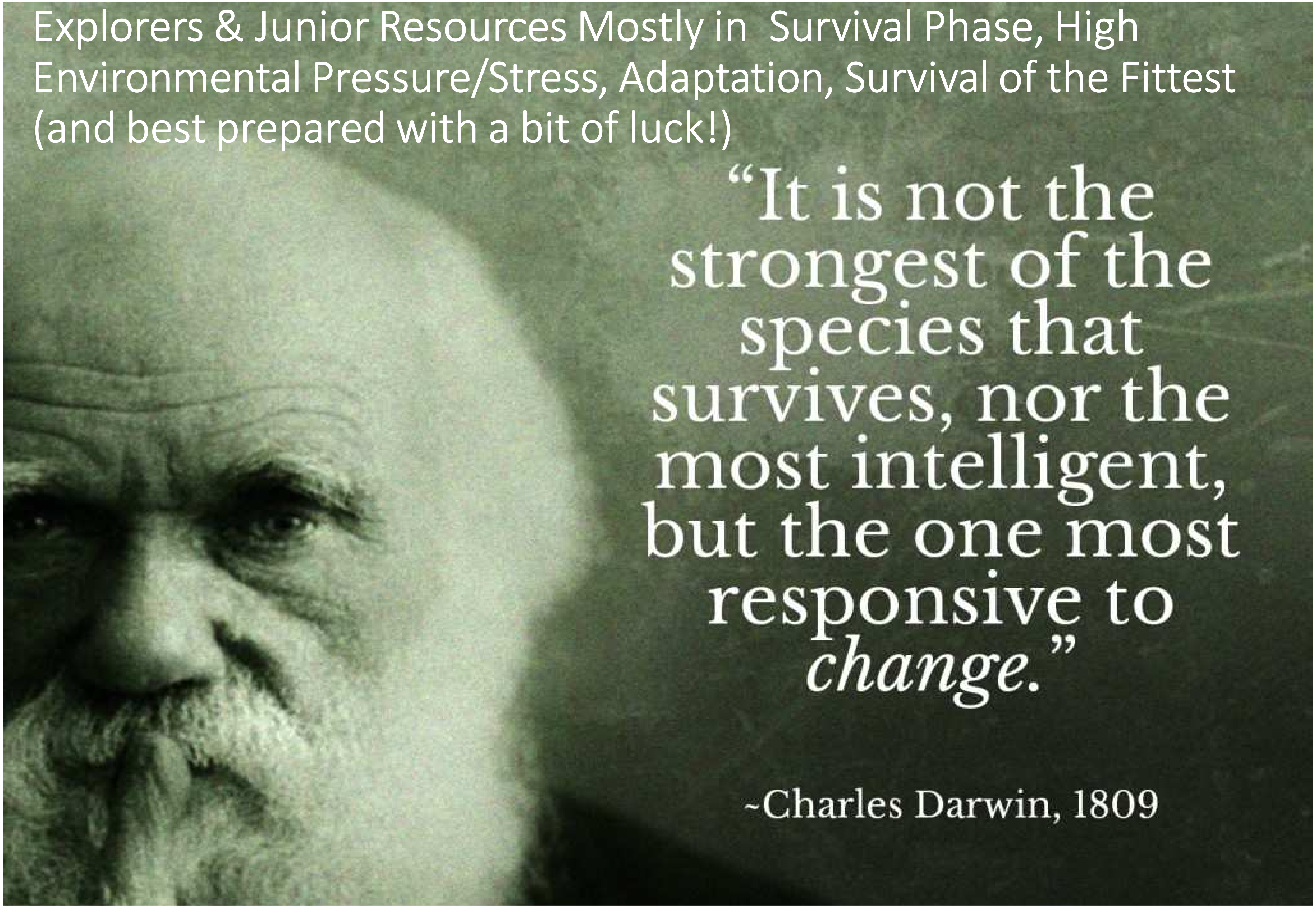
Australian Junior Resources Sector Market



Volatile Market & Sectors – Timing Critical

When & Which Companies?

"it's a tough Gig for MD's/CEO's


Explorers & Junior Resources Mostly in Survival Phase, High Environmental Pressure/Stress, Adaptation, Survival of the Fittest (and best prepared with a bit of luck!)
"It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to *change*."
~Charles Darwin, 1809

Key Themes & Trends (slide from 2014 presentation)

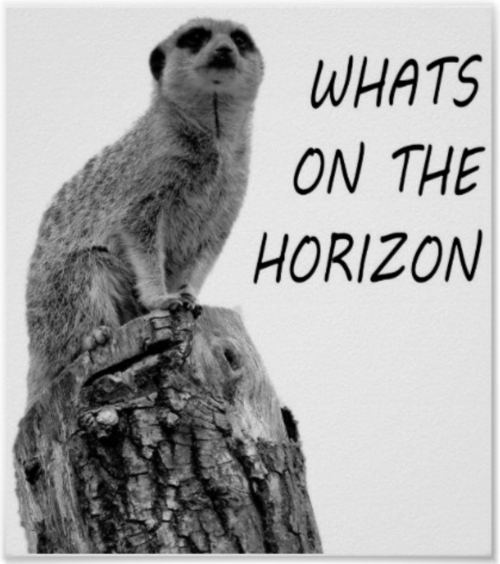
- **Access to capital** short-med term issue & **cash preservation**
- Investors have "**hands in pockets**", may get cheaper
- **Many Companies will fail** – need to have compelling value/growth story
- Likely to see increased number of **JV's and earn-in** arrangements
- **Increased Mergers possible**, but soft issues and valuation key issues
- **Australia a safe but expensive** project investment destination
- Expected **fall in AUD could be the trigger** (or of couple new Major discoveries)
- Investor/funder challenge - **Picking Winner Sectors/Stocks**
- Juniors burning cash faster than replenishing – **most sector unsustainable**
- **What's hot** (e.g. bauxite, graphite etc.) What's not (e.g. Fe ore, Thermal coal)
- **Which Stocks** – 4 P's - People, Projects, Price (value/mcap), Perception (do what say)

Key Themes & Trends (continued) (slide from 2014 presentation)

- **Competition in a smaller pool** – 900 ASX listed resource companies – currently not sustainable - high competition for funds and accessing project funding with peers
- **Indications 2015** will be similar to 2014 for small market Caps
- **Experience critical** (Management and Board)
- **Reduce costs** & streamline business costs and exposure
- **May have to sell assets** to survive or progress core projects
- Most prudent is progress resource projects to **gain cash flow**
- **Lower capital hurdle + simpler operations** are more achievable
- **Go for cash flow ASAP** (obvious) +/or go for the **Big Hit** (e.g. Sirius)
- **Credible story in right sector will get funds** (corporate and or project)

Trends & Opportunities –
(slide from 2014 presentation)

What's Next?



Good Timing

Being prepared

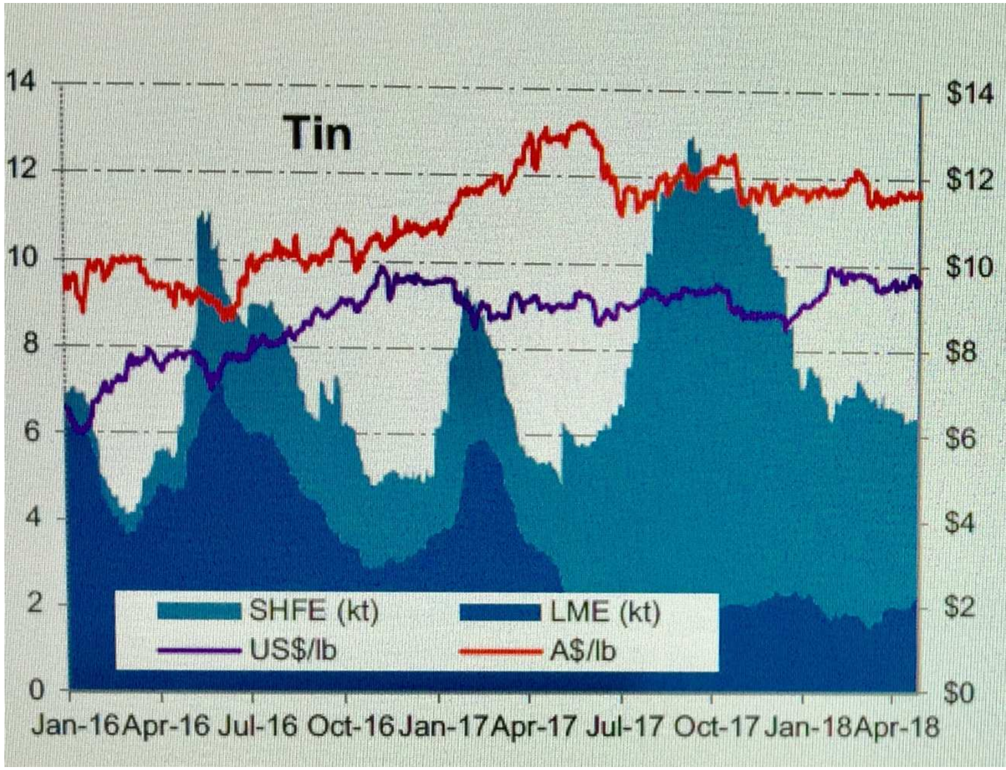
- **Cash/Cash flow is King** (and will be some time)
- **Most commodities have had major falls** +/or falling (Fe ore, coal, gold etc.)
- However there are **always new opportunities/enhancements come around** or occasional paradigm shift that jolts the market
- **Indonesia's Export Ban** – DSO Bauxite (3/4 china imports), DSO and Pig iron Ni Laterite (2/3 China Imports)

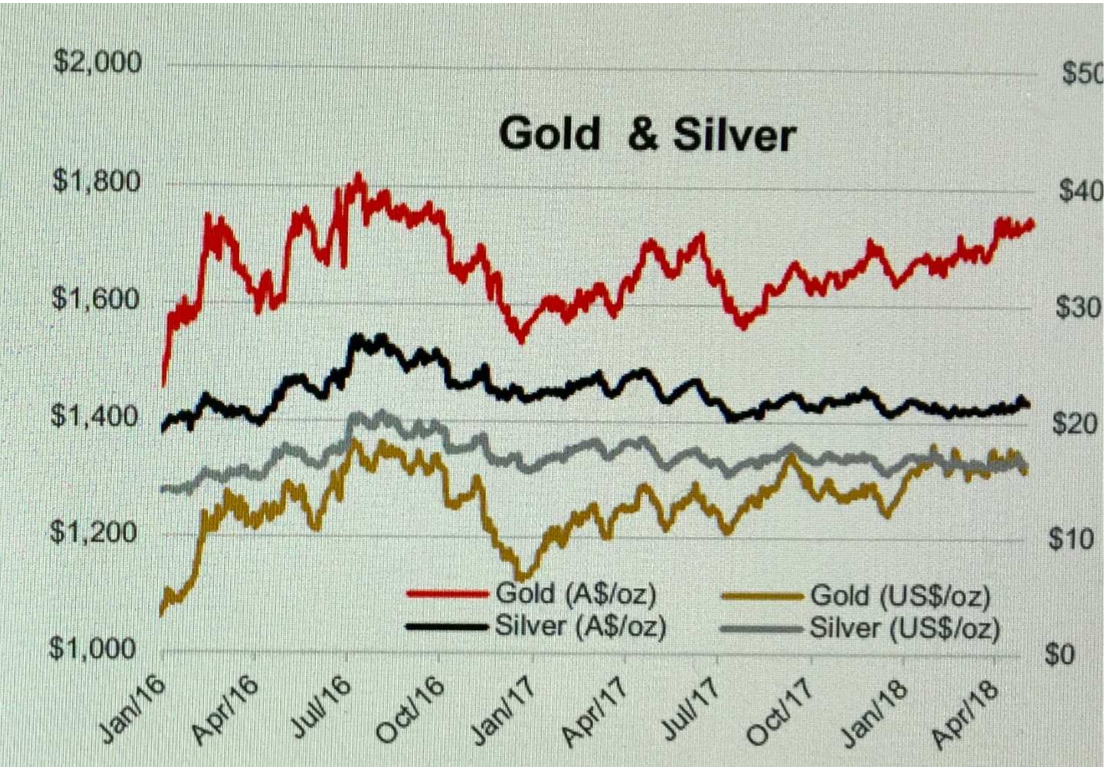
Commodities: The Top Asset Class of 2018 (So Far)

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
REITS 32.0%	MSCI EM 34.5%	REITS 37.5%	MSCI EM 39.8%	US Treasuries 14.0%	MSCI EM 79.0%	Gold 29.2%	US Treasuries 9.8%	REITS 23.8%	S&P 500 32.4%	S&P 500 13.7%	S&P 500 1.4%	Global HY 14.8%	MSCI EM 37.8%	Commodities 22.7%
MSCI EM 26.0%	Commodities 21.4%	MSCI EM 32.6%	Gold 31.9%	Gold 4.3%	Global HY 62.0%	MSCI EM 19.2%	Gold 8.9%	Global HY 19.3%	MSCI EAFE 23.3%	REITS 11.7%	US Treasuries 0.8%	S&P 500 12.0%	MSCI EAFE 25.9%	Gold 11.6%
MSCI EAFE 20.7%	Gold 17.8%	MSCI EAFE 26.9%	Commodities 16.2%	Cash 2.1%	MSCI EAFE 32.5%	Commodities 16.8%	Global IG 4.5%	MSCI EM 18.6%	Global HY 8.0%	US Treasuries 6.0%	Cash 0.1%	Commodities 11.8%	S&P 500 22.0%	MSCI EM 6.5%
Global HY 12.4%	MSCI EAFE 14.0%	Gold 23.2%	MSCI EAFE 11.6%	Global IG -8.3%	REITS 31.7%	REITS 15.9%	Global HY 2.6%	MSCI EAFE 17.9%	REITS 0.7%	Global IG 3.2%	MSCI EAFE -0.8%	MSCI EM 11.2%	Gold 12.9%	S&P 500 6.3%
S&P 500 10.9%	REITS 10.7%	S&P 500 15.8%	US Treasuries 9.1%	Global HY -27.9%	S&P 500 26.5%	S&P 500 15.1%	S&P 500 2.1%	S&P 500 16.0%	Global IG 0.1%	Gold 0.1%	REITS -3.4%	Gold 8.6%	REITS 11.5%	MSCI EAFE 5.9%
Global IG 9.4%	S&P 500 4.9%	Global HY 13.5%	Global IG 7.3%	Commodities -35.6%	Gold 25.0%	Global HY 13.9%	Cash 0.1%	Global IG 11.1%	Cash 0.1%	Cash 0.0%	Global IG -3.8%	Global IG 4.3%	Global HY 10.2%	Global HY 3.4%
Commodities 9.1%	Cash 3.1%	Global IG 7.2%	S&P 500 5.5%	S&P 500 -37.0%	Global IG 19.2%	MSCI EAFE 8.2%	REITS -9.4%	Gold 8.3%	MSCI EM -2.3%	Global HY -0.1%	Global HY -4.2%	REITS 1.3%	Global IG 9.3%	Cash 1.4%
Gold 4.6%	US Treasuries 2.8%	Cash 4.9%	Cash 5.0%	MSCI EAFE -43.1%	Commodities 18.9%	Global IG 6.0%	MSCI EAFE -11.7%	US Treasuries 2.2%	US Treasuries -3.3%	MSCI EM -1.8%	Gold -10.4%	US Treasuries 1.1%	Commodities 7.6%	Global IG -2.0%
US Treasuries 3.5%	Global HY 1.5%	US Treasuries 3.1%	Global HY 3.0%	REITS -50.2%	Cash 0.2%	US Treasuries 5.9%	Commodities -13.3%	Cash 0.1%	Commodities -9.5%	MSCI EAFE -4.5%	MSCI EM -14.9%	MSCI EAFE 1.0%	US Treasuries 2.4%	US Treasuries -5.7%
Cash 1.3%	Global IG -3.0%	Commodities 2.1%	REITS -10.0%	MSCI EM -53.2%	US Treasuries -3.7%	Cash 0.1%	MSCI EM -18.2%	Commodities -1.1%	Gold -27.3%	Commodities -17.0%	Commodities -24.7%	Cash 0.3%	Cash 0.8%	REITS -14.6%

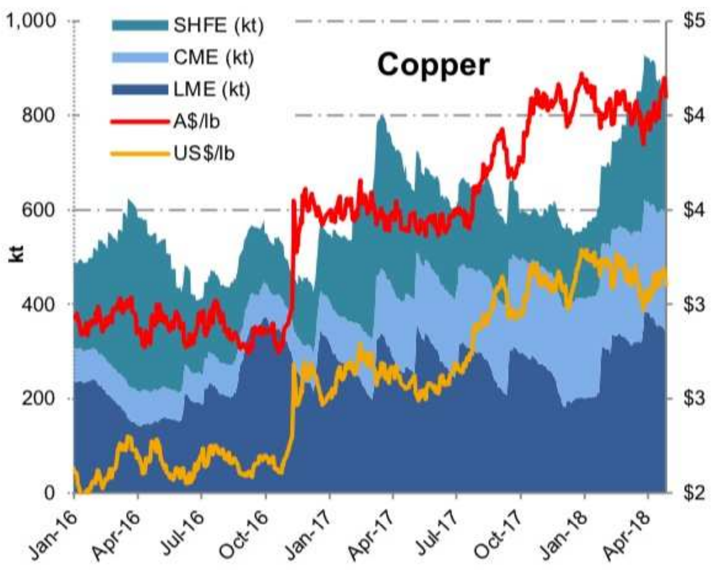
Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg. *YTD annualized returns **The Asset Quilt -** as at April 23, 2018

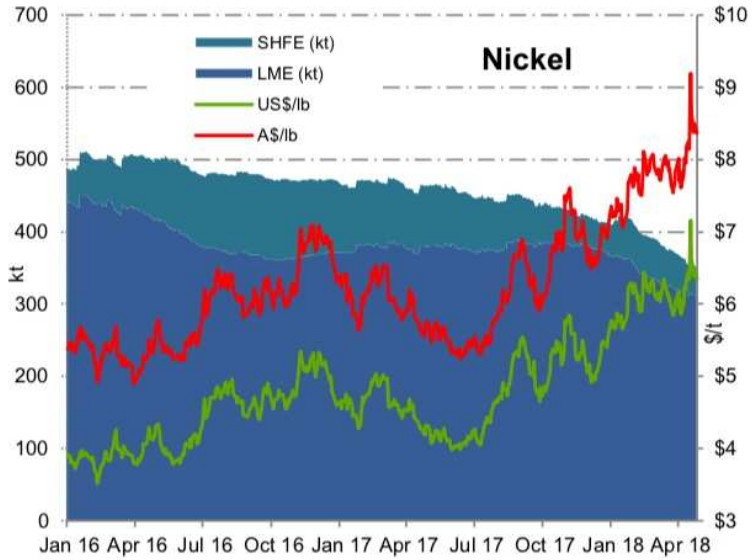
Rank	Asset Class	Total Returns (2018*)
#1	**Commodities**	22.7%
#2	**Gold**	11.6%
#3	Equities (Emerging Markets)	6.5%
#4	Equities (S&P 500)	6.3%
#5	Equities (Europe, Australasia, Far East)	5.9%
#6	Global Bonds (High Yield)	3.4%
#7	Cash	1.4%
#8	Global Bonds (Investment Grade)	-2.0%
#9	U.S. Treasuries	-5.7%
#10	Real Estate	-14.6%

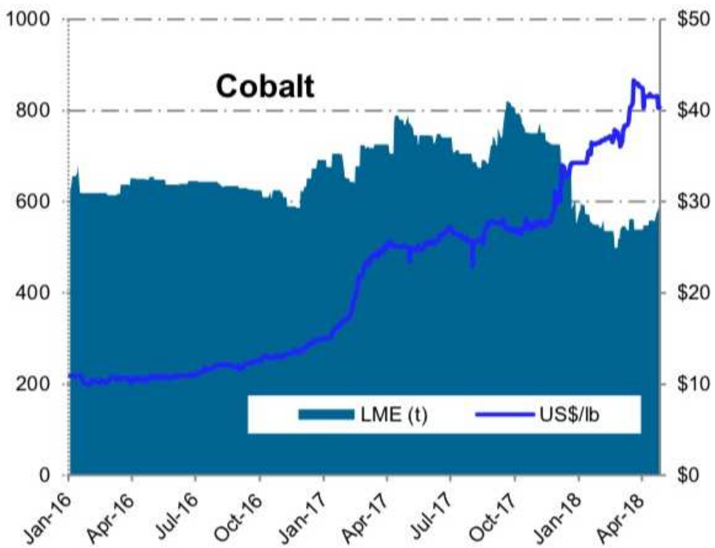

Tin
SHFE (kt)
LME (kt)
US$/lb
A$/lb
14
12
10
8
6
4
2
0
$14
$12
$10
$8
$6
$4
$2
$0
Jan-16 Apr-16 Jul-16 Oct-16 Jan-17 Apr-17 Jul-17 Oct-17 Jan-18 Apr-18

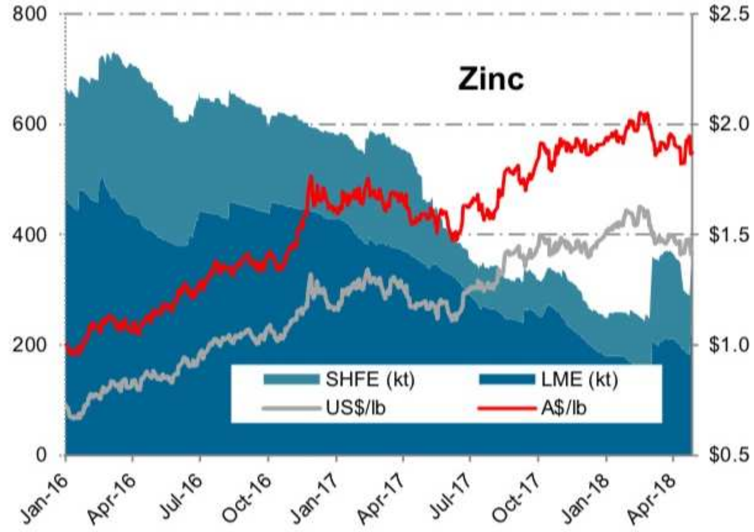

Gold & Silver
Gold (A$/oz)
Gold (US$/oz)
Silver (A$/oz)
Silver (US$/oz)
$2,000
$1,800
$1,600
$1,400
$1,200
$1,000
$40
$30
$20
$10
$0
Jan/16 Apr/16 Jul/16 Oct/16 Jan/17 Apr/17 Jul/17 Oct/17 Jan/18 Apr/18

Base Metals & Precious Metals Charts









Gold and other commodities can be volatile, good for trading commodity companies.

Commodity	Price Change 2018 (Since Jan 1, 2016)
Vanadium	**459%**
Cobalt	**277%**
Palladium	88%
Oil (WTI)	86%
Nickel	72%
Aluminum	70%
Copper	46%
Gold	26%
Silver	24%
Natural Gas	21%
Platinum	7%
Coal	-8%
Uranium	-40%

Equities measured by S&P 500 Index. Commodities measured by S&P GSCI Index.
Source: Bloomberg, U.S. Global Investors

In other words, commodities seem to be more undervalued than any time in the past 20 years, at least relative to equity indices such as the S&P 500.
Even if the above ratio comes back up to the median of 3.5, it’s clear that there could still be vast amounts of opportunity available in the sector for investors.

Gold

GOLD PRODUCERS

As at 27-Apr-18

Code	Company	Close Price		Week	YTD	52 Week Range	Market Cap (A$m)
EVN	Evolution Mining	3.230	▲	2%	22%		5,332
IGO	Independence Group	5.240	▼	(2%)	10%		3,075
NCM	Newcrest Mining	21.380	▲	7%	(6%)		15,891
NST	Northern Star Resources	6.380	▲	2%	5%		3,927
OGC	OceanaGold Corp.	3.435	▼	(1%)	6%		2,120
RRL	Regis Resources	4.730	▲	0%	10%		2,375
RSG	Resolute Mining	1.190	▼	(11%)	4%		890
SAR	Saracen Mineral Hdgs	1.905	▲	2%	13%		1,558
SBM	St Barbara	4.320	▲	2%	13%		2,226
WGX	Westgold Resources	1.485	▼	(2%)	(16%)		534
AGD	Austral Gold	0.150	—	0%	0%		80
ALK	Alkane Resources	0.290	▲	5%	(12%)		144
BDR	Beadell Resources	0.083	▼	(1%)	(54%)		102
BLK	Blakham Resources	0.071	▼	(4%)	(32%)		90
CTL	Centennial Mining	0.010	▼	(17%)	(9%)		12
DRA	Dragon Mining	0.170	▼	(13%)	(13%)		15
DRM	Doray Minerals	0.290	▲	5%	38%		119
ERL	Empire Resources	0.017	▲	21%	(23%)		8
EXG	Excelsior Gold	0.045	▼	(4%)	(8%)		38
GMD	Genesis Minerals	0.034	—	0%	3%		29
HAV	Havilah Resources	0.225	▼	(2%)	(12%)		49
KRM	Kingsrose Mining	0.080	▼	(11%)	0%		60
MAT	Matsa Resources	0.185	▲	9%	(12%)		33
MML	Medusa Mining	0.555	▼	(1%)	28%		115
MOY	Millennium Minerals	0.210	▼	(5%)	24%		160
OGX	Orinoco Gold	0.081	▼	(1%)	125%		85
PGI	PanTerra Gold	0.035	▲	3%	17%		5
PNR	Pantoro	0.360	—	0%	67%		283
PRU	Perseus Mining	0.475	▼	(1%)	27%		491
RND	Rand Mining	2.800	—	0%	(4%)		199
RED	Red 5	0.065	▼	(6%)	12%		81
RMS	Ramelius Resources	0.530	▼	(5%)	38%		279
SAU	Southern Gold	0.245	▼	(4%)	0%		12
SLR	Silver Lake Resources	0.535	▲	7%	41%		270
TBR	Tribune Resources	6.500	▼	(1%)	(6%)		397
TRY	Troy Resources	0.140	▲	27%	43%		67
WPG	WPG Resources	0.018	▼	(31%)	(10%)		16

Source: Terra Studio

GOLD DEVELOPERS & EXPLORERS

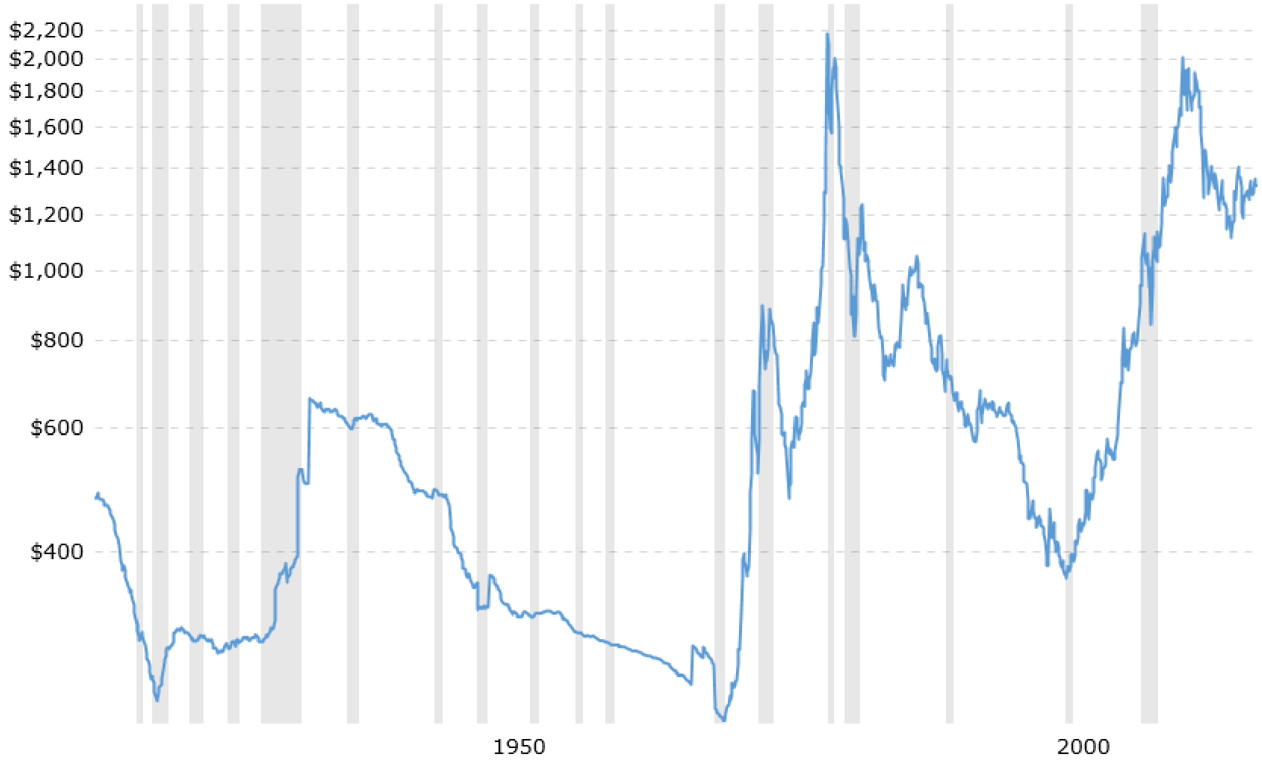
As at 27-Apr-18

Code	Company	Close Price		Week	YTD	52 Week Range	Market Cap (A$m)
DCN	Dacian Gold	2.860	▲	1%	2%		589
GOR	Gold Road Resources	0.800	▼	(1%)	14%		702
ABU	ABM Resources	0.120	▲	9%	50%		52
ANL	Amani Gold	0.013	▼	(7%)	(41%)		19
AWV	Anova Metals	0.065	▲	7%	(16%)		41
BBX	BBX Minerals	0.240	▼	(4%)	20%		103
BRB	Breaker Resources	0.295	▼	(6%)	(51%)		44
BSR	Bassari Resources	0.021	▼	(9%)	50%		47
CAI	Calidus Resources	0.044	▼	(4%)	16%		57
CDV	Cardinal Resources	0.475	▼	(12%)	(10%)		177
CHN	Chalice Gold Mines	0.155	▼	(3%)	(16%)		40
CMM	Capricorn Metals	0.083	▲	9%	20%		61
DEG	De Grey Mining	0.170	▼	(11%)	6%		58
DME	Dome Gold Mines	0.200	▲	11%	(5%)		53
DRG	Draig Resources	0.190	▼	(5%)	(28%)		75
EAR	Echo Resources	0.270	▼	(2%)	(7%)		132
EGS	Eastern Goldfields	0.140	▼	(15%)	(40%)		106
EMR	Emerald Resources	0.037	▲	3%	(8%)		78
ERM	Emmerson Resources	0.093	—	0%	12%		38
EXU	Explaurum	0.130	▼	(4%)	30%		59
FML	Focus Minerals	0.280	▼	(3%)	(13%)		51
GCY	Gascoyne Resources	0.520	▼	(3%)	22%		226
GMN	Gold Mountain	0.115	—	0%	(4%)		59
KAI	Kairos Minerals	0.038	—	0%	(14%)		33
KIN	Kin Mining	0.175	—	0%	(35%)		39
IRC	Intermin Resources	0.205	▼	(2%)	46%		46
MDI	Middle Island Resources	0.019	▲	6%	(5%)		13
MGV	Musgrave Minerals	0.064	—	0%	(18%)		18
MRP	MacPhersons Resources	0.076	▼	(5%)	(31%)		27
MZM	Montezuma Mining	0.250	▼	(7%)	9%		21
NUS	Nusantara Resources	0.260	▼	(4%)	(5%)		19
NWF	Newfield Resources	0.245	—	0%	(18%)		70
OKU	Oklo Resources	0.380	▲	4%	(7%)		117
ORR	Ore Corp	0.200	▼	(2%)	(25%)		43
PGO	Primary Gold	0.057	—	0%	46%		37
S2R	S2 Resources	0.135	—	0%	(41%)		35
TAM	Tanami Gold	0.043	▲	5%	2%		51
TAR	Taruga Gold	0.240	▼	(8%)	118%		25
VEC	Vector Resources	0.023	▼	(8%)	(26%)		31
WAF	West African Resources	0.345	▼	(4%)	(16%)		201

Source: Terra Studio

Gold Prices - 100 Year Historical Chart

Interactive chart of historical data for real (inflation-adjusted) gold prices per ounce back to 1915. The series is deflated using the headline Consumer Price Index (CPI) with the most recent month as the base. The current month is updated on an hourly basis with today's latest value. The current price of gold as of April 26, 2018 is **$1,321.90** per ounce.



Why Invest in Shares (well most of the time)?

- X chart 1985 to 2015 compare

- $10,000 to $215,000 in 30 years Aust shares best performer

Vanguard® 2015 Index Chart

Market returns - 1 July 1985 to 30 June 2015

Percentage returns as at 30 June 2015[1]

	1 Year	5 Years	10 Years	20 Years	30 Years
Australian Shares[2]	5.7%	9.4%	7.0%	9.4%	10.8%
International Shares[3]	25.2%	15.4%	6.3%	6.2%	8.6%
US Shares[4]	31.8%	19.8%	7.8%	8.5%	10.3%
Australian Bonds[5]	5.6%	6.4%	6.3%	7.1%	9.3%
Listed Property[6]	20.3%	14.3%	2.5%	7.8%	9.4%
Cash[7]	2.6%	3.6%	4.7%	5.2%	7.5%
CPI (to March 2015)[8]	1.3%	2.3%	2.7%	2.0%	3.5%

Sources: Australian Bureau of Statistics, ASX Limited, Bloomberg Finance L.P., Commonwealth Bank of Australia, Melbourne Institute of Applied Economic & Social Research, MSCI Inc., Reserve Bank of Australia, Standard & Poor's, Thompson Reuters. Notes: 1. One-year returns are total returns from 1 July 2014 to 30 June 2015. 5, 10, 20 and 30 year returns are average annual compound returns to 30 June 2015. 2. S&P/ASX All Ordinaries Accumulation Index. 3. MSCI World ex-Australia Net Total Return Index. 4. S&P500 Total Return Index. 5. Prior to December 1989 the index is the Commonwealth Bank All Series Greater Than 10 years Bond Accumulation Index. From September 1989 the index is the Bloomberg AusBond Composite 0+ Yr Index. 6. S&P/ASX 200 A-REIT Accumulation Index. 7. Data prior to March 1987 supplied by Reserve Bank of Australia. From March 1987 the index is the Bloomberg AusBond Bank Bill Index. 8. ABS Consumer Price Index (to March 2015). 9. Recessions as defined by the Melbourne Institute of Applied Economic and Social Research. 10. Annualised Rate of Inflation. All figures are Australian dollars. 11. Interest Rate is the Reserve Bank of Australia's Official Cash Rate. All marks are the exclusive property of their respective owners. Disclaimer: The information contained herein is intended for informational purposes only. It is not intended as investment advice, and must not be relied upon as such. No responsibility is accepted for inaccuracies. Past performance does not guarantee future returns.©2015 Vanguard Investments Australia Ltd. (ABN 72 072 881 086 / AFS Licence 227263). All rights reserved. Vanguard Investments Australia Ltd pays a subscription fee to Andex Charts Pty Ltd. Past performance is not an indicator of future performance.

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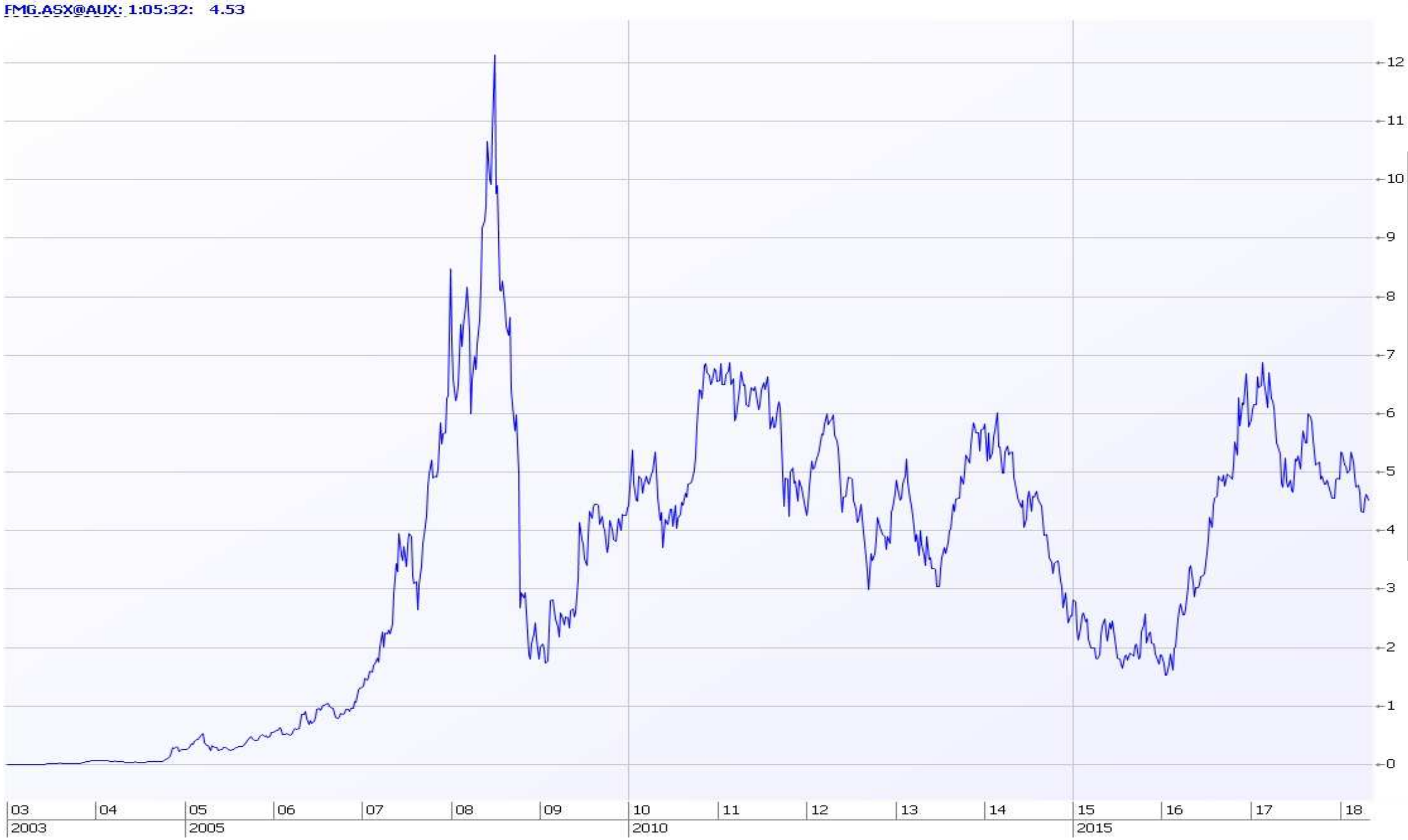
Small Resources Vs ASX 100 & ASX 20

XTL (Blue) = ASX 20
XTO (Green)= ASX 100
XSR (Red) = Small Resources

Speculative Small Cap Stocks (<$500m Mcap)

- Higher Volatility but less liquid (potential lobster traps)
- Make a lot money getting in new trends at start hot sector/booms/bubble e.g. nickel, dot.com, uranium, REE, gold, baby formula, medicinal cannabis, host of other mini-booms, current Battery metal boom.
- Experienced in and like the resources sector especially exploration success and discovery as well as project development
- Gold other metal discoveries in the 80's and 90's.
- Great success stories e.g. Fortescue New Force in Iron Ore and Voisey Bay Nickel copper Canada discovery
- Exciting drill intersection announcements e.g. RMS Ramelius at 6c with hit 48m @ 154g/t gold and went to $3+
- Trade undervalued stocks with great growth story in a favourable market place eg rising demand for metal produced or new cancer drug etc
- Position building in zombie stocks (with good business, assets or projects (but in out of favour sectors) works best for the long term
- Realise most speculative stocks are bordering on complete rubbish and are nothing more than lifestyle and or fad chasers.
- Understanding human nature (your own impulses and the herd) in the stock market is the toughest obstancle, humans are wired to buy high and sell low.
- Get educated and do your homework, but one major threats to the stock picker is information overload – so KIS

FMG 01/01/2003 - 27/04/2018



Allied Medical (AMS) went from 9c to $131 at peak FMG hey day before 10:1 split and GFC

Risk – Caveat Emptor do basic due Diligence

1. **Technical/Business or Asset/Project risk** – e.g. for resources - low grade, recycled old projects, sub-economic, political or environmental threats, poor drill results, uneconomic feasibility, loss of title or ownership – not much upside but a lot downside, basically unlikely to lead to a profitable venture and high risk loss making venture.

2. **Market risk** – stock market, peer group competition, product or commodity price or demand falls

3. **People/Director management risk** - incompetence and/or dishonesty, decisions and activities not in best interests shareholders, destroyers of value, lots discounted raisings lots dilution lots shares on issue

The difference between a Project and a **GOOD** Project

Attracting Funding : The following are all factors in the projects analysis

- **Projects that make sense** at <u>current</u> metal/mineral prices (right sector) and demand outlook
- **The project can survive setbacks**:
  - Lower prices (incl a higher A$) ie has adequate margins – grade or ore quality is paramount
  - Lower production or recoveries
  - Higher costs
- **Reliable resource estimates** (Independent) that are mineable (decent grade, quality, strip ratio etc) & ability to be high graded (if needed)
- **Adequate metallurgical testing** – pilot testwork with favourable results
- **Good location** (safe, close to infrastructure and markets)
- **Permitting in place** – (Title is Vital) – readiness for development
- **Favourable ownership** structure – preferable 100%
- **Positive local relations** (Landowners, TLO's, environmental groups – no issues)
- **Government Support** (Political)
- Fair & equitable **offtake agreements**
- Dual or **strategic use of infrastructure** (expansion and diversification)
- **Scalable** (bigger throughput) to fit market demand +/or flow-on projects, new opportunities
- **Has Market Appeal** – sparks market awareness, hot commodity, new technology needs, demand growth etc.

Junior Resource Co. Project Funding – Good & Bad Times

- **Good times** (high prices/demand/market)
  Moderate to large Capex able to fund
  Low-med grade
  Simple to complex processing
  Value add or metal /premium product
  Mostly salary/large office, owners team
- Preferred Funding Equity Debt > JV
- e.g. REE, low grade gold or copper, HPAL, underground mines
- Funders seeking projects

Bad times (Low prices, Poor Market)
Small to modest capex size funded
High - med grade
Simple processing
Low capex
DSO or Concentrate or interm product
Fewer Salary/Staff-directors/cut costs

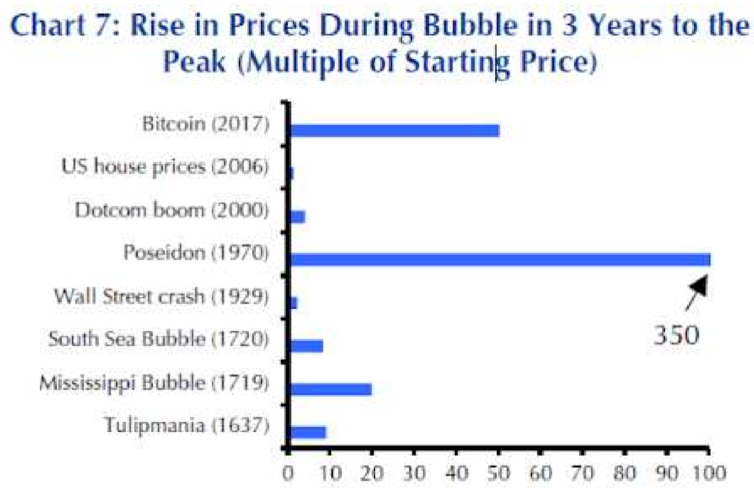
Preferred Funding JV > Equity Debt

eg DSO Bx, DSO Ni Ore or iron ore
Alluvial tin, high grade metal ores.

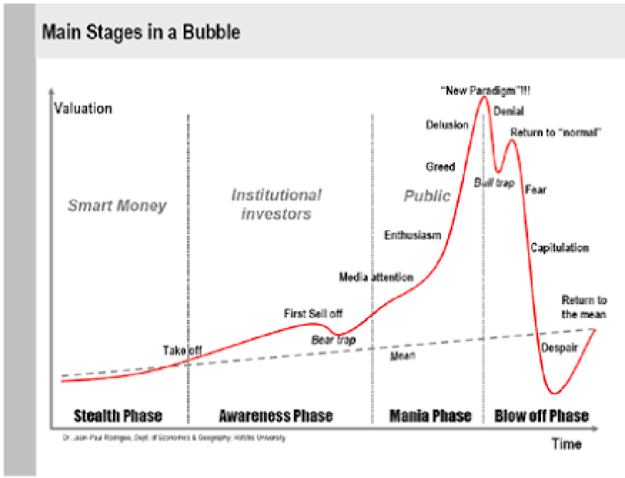
Projects seeking finance/JV

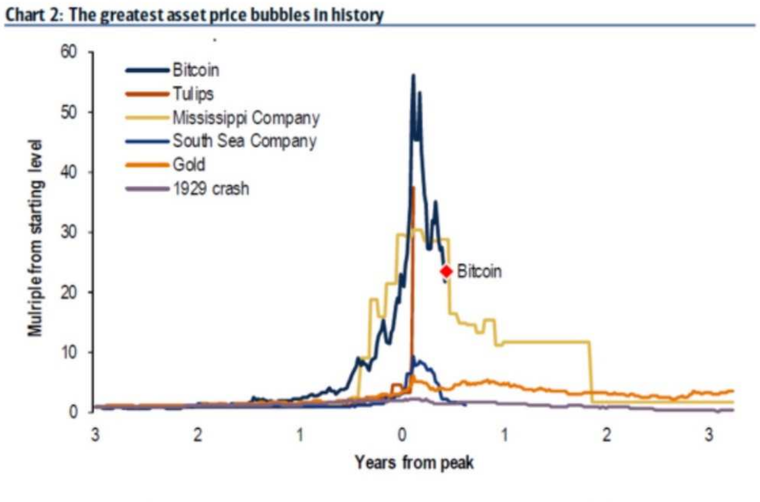
Classic Bubbles

Source: Thomson Reuters, Bloomberg, AMP Capital

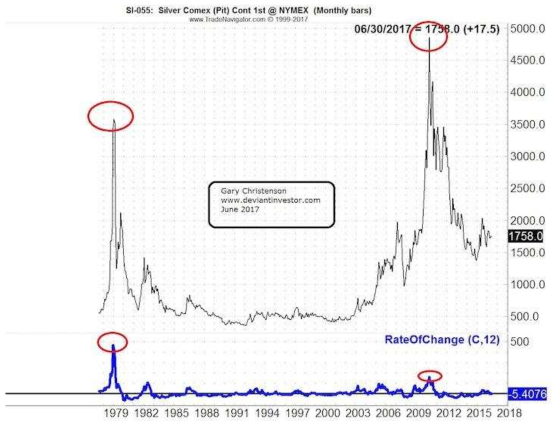


Source: Various



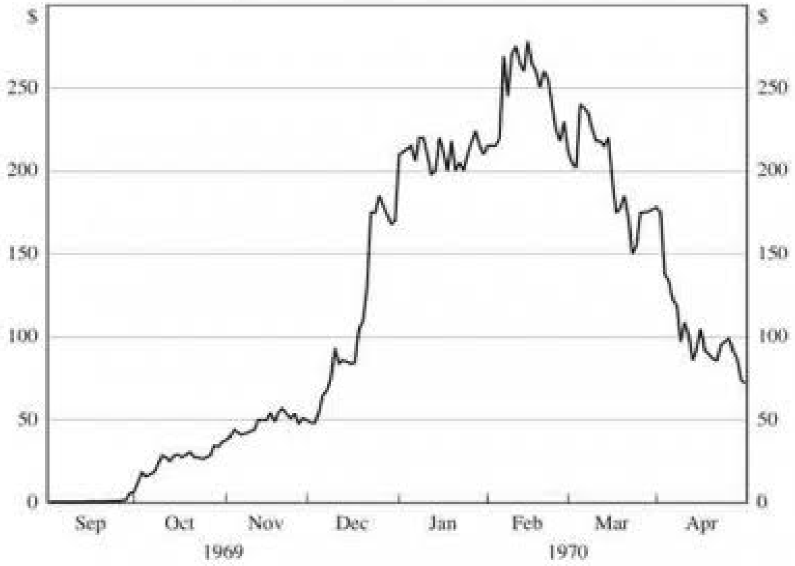


Source: BofA Merrill Lynch Global Investment Strategy, Global Financial Data, Garber (2000), Frehen (2012), Bloomberg



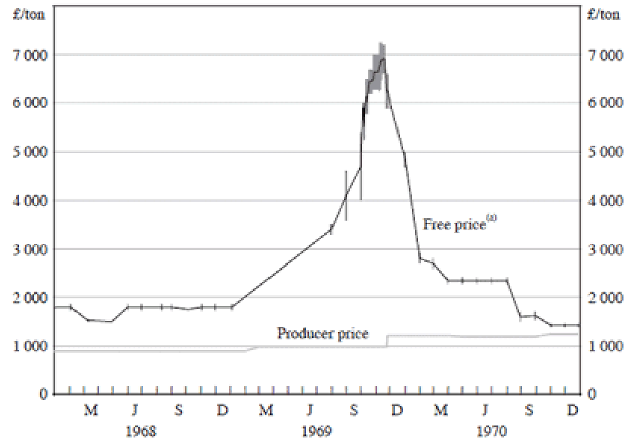
Poseidon Nickel Bubble & Stock market Boom 1969/70

Figure 9: Poseidon Share Price



The Poseidon bubble was a stock market bubble in which the price of Australian mining shares soared in late 1969, then crashed in early 1970. It was triggered by the Poseidon NL company's discovery of a promising site for nickel mining in September 1969.

Figure 8: Nickel Prices



(a) Vertical bars show indicative range, black line is an average of high and low prices.
Source: *Australian Financial Review*

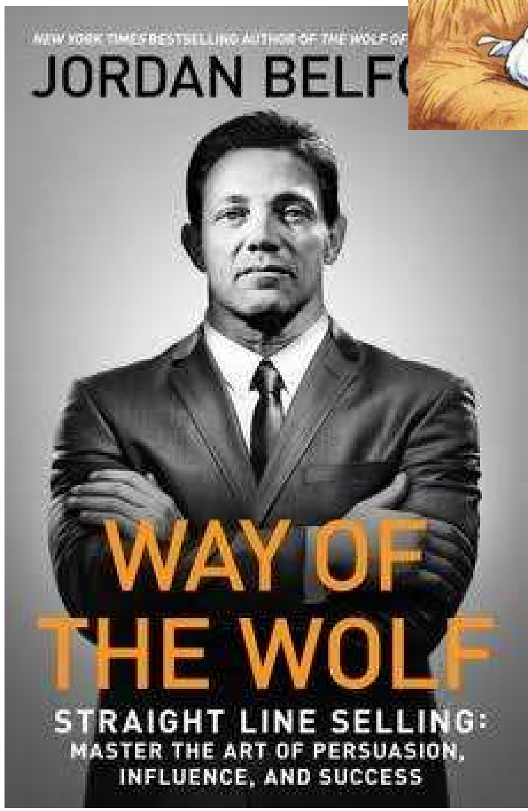
In the late 1960s, Nickel was in high demand due to the Vietnam war, but there was a shortage of supply due to a strike against the major Canadian supplier Inco - pushed the price of nickel to record levels ~£7,000/ton early Nov 1969. Sept1969, the mining company Poseidon NL made a major nickel discovery at Windarra, WA. Early Sept their shares had been trading at $0.80, but as information about the discovery was released, the price rose until it was trading at $12.30 on 1 October. After this, very little further information came to light, but the price continued to climb due to speculation.

By the time Poseidon actually started producing nickel, the price of nickel had fallen. Also, the nickel ore was of a lower grade than originally thought, so extraction costs were higher. Profits from the mine were not sufficient to keep Poseidon afloat, and in 1976 it delisted. WMC then took over the mine, operating it until 1991.
In 1974, The Rae Committee handed down its report on the Poseidon bubble, in which it documented numerous cases of improper trade practices. It recommended a number of changes to the regulation of stock markets which ultimately led to Australia's national companies and securities legislation. In the late 1980s, Robert Champion de Crespigny took over the Poseidon Company and it became part of Normandy Mining the largest gold miner in Australia.

People Risk – Board & Management

Be on the look out for and avoid companies with:-

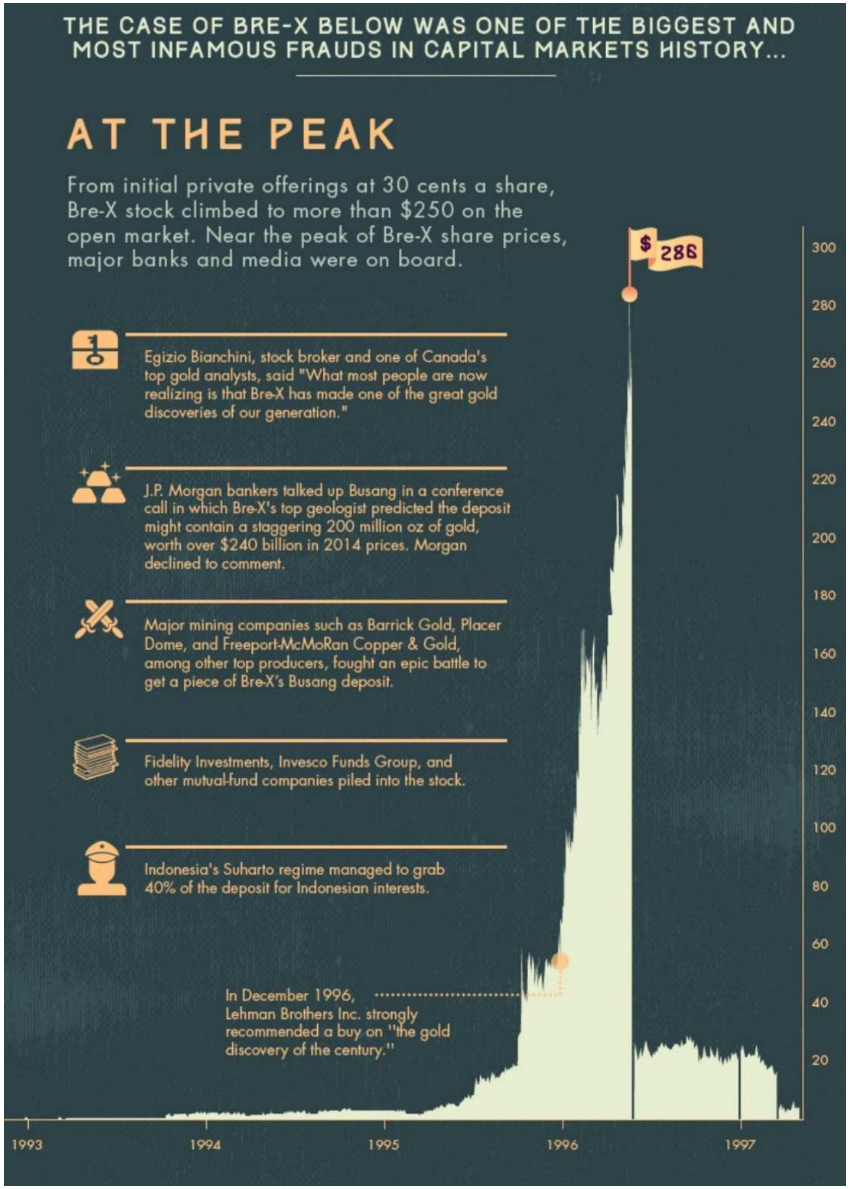
- Inexperienced board and management
- Cases of dishonesty or lack transparency (in all its forms)
- Poor track record and non performance
- Lazy Board (life stylers, spivs and or no skin invested)
- Self interest over shareholder interest (director no skin invested) – foxes in the hen house
- Only release good or promotional news and not timely continuous disclosure all relevant news (good and bad) to keep shareholders informed
- ASX Releases uninformative, omissive or Orwellian
- Conflicts of interest and rorting
- Greed – remuneration increases disproportional to performance, lining pockets or feathering nests
- Rampers and dumpers, milking the market, smoke and mirrors tactics
- Fraud e.g. scams (Bre-X) and over promotion.
- Even Banks – e.g. big 4 Aust Banks and AMP (where were the auditors and ASIC?)



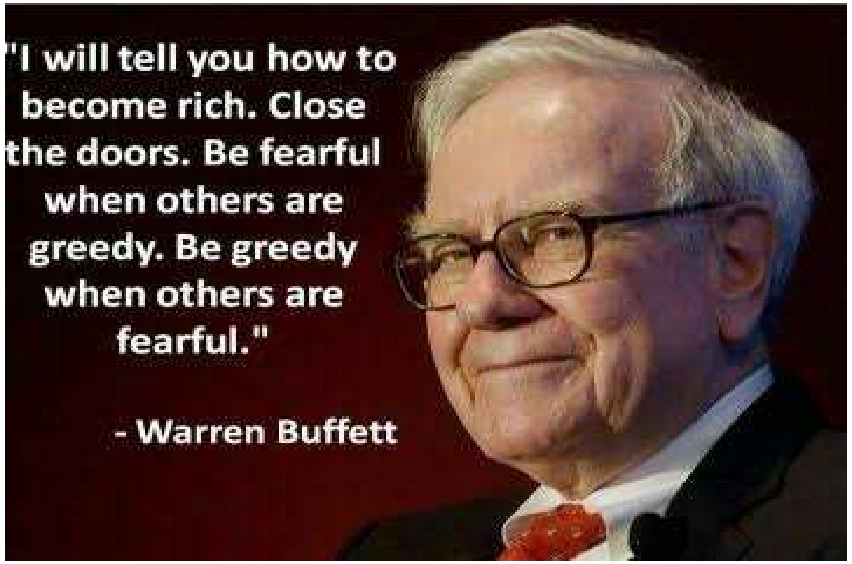
Bre-X : the Busang gold scam

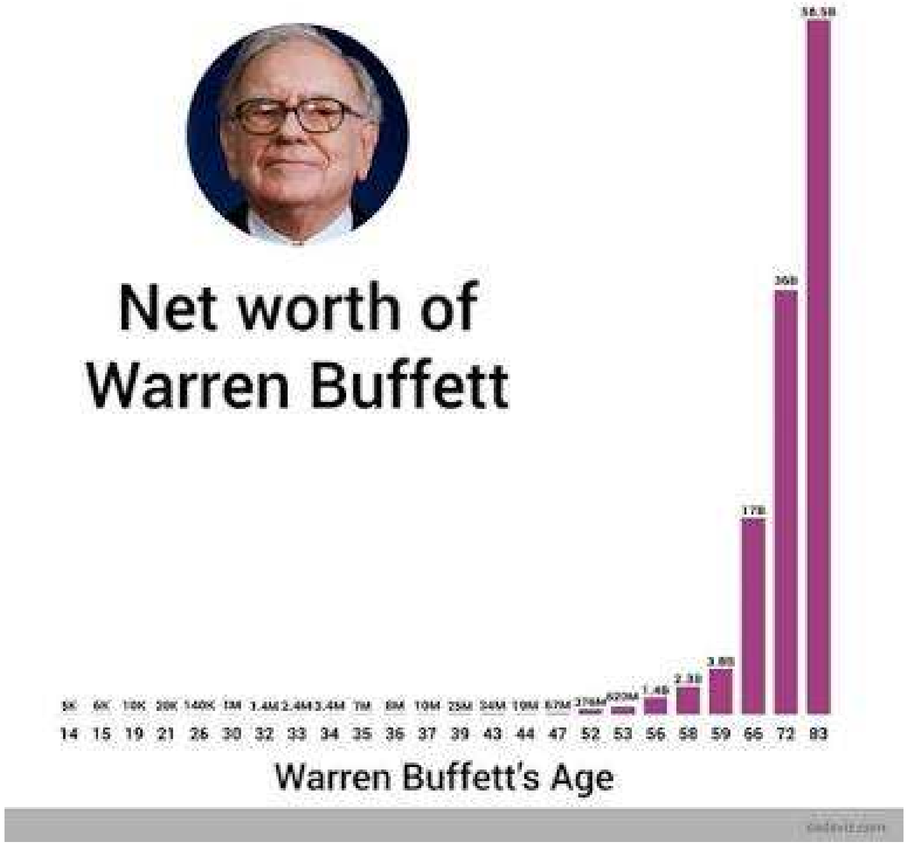
- Touted as the “richest gold deposit ever” (Busang Borneo)
- Bre-X predicted Busang could contain staggering 200 million Oz gold (~$250B)
- Bre-X players David Walsh, John Felderhof, Michael de Guzman
- Dec 1996 Lehman Brothers strong buy on “the gold discovery of the century”
- Major mining companies Barrick, Placer, Freeport-McMoran fought to get a piece of Busang deposit
- From 30c a share to $250 a share on the open market
- Suharto grabbed 40%
- Fidelity Investments, Invesco Funds Group, other Mutual Fund Companies piled in Bre-X
- Gold was free and rounded (there was known alluvial gold in area)
- 1997 JV formed Bre-X 45%, Indonesia 40% and Freeport 15%
- Freeport DD with 2 twin core of 2 existing drill hole – only negligible amounts gold recorded – fraud from careful systematic tampering/salting of drill samples with alluvial gold
- De Guzman mysteriously to his death from helicopter, police rule it suicide.
- Shares of Bre-X crash – value of Busang Nil
- <u>It was all Bullshit, 100% Fraud</u>

- <u>Lesson</u> – always do Due Diligence, if it sounds too good it usually is.



Warren Buffet – Legend Investor





10 WARREN BUFFETT'S rules to riches

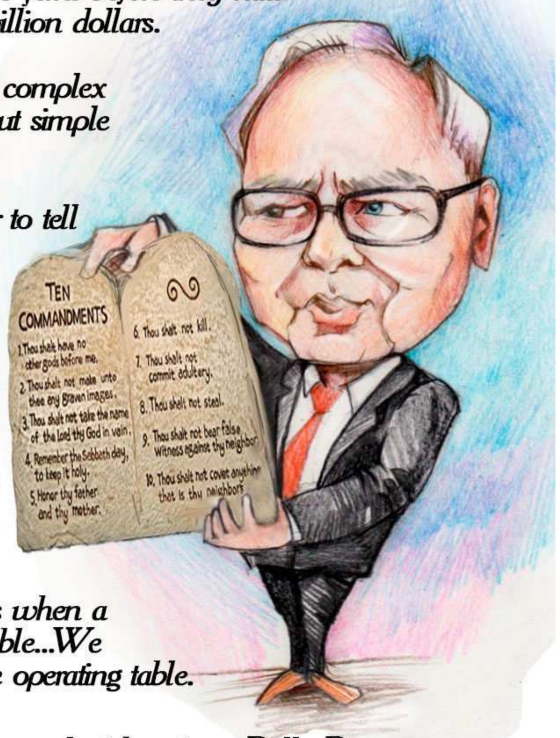
1. **Reinvest Your Profits** Don't be tempted to spend your profits, reinvest the profits instead. Even a small sum can turn into great wealth.
2. **Be Willing To Be Different** Don't base your decisions upon what everyone is saying or doing. Judge yourself by your own standards.
3. **Never Suck Your Thumb** Gather in advance any information you need to make a decision. Swiftly make up yr mind and act on it.
4. **Spell Out The Deal Before You Start** Your bargaining leverage is always greatest before you begin when you have something to offer.
5. **Watch Small Expenses** Be obsess over the tiniest costs. Exercising vigilance over every expense can make your profits.
6. **Limit What You Borrow** Living on credit cards and loans won't make you rich. When you're debt-free, save some money for investments.
7. **Be Persistent** With tenacity and ingenuity, you can win against a more established competitor.
8. **Know When To Quit** Know when to walk away from a loss, and don't let anxiety fool you into trying again.
9. **Assess The Risk** Asking "and then what?" can help you see all of the possible consequences when making a decision .
10. **Know What Success Really Means** Measure success by how many of the people you want to have love you, actually do love you.

ValueWalk

Of the billionaires I have known, money just brings out the basic traits in them. If they were jerks before they had money, they are simply jerks with a billion dollars.

The business schools reward difficult complex behavior more than simple behavior, but simple behavior is more effective.

I have no idea on timing. It's easier to tell what will happen than when it will happen. I would say that what is going on in terms of trade policy is going to have very important consequences.



You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ.

The best thing that happens to us is when a great company gets into temporary trouble...We want to buy them when they're on the operating table.

Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway.

Long ago, Ben Graham taught me that 'Price is what you pay; value is what you get.' Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down.

Warren Edward Buffett

HOW CAN YOU APPLY BUFFETT'S 4 PRINCIPLES TO YOUR OWN INVESTING?

1. **Stay within your circle of competence:** What industries and companies do you understand? For example, Apple, Kellogg, and John Deere have easy business models to understand and operate in relatively straightforward industries. Think you want to invest in that hot tech start-up that facilitates the creation of backward overflow synergies (WTH)? Unless you have specialized industry expertise and know what that means, or you take the time to carefully study the company and industry first, you better stay away.
2. **Look for companies with favorable long-term prospects:** What is your company's long-term competitive advantage? Does your company have a very wide and very sustainable "moat" that will protect its "castle" for years to come? Or will the company constantly have to re-dig its moat every year?
3. **Evaluate top management for honesty and competence:** Has the company or any of its executives been involved in fraud at any point in time? Is there "key man" (or key woman) risk? What would happen if the CEO or founder of the company left?
4. **Is the stock of the company *at least reasonably* priced:** What is the price of the company on the stock market and what do you think the intrinsic value of the company actually is? Is there a margin of safety, i.e. is the stock trading at a discount?

“The Oracle” Warren Buffet Basic Rules (large cap Stocks*)

- **Rule No 1 : “Never Lose Money. Rule No 2: Never forget Rule No 1”,** don’t gamble, be informed and do some DD, homework, invest only after researching and understand the business/company.
- **“If the business does well , the stock eventually follows”** The intelligent investor by Benjamin Graham convinced Buffet that investing in a stock equates to owning part of the business. Seeks favourable long term prospects generating strong and sustainable margins
- **“It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price**” Buffet is a value investor who likes to buy quality stocks at rock bottom prices to generate solid profits and capital appreciation for years to come. “The price you pay for a stock isn’t the same as the value you get”
- **“Our Favourite holding period is forever”** unless a company has a sea change in prospects, such as impossible labor problems or product obsolescence.

Note

Buffets recommendation for Keeping it Really simple

- Upon Buffets death he has supposedly requested that his entire estate be invested, on behalf of his wife , as follows:-
- 10% in short term Government Bonds & 90% into ultra low fee S&P500 Index Fund – That's it!
- Buffet won bet that a low cost indexed fund would beat all the sharpies hedge fund (can invest in anything) over 10 year period and it did – good story - Hedge fund up 36% / low cost index fund up 125%! (the sharpies accumulate much larger annual fees)
- Buffet wisdom – "Just remember, the person your talking to … your fees are their income.
- A local spin on that - from advice *Barefoot Investor (Sunday Mail 29 April)* via an Australian fund – HostPlus Indexed Balanced Fund (it charges ~$95 for every $100,000 invested which invests as follows:- 35% in ASX200, 40% worlds largest top 1600 companies (partly hedged to counter currency fluctuation), 15% fixed interest, 10% Cash

My strategy – Keep it simple
be trend & stock selective and don't be a screen jockey

- 1. Decide to invest in stocks or stay out stocks – timing maybe 90% time in market / 10% sidelines, if think overall market at cusp or in bear phase (Trend is Friend theme)- much depends on US Market (watch closely)
- 2. Select which sector that will perform best based on fundamentals eg Industrials, Resources, Tech, Financials/Banks etc and small cap and/or large cap
- 3. Commodities/Resources look good then find the best sectors (early phases)
- 4. what sector's hot (good fundamentals demand and outlook) what's not (poor fundamentals demand and outlook – avoid) e.g. Gold & Battery Metals
- 5. Pick best 3 at least companies in best sectors eg Gold say EVN, NST, EXU or Battery say ARL, ORE, BAT.
- 6. Invest/trade if think a stock or sector going up say >15% buy, if think down >15% sell, follow the stocks or sectors trend until think it matured and about to end, sell down or sell. look out for next favourable trend (change horses)
- 7. Seeking emerging new or alternate trends AI, silver, Camel/Goats Milk, tin, others (always looking new emerging opportunities), china or Indian small caps?

Example: My preferred portfolio shares & watch (subject to change)

- Cash ~40-35%, RE Invest ~30% (neutral geared), Shares ~30-35% (trade small caps and some ETF)
- For shares like resource sector - gold, silver, copper, battery metals etc (A$ expected to fall $US)
- ETF bear as hedge eg BBOZ (inverse to ASX)
- Small caps better returns than large caps (avoid Banks, Telstra, Retail)
- Main risk is US correction or bear market (could be at cusp), have finger on the sell trigger, be nimble if decide overall market on downer. Overall Growth yet defensive shares.
- Gold – EVN, NST, EXU, ARV, STM, AMI, WGX, DGR, Silver – ETPMAG ETF
- Co-Ni-Cu – ARL, ARV, CZI, HIG, NZC, AZS, CLQ
- Vanadium - TMT Bauxite – MTE US Commodity Agriculture – RJA.ARC
- Oversold punts – watching maybes - MYR 37c and RFG 88c
- Tech AI – BRN Small food - BFC Recent IPO – WGN Oil/Gas- COE
- No debt/loans
- If major market correction then will average down any remaining shares held (not sold early), sell BBOZ and try pick bottom to buy bargains starting with blue chips eg Apple, BHP, RIO, Amazon etc

Investing Quotes That I like

1. Experience taught me a few things. One is to listen to your gut, no matter how good something sounds on paper. The second is that you're generally better off sticking with what you know. And the third is that sometimes your best investments are the ones you don't make. -Donald Trump
2. Do you know what long term investments usually are? Short term stuff-ups
3. Rule No.1: Never lose money. Rule No.2: Never forget rule No.1. -Warren Buffett
4. While I made high returns I left multi baggers on the table because of prematureevacuation……
5. Markets can remain irrational longer than you can remain solvent. -John Maynard Keynes
6. October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February. -Mark Twain
7. The four most dangerous words in investing are "This time it's different." -John Templeton
8. If you have trouble imagining a 20% loss in the stock market, you shouldn't be in stocks. -John Bogle
9. Derivatives are financial weapons of mass destruction. -Warren Buffett
10. We've used derivatives for many, many years. I don't think derivatives are evil, per se, I think they are dangerous. …So we use lots of things daily that are dangerous, but we generally pay some attention to how they're used. We tell the cars how fast they can go. -Warren Buffett
11. If I'd only followed CNBC's advice, I'd have a million dollars today. Provided I'd started with a hundred million dollars. -Jon Stewart
12. Most investors want to do today what they should have done yesterday. -Larry Summers
13. Stock price movements actually begin to reflect new developments before it is generally recognized that they have taken place. -Arthur Zeikel
14. I guess I should warn you, if I turn out to be particularly clear, you've probably misunderstood what I've said. -Alan Greenspan

Investing Quotes That I like (continued)

1. “At the start of the bull market we have all the paper and they have all the money. At the end of the bull market they have all the paper and we have all the money” anon
2. “Twenty years on from now you will be more disappointed by the things that you didn’t do than by the things you did do” Mark Twain
3. Never assume, as assumption is the mother of al stuff-ups.
4. I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful.” Warren Buffet
5. “Formal education will make you a living : self education will make you a fortune” Jim Rohn
6. “Markets are constantly in a state of uncertainty and flux, and money is made by discounting the obvious and betting on the unexpected” George Soros
7. We try to catch new trends early and in later stages we try to catch trend reversals. Therefore we tend to stabilize rather than destabalize the market . We are not doing this as a public service . It is our style of making money” George Soros
8. The trend is your friend until it ends.
9. We often say there is no new way to go broke.. it is ALWAYS too much debt. Debt has been by far and away the biggest facilitator of our economic growth since the GFC (and ironically up to and ultimately causing the GFC). We say ‘ironically’ because we are doing the same thing but on a bigger scale now. Vern Gowdie of The Daily Reckoning
10. “It’s not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change” Charles Darwin
11. “Ÿour’re walking around blind without a cane, pal. A fool and his money are lucky enough to get together in the first place” Gordon Gekko Wall Street