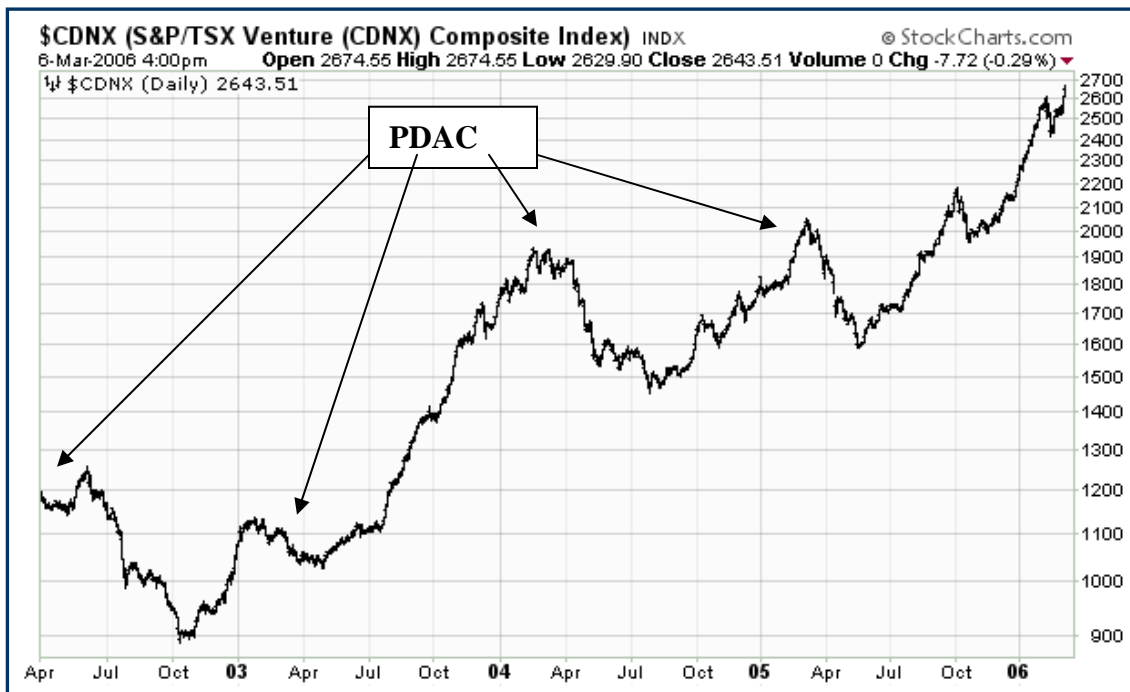


The PDAC Curse?

To those that just follow gold, not shares of the companies that explore for and mine it – PDAC stands for “Prospectors and Developers Association of Canada” not some obscure but fatal illness. More importantly, the PDAC is the organization that hosts what is unquestionably the most important mining industry conference on the planet every March in Toronto. Anyone wanting to gauge the health and wealth of the mining sector need look no further than the PDAC attendance figures.

As you’ve no doubt already guessed – the place is a total utter madhouse this year. Now, the contrarians among you may have gotten a case of the chills hearing that, and we certainly understand. We had a small correction in resource stocks last month but the month we’ve told our readers to watch out for is March. Before we elaborate on that, we want to point out that this is the early innings in what will prove to be a very long ball game. As crazy as the PDAC is this year we have no doubt there will be ones later this decade that make it look tame.

So where does the curse come in? Let’s start by looking at a longer term chart for the TSX Venture Exchange. There are a lot of mining and exploration companies in the world, but the bulk of the early stage high risk financing in the exploration game gets raised at the TSXV. For that reason, the Index for this exchange is a pretty good proxy for the health of the sector.



The chart above shows the Venture Index over the past four years and the arrows show, roughly, the annual timing of the Toronto schmooze-fest. The chart makes our (short term) concerns fairly clear. In many years, the PDAC marks a high point for exploration stocks, at least on a short term basis. There are a number of reasons for this, not all of

them obvious to non-Canadians. The first and more important is the heavy concentration of news flow around the conference. Everyone likes to make a splash at a big event and there has been a lot and we mean A LOT of news flow in the past two weeks as companies jockey for attention from investors, analysts and major company business reps. Naturally, the downside of that news glut is that most companies don't have much new to report for a while afterwards and the market will naturally be more quiet because of it.

Early March also marks early reporting for producers, when we get the initial glimpse of the Q4 numbers for the previous year. With metal prices improving the past few years those numbers have been strong and that draws more money to the sector. Again, that flood tide lifts everyone, and some pull back is naturally expected.

A third reason, and it's more important in quieter years, is that the first day of March is the last day Canadians can contribute to Registered Retirement Savings Plans and have those contributions count against the precious year's tax bill. A lot of this money shows up at the last minute and, especially in years like this, money will gravitate to resource stocks and funds. Once that's done you enter a period of cashing out to deal with the tax bill left over.

A fourth but less quantifiable reason is that the PDAC, like any good mining conference, is the source of copious amounts of free beer for those who know where to look for it. We're not sure how much the pandemic level of hangovers affects things, but it can't help.

Lest we've left you feeling down, we'll close by noting some positives that will change the outlook for the better. The first is that most of the companies with good projects are heavily cashed up and won't need fire sale prices to raise money. Secondly, we expect to see more new money entering this sector and the selling that often accompanies year end for hedge funds will be done by the end of March. We expect strong news flow to return fairly quickly this year given how many projects will be seeing major exploration programs and there is little doubt that if there is momentum anywhere in this year's market its in metal producers and explorers. One final note is that if you look at the chart above, don't ignore the size of the up leg that came after the spring pull back last year. We expect a gentler correction this time around for most explorers, and an equally strong finish to 2006.