

Rules of Thumb for Junior Mining Speculators and A Light at the End of the Tunnel

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by Brent Cook. Initially published by Streetwise Reports ([The Gold Report](#)--1/13/14)

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As we all know, for most speculators and investors the past few years in the mining and exploration sector have been disastrous. However, there are a number of fundamental trends that have been set in motion over the past few years that follow upon the previous decade long bull market that point to an improving investment climate for the junior miners. We will deal with that below and lay out some useful rules of thumb for interested investors; but first, let's briefly consider where we are today.

With inflation expectations low and metal prices apparently contained, I don't see a pending catalyst to pop metal prices or entice the crowd into our antiquated sector. Further, given the mining sector's very poor returns to investors who bought into the commodity boom and currency debasement story, it is difficult to see them stepping back in again. Where the next big slug of new money for mining and exploration will come from is not apparent.

Barring a significant rise in metal prices, the larger mining companies will continue to cut wherever they can. This means: people, projects, exploration, and development. Most will also be forced to lower production costs via high grading—a process that ultimately guts a deposit, rendering rock previously classified as ore, as waste.

Sidebar: ore makes money, waste loses money.

It also means we are unlikely to see a buying binge by the miners because they are in the unenviable position of proving that mining their current deposits is a viable business. Good luck on that one!

Money will remain tight for development projects, extremely limited for exploration, and virtually non-existent for conceptual ideas. Mediocre junior miners, and explorers without sufficient funds to survive the year, will be decimated. Therefore, I expect 2014 will also be another tough year for most explorers.

However (**and I need to point out that this is the most positive I have been for some time**) 2014 should be a good year for investors to begin positioning themselves in the better metal deposits, mining companies, and the most competent explorers. The reason is quite simple: the industry is not finding enough *economic* deposits to replace mine production.

The drastic cost saving measures being implemented by most miners, combined with the increasing difficulty and cost of exploring, plus the length of time to permit these activities, is compounding the already low odds of discovery success. Throw in the pervading political, social, environmental, and financial uncertainties of exploration and mining, and we are virtually guaranteed the industry will be devoting less time and money to finding the fewer and fewer deposits that might be viable. This dearth of exploration comes despite strong global metal consumption and the fact that a deposit found

today would take between 4 and 20 years to begin producing. We are not replacing the 2013 global gold production of ~86 million ounces, ~7.4 million ounces of platinum, or ~18 million tonnes of copper, etc.

There is a pinch point coming sometime in the future that will coincide with the “investing” crowd waking up to the fact that mined Bitcoins actually don't go into refrigerators or cars, nor factor into a central banker's view of the world. We have covered this topic many times in past EI issues-- this very simple idea is the one “macro-view” that seems most likely to be proven right, eventually. Quality metal deposits and the people capable of finding them will become increasingly valuable the longer this bear market lasts.

With that prelude out of the way, we here at [Exploration Insights](#) would like to offer those of you still interested in the junior mining sector some guidelines and rules of thumb for junior mining speculators.

The following compilation summarizes these ideas collected from correspondence between myself and a number of accomplished friends in the industry—specifically: Ron Stewart, Managing Director Clarus Securities; Quinton Hennigh, CEO Novo Resources and all around top geologist; and Steve Ristorcelli, President Mine Development Associates.

Although there will undoubtedly be good projects or companies that are screened out by these “rules”, in the long run I have found it to be more important to *first*, avoid a loss and *next*, concentrate on a gain. Money lost is hard to win back; and losses are especially painful if the writing was already on the wall.

The Rules and Guidelines...

Desktop Reviews

An initial company review can be done at one's desk, and should take no more than about 90 minutes. Easily more than fifty percent of companies fall out at this first-stage review. Information that a company chooses to present on (or withhold from) its website provides valuable insights into the company's competence, or lack thereof, as well as its general approach towards exploration. In addition to the working capital, debt, burn, share structure, executive compensation, asset ownership, project jurisdiction, and management bio's that should be readily obtainable from page one, notice how the company is presenting itself.

- American eagles, stars and stripes, the Statue of Liberty, cowboy boots, and gold bars prominently displayed all over the front page are big red flags that say, “Put your running shoes on, folks”.
- Likewise, the more gold that is plastered all over the website, the less there is likely to be in the ground.
- If the company happens to be only OTC listed, run, don't walk: these companies are not subject to the same oversight as companies listed on larger exchanges. A recent example, [Mission Mining](#), is an OTC listed company operating completely outside the bounds of acceptability and accountability.

- My personal avoid list also includes companies domiciled anywhere near Las Vegas (see Mission above), Scottsdale, and even Miami. Be very wary of oddball minerals that purportedly account for a significant economic value in the rock.
- “Proprietary” anything should make you nervous-- as in “proprietary assay techniques”, metallurgical processes, or modeling software.
- If anyone ever raises money on projects in the Moapa Formation (see Las Vegas again) or getting gold out of cinder cones, sell everything—we are in a bubble.

Also useful “uh-oh” data points include:

- How many times has the project been renamed? The more times a project picks up a new name, the closer to zero is its value.
- Similarly, how many times has a company changed its focus while chasing the next hot story, be it uranium, rare earths, or an area play. Although money can be made on these ambulance chasers, one must be more nimble than the founders-- who have usually run these flash in the pan stock jobs through many cycles.
- Is management financially committed to making shareholders money? Unless they own a significant position relative to their net worth you may not be getting 110% of their effort.
- Insider selling is usually not a good sign, although there are times it is necessary—just find out the reason.
- Friday evening and long holiday weekend news releases are generally bad news
- Small mines, restarts, and reprocessing of tailings usually don't work. Everything that can go wrong with a big mine can happen to a small one; but they are usually undercapitalized with no room for error. If one wants to be involved in small operations, go with a team that has successfully and profitably done so in the past and...
- If an exploration company decides it can fund exploration via a small mining operation, get the hell out. Geologists are dreamers, not miners.

With regards to drill holes:

- Watch for high grade smearing across low grade rock. Many companies that are having a hard time stringing together high grade continuity will push those grades out into waste, hoping to bulk up the deposit (on paper at least). Use the [Drill Interval Calculator](#) to check on the residual grade. I also find it useful to calculate what percentage of the grade is carried by what percentage of the rock.
- Percent metal in tonnes also works for resource estimates--how much of the resource is in how many tonnes? Ideally, we want to see a fairly even distribution.
- Where does the high grade ore lie? If the higher grade ore lies at the bottom of an open pit, the payback period is extended, as the overlying material may not make money. You usually want to start a mine on the best rock in order to pay back capital.
- Oh, and if someone claims 10 million ounces out of nowhere (with potentially 90 million more) you *may* want to take a look at how that happened.

- Does the company provide sufficient supporting documentation for whatever results or claims they are issuing? This is really important.
- If simple things like drill hole location maps, drill sections, or surface geochemistry and geology maps are missing or unintelligible, your job is done—how is one to draw his or her own conclusion without the facts? The obvious conclusion to be drawn is that either the company is incompetent or hiding something.
- [Corebox](#) provides an easy way for companies to display drill sections for relatively simple geometries. Exemplary companies that provide good templates for what and how results should be presented include Almaden Minerals and Mirasol Resources.
- Paid-for research and newsletter promotions should also be scrutinized. Although 43-101 regulations prohibit most of this from being displayed on a company website, it still happens. Read through the tiny disclaimers at the end of the page. If the writer is receiving payment, options, or etc., then it really isn't unbiased research.
- Also be somewhat skeptical of big firm research. The Chinese Wall between research and banking is occasionally rather weak; and ultimately it is commissions that provide for bonuses.
- Historical results should be part of the data presented for a project. The vast majority of projects have seen at least some previous exploration. The historical data should be available - preferably included with the new results, referenced in the news release, or via a 43-101 report. Although there may be valid reasons the previous results did not produce what the company is currently targeting, it is nevertheless very important data for anyone investigating the property.
- Be wary of twinned drill holes. Occasionally, and I realize some of you may find this hard to believe, companies will essentially re-drill a previous, stellar, hole, yet fail to mention this fact; or will neglect to disclose the results of nearby, but less than stellar, holes. Why is it that so many companies re-drill a best hole when in fact the problem the previous owners had was not with the good hole, but all the dud holes? Drill highlights are great, but all the results, good and bad, are necessary for a thorough evaluation.

Field Reviews

Although most of you are unable to take a review to this level, we are including them here as we think it is important to understand the field review process. This is really where the rubber meets the road.

Geology is a subjective, interpretive, science; meaning, it requires thought and contemplation that goes beyond the capacity of any computer. It also means interpretations will vary between "experts" and change over time as more data becomes available. The simple act of drawing a fault contact or soil assay contour by hand on a map incorporates everything the geologist has seen and mapped in the field combined with previous experience on other projects and a subtle "feel" for what is happening at depth that cannot be captured in a digitized map based on GPS coordinates.

∅ A narrow mineralized structure on a hillside can produce a large geochemical anomaly by simple down slope migration. Look at the topography and consider the geologic setting when evaluating soil geochemistry maps.

Geologic maps should document and differentiate between actual outcrop and interpreted geology under cover. (My pet peeve: I detest geologic maps that are little more than blobs of color on paper.) Old-school and slower for sure, but in the end, intellectual capital is really an exploration company's greatest asset.

Ø The field geologist should be able to draw an interpretive cross section, reflecting what they think is happening at depth, in a notebook or on a bar napkin. If they can't, you've got a problem.

Ø A map must differentiate rock type from alteration, or at least recognize the presence of both. I have been to way too many projects where the geologist fails to differentiate between the alteration and rock type.

Ø If "it" doesn't make sense, it probably *doesn't* make sense.

Presumably, your site visit will include a tour of the rocks (mine or core shack) and general site works, plus allow you access to the technical and management types. Ron Stewart is responsible for most of this simple guide to conducting a field-based resource and reserve model review, and I agree 100%.

1. Ask to see a set of sections and plans. . .if they don't have them available, you are done. Leave, do not invest; consider as a possible short – if they do, go to 2.
2. If the sections and plans don't have individual assay grades or are too small to read and/or there are no pencil drawn lines indicating a geologic interpretation or color indicating that they've spent a bit of time on the drawings, you are done. Leave, do not invest; consider as a possible short – if they do, go to step 3.
3. If all they have are computer images (which IMHO are entirely unsatisfying) feel free to express your displeasure and accept the fact you'll likely not get much out of this part of the tour and so, I'm afraid you are done. It is not a fatal flaw, but do feel free to go get a coffee or otherwise wander around-- and try to sneak a look at other stuff in the office.
4. Wow-- I'm impressed-- they actually have and use pencils! At this point you should congratulate them. Now it gets a bit tricky. . .ask them to show you or explain how they develop mineralized domains. If they say they use geology (rock type, alteration, or some defined physical characteristic in the rock) immediately applaud them. . .if they say they use a grade shell (which is far more common) ask what grade limit is used to define the domain and go to 5.
5. Now compare posted block grades with the individual assay grades from the drilling. This will take a few minutes. Look to see if they correspond reasonably well and if they do, congratulations, you are done and you can relax--if they don't, then try to assess the size of the areas where the posted resource block grade appears to overstate the data, and where those patches are, and ask why they are comfortable with the block estimates. At this point accept the fact that there is some fundamental flaw in their understanding of the geology and controls to mineralization; this is a big red flag and you will have to go to the field or core shack to try to find an explanation. The hair on the back of your neck should be standing up as you try to figure out how they have created fictional ore, otherwise referred to as miracle muck. You are done, proceed with caution, and hope that lunch is at least decent.

With that, I wish you all success and luck in 2014. It could be a pivotal year for junior mining and exploration investors.

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