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The Mercenary Geologist's Guide to Investing in Junior Resource Stocks

A Primer for the Lay Investor

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Evaluation of Junior Resource Stocks

Share Structure, People, and Projects

Projects

Priority Targets:

- Time Dependent
- Commodity
- Deposit Type, Potential Metal Content
- Location and Geopolitical Environment
- Flagship Project

Flagship Property

- Advanced Project
- Commodity
- Location
- Land Position
- Geological Setting
- Producing or Past Producing Mines

Flagship Property

- Drill Holes /Results
- Technical Information (Maps and Sections)
- 43-101 or Historic Resource or Reserve
- Metallurgical Testing
- Environmental or Geopolitical Concerns

Mining and Metallurgical Engineering

- Open-Pit: Strip Ratio
- UG: Waste/Ore, Method, Dilution, Losses
- Metallurgical Process and Recovery
- Reserves and Resources
- Mine Life and Yearly Production
- Exploration Potential
- Time Line

Engineering and Financing:

Prefeasibility or Feasibility Study

- Operating Cost
- Capital Cost
- Financing: Debt and/or Equity
- Metal Prices and Recoveries
- Discounted Cash Flow Analysis NPV / IRR

Financials

- Operating Cost
- Capital Expenditures
- Royalties
- Short and Long Term Debt
- Quarterly and Year over Year Cash Flow
- Distribution of Profits

What Makes a Good Mine?

Boom and Bust Commodity Cycles

- Timing of Development and Production
- Low Capital Expenditures
- Lowest Quartile of Operating Cost Curve

Share Structure

- Shares Outstanding
- Shares Fully Diluted
- Share Price High/Low
- 52 Week, 30 Day, and Daily
- Liquidity
- Litigation

Share Structure

- Insiders, “Family and Friends”
- Institutions
- Public Stock Float

- Warrants and Options
 - In the Money
 - Out of the Money
 - Expiry Dates

Share Structure

- Working Capital: Cash and Equities
 - Burn Rate (G & A, Exploration)
- Long Term Debt
- Short Term Debt
- Recent Financings
 - Proposed, Amended, Closed, Cancelled

People

- Management Team
 - CEO/President, CFO, BOD
- Technical Team
 - COO, Chief Geologist, V-P Exploration
 - Mining Engineer, Metallurgical Engineer
 - Senior and Junior Geologists and Engineers
- Advisory Board
 - Consultants

People

- Educational and Professional Background
- Experience in Junior Resource Sector
- Success or Failure
- Compensation
 - Salaries, Management Fees, Options, Bonuses
- Technical Expertise
 - Geologists, Engineers, Financier, Lawyer, Accountant

Website

- Professionally Done and Ascetically Pleasing
- Up-to-Date
- Functional Links
- Complete Data Provided
- News Releases with Maps and Sections
- Compare with Peers

Evaluating Junior Resource Companies

- 50% Fail on Flagship Property
- 25% Fail on Share Structure
- 15% Fail on Management and Technical Teams
- 5% Fail on Website Presentation
- 95% Fail: Share Structure, People, and Projects

Questions for the CEO

- Catalyst: Stock Price Doubles in 12 Months?
- Cause of Flagship Project Failure?
- Investment of Merit Compared to Peers ?
- What have you not told me?

Junior Resource Companies

Share Structure, People, and Projects

- 5% of 1750 Companies
- 85-90 Companies Pass
- Final Test: Undervalued Compared To Peers
 - Dependent on Timing
 - 20% of 85-90 Undervalued
 - 15-20 Stocks on My Radar Screen

My Investing Philosophy

- Stock Price Double in 12 Months or Less
- Sell $\frac{1}{2}$ of Position
- Cost Basis = Zero for $\frac{1}{2}$ of Position
- Playing with Someone Else's Money
- Reinvest Money in Another Undervalued Stock
- Open Orders to Sell $\frac{1}{2}$ at Double
- Program Selling at Intervals on Uptick

Junior Resource Companies

- Company Evaluation Template
- Due your Own Due Diligence Dude (DYODDD)
- A Day Without Learning is a Day Wasted
- *Buena Suerte, Inversionistas!*

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Monday Morning Musings from Mickey the Mercenary Geologist



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