

Inside Track

Intelligent Analysis for Intelligent Investors

Volume I, No. 8

Booker Gold Explorations Limited

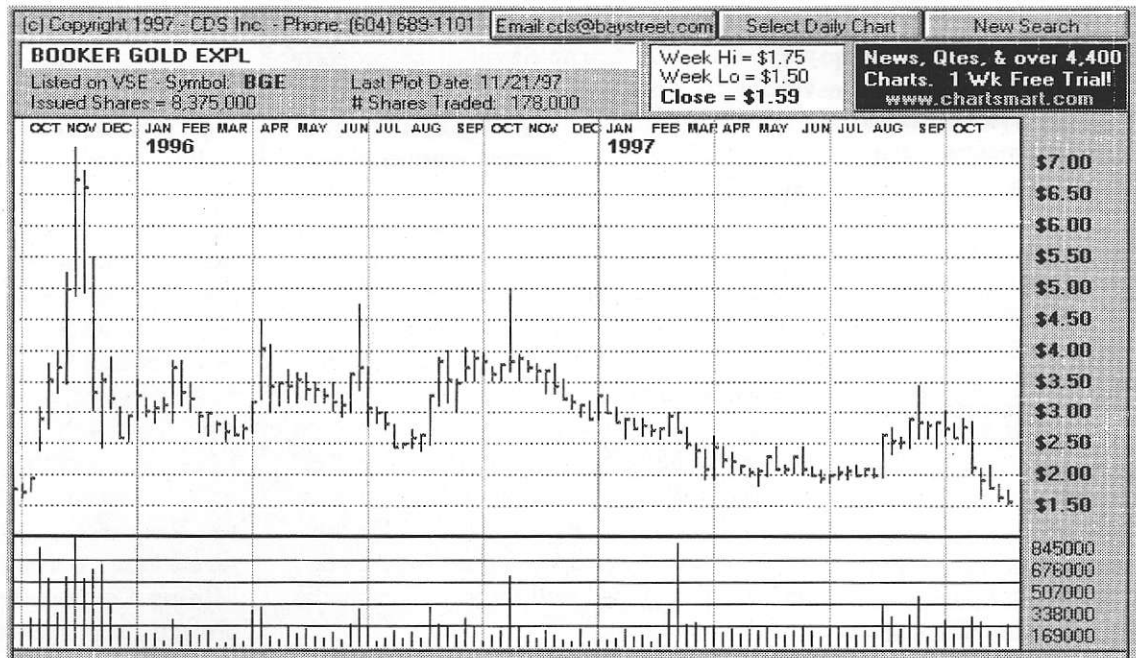
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Rating:
Attractive Buy

VSE:BGE
Issued: 8,205,659
52 wk low-high
\$0.80 - \$3.55
Price (11/28/97)
\$0.95
VSE Index (11/28/97)
633.19
Resource Subindex
515.30

**DIRECTORS
& OFFICERS**
J. Paul Stevenson
Director/C.E.O.
Chris Sampson
Director/President
Shelley Hallock
Director/Secretary
Ray Merry
Director
Barbara J. Hilton
Director
Bill Deeks, P.Eng.
Director
Perry Munton, CA
Director/C.F.O.



This year has been an awful year for the resource industry!

Perhaps awful is not a strong enough adjective. With Bre-X and a host of lesser scandals still hanging over the reputation of the industry like a mushroom cloud, the sector has to contend with financial market crises in Asia which in turn depress metal prices.

Bre-X was like a bucket of cold water splashed on investors heady with the spectacular market gains of the previous two years. Looking back, it was a harbinger of worse things to come.

But a crisis is also a time of opportunity. At the depth of market pessimism when investors, stricken with fear, are dumping their stocks, plenty of bargains can be had. But not all stocks are equal. Just because they are all down doesn't mean you should buy them all in equal quantities.

Which stocks deserve your hard-earned money and which should you ignore?

One intangible factor I look for is focus, an important predictor of stock performance. Many promoters have a stable of companies. There

are only twenty four hours in a day. If events in some companies demand most of their time, you can be sure that the stocks in their other companies will languish until they get the proper attention.

So if you happen to own stocks in their other companies, tough luck.

Talking about focus, **Booker Gold Explorations Limited** (604-681-8556) is one of the most focussed and well-run companies I have ever seen. Management has been focussing exclusively on one project since 1992. Not only that, it has all the ingredients of a successful company: strong management, advanced project, excellent connections and skilled promotion.

FOCUS, FOCUS AND FOCUS

Few things in life are accomplished without focus. The ability to focus is the key to any successful endeavour. If that's true for people, it's no different for companies.

Thirty five years ago, there was no Hearne Hill copper porphyry deposit. It was just a piece of hillside north of the former Bell and

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Granisle copper mines, 65 km northeast of Smithers. The area was first explored by the late prospector **Peter Bland** who, deep in his heart, believed something was there. He optioned the property to a number of companies, among them Noranda, which also has a high volume, low grade copper deposit next to the property.

Noranda dropped the property in 1990, citing high payment. In hindsight, this was something the company wished it hadn't done, for the old mining cliché — the best place to look for an ore body is next to a mine — still applies. In 1992, **Lorne Spence**, the property vendor, took the property to **Paul Stevenson**, a veteran prospector, for financing and development. Subsequent events were to vindicate Peter Bland.

Together, the two of them got hold of a drill, lugged it up there and tested a few holes. The encouraging results spurred them on.

Fast forward five years. Mr. Stevenson is now the driving force behind a company that employs a sizeable contingent of geologists, occupies an entire floor in a downtown Vancouver building and maintains a permanent camp at the exploration site. Drilling on the property continues year-round. He himself is well-connected within the government, the First Nations and well-respected within the mining community.

In the beginning, there was a kernel of promise and now the results hint everything is possible. To date, 142 holes have been drilled; two high grade breccia zones and another partially delineated zone established and many potential high-grade targets discovered. Some recent drill results were outstanding. Hole 97-130 intersected 209.6 ft averaging 1.70% Cu and 0.80 g/t Au, including 3.3 ft of 17.75% Cu and 4.11 g/t Au. Hole 97-140 intersected a 160 ft section of 1.79% Cu and 1.20% g/t Au, including 10 ft of 2.58% Cu and 11.14 g/t Au. It was results like the above that sent Booker's stock soaring from time to time over the past two years.

At the time of this writing, the company has hired **Giroux Consultants Ltd.** of Vancouver to calculate the tonnage and grade of the Chapman and Bland breccia zones as well as those for the entire porphyry system. Results will be available early next year.

1-MANAGEMENT

Booker Gold first came to my attention in May of this year when a mutual fund manager asked me to do due diligence on it. I was

impressed to discover that the value of the company hadn't plunged in the wake of the Bre-X scandal in late March. The best time to spot a company like this is when conditions are difficult. The adversity unleashed by the implosion of Bre-X separates the wheat from the chaff and in its aftermath, looking at the charts, it's very easy to tell which has the fundamentals and which doesn't.

Its secret at defending its value: excellent promotion. Promotion is not necessarily a dirty word. All companies need promotion, one of the many elements that make up a successful company. In this industry, the best companies are those that possess a combination of strong promotional, financing and technical skills.

Paul Stevenson, **Ray Merry** and **John Plourde**, who is in charge of investor relations, are among the best at promoting. Watching them talk to investors on the phone reassures me that this is a company that knows how to defend its value in the marketplace in the face of adversity.

And indeed, until the past two weeks, it had done very well at keeping the stock more or less steady over the past several years. By contrast, companies such as **International Curator Resources**, **Asia Pacific Resources**, **International Wayside Gold Mines** and **Tenke Mining Corporation**, with similar advanced projects, have recently lost more than 70% of their value.

It helps that Booker people work closely as a team. Spend some time at the company's office and soon you will notice the energy and enthusiasm in the air — electrifying and contagious. The company's boardroom, with a monitor displaying the bids and asks, resembles a war room where Stevenson, Merry and Plourde take investors' calls, confer on the day's market developments and plot strategies. Investor relations staff whir in and out.

Watching all this action and energy from the sidelines is exciting. It dawns on me that these are tough people: tough and vigilant at defending their company's value. By contrast, many offices I have been to are quiet — so quiet that you sometimes wonder if there's anything going on with the company at all.

Even though I am very adept with numbers and can analyze any industrial company or detect fraud just by looking at and analyzing their balance sheets and statements of income and cashflows, when it comes to resource companies which invariably have no income, I am forced to rely more on the intangible factors such as management, their team, how the people

in the office work and even the arrangements in their office.

This may sound trivial, but it has everything to do with building shareholder value. If management can't function as a team or if the office arrangements discourage communication and build barriers, or if there's internal conflict within the company, you can be sure that the company will have difficulty reaching its objectives.

I have been to Booker's office a number of times. The people there seem to work together really well. That's certainly the case with Paul Stevenson and Ray Merry. The two partners comprise the core of the company and rely on one another for strength.

There is indeed strength in numbers. United and pooling their brains together, people have been known to move heaven and earth. It sounds simple, but this is the open secret of many successful companies. A majority of the fast-growing companies have some sort of strategic alliance with other successful companies. Through collaboration, they increase their competitive strength and positioning. Similarly, on a smaller scale and in more simple terms, a company is an entity that serves as a framework and conduit for collaboration between two or more people with similar interests and aspirations.

To a certain extent, **Murray Pezim's** success was derived from having a group of bright and energetic people working with him in the same suite of offices, chipping away at deal after deal.

THE NORANDA DEAL

Noranda Inc., based in Toronto, is watching all this development at Hearne Hill with great interest. It has reason to: its Morrison deposit is a short distance away from Booker Gold's deposits. The Morrison copper deposit has an estimated geological resource of 190 million tonnes of 0.40% Cu and 0.20 g/t of gold.

The drilling to date (95 holes) indicates the Noranda deposit is not economically viable by itself. But in combination with the resource (between 8 and 15 million tonnes of high grade copper) on Booker Gold's 100% owned prop-

erty, the economics improve greatly. Throw in the unmined reserves of 70.4 million tonnes grading 0.44% Cu and .20 g/t of gold from the Noranda-owned Bell copper mine further south, and you've got lots of possibilities.

Booker recently concluded an agreement with Noranda to acquire a 50% interest in the Morrison deposit by spending \$2.6 million over the next five years. Even though Noranda is very much interested in Booker's property, Mr. Stevenson, who negotiated on behalf of the company, was careful not to give away any interest in the Hearne Hill deposit. Once a bankable feasibility study is completed for both deposits, a number of scenarios is possible. The shape of the final deal is open. It's too early to comment on who will own or do what since Noranda isn't the only major player who wants a piece of the action.

THE BOTTOM LINE

Overall, the timing for this company couldn't be better. Its project is fairly advanced, but not so advanced as to be at the bankable feasibility study stage. With the market as depressed as it is now, companies at that stage face the daunting prospect of securing financing. Capital can still be had, but the terms are likely to be stiff.

At less than \$1.00, it's a very attractive buy given the resources outlined to date. All the fundamentals are still there. I expect the stock to rebound sharply once the market is calmer. The company is not yet finished with exploration. The stock has plenty of room

to move way up as drill results become available in the next several months.

By the time management commissions the bankable feasibility study, something that I expect to take place toward the end of 1998, the Asian economies should be well on the way to recovery. Demand for commodities will be up again and the recent bear market a distant memory.

In an industry whose most valuable resource is people, this company has a very strong team. Having gone this far and having invested so much of their own money in the company, I expect Booker principals to pursue this project to a successful completion.

There's no turning back. After all, they've come a long way and the end is tantalizingly in sight.

How Much Should the Stock Be Worth?

Valuing a company making the transition from the exploration to the mining stage is difficult: The range of unknown variables is too wide to allow for proper quantitative valuation. Booker Gold, for example, is not finished with drilling yet. Additional resources are expected to be outlined by drilling over the next six months.

The true value of any future mine may not be known until an independent engineering consultant such as **Kilborn or Fluor Daniel Wright** undertakes a study to determine capital cost, operating cost, annual production, mine life and so on.

Nonetheless, all companies with a deposit attempt to assess the value of what they have in the ground by assuming they will have a mine and by making a few assumptions concerning recovery rate, mining and milling cost, tax rate and mine life. These numbers are crunched to arrive at the net present value of a company - what a stock may be worth under various scenarios.

The discounted cash flow method is the most widely accepted means of placing a value on producing mines and properties at an advanced stage.

In the most conservative scenario worked out by Booker Gold consultants and used by the company in its presentation package to brokerage firms, the net present value of the company is \$60 million based on its 50% share of the Morrison and 100% share of Hearne Hill. At 8.2 million shares issued, net present value per share is \$7.20.

The company is expected to close a financing shortly. That will dilute the net present value to some extent. However, that money is expected to outline additional resources on both properties. In the end, to the extent the company can enlarge its deposits and get the most out of its expenditures, its stock will rise accordingly.

Intelligence Spectrum

The following tidbits of information are gleaned from recent company news releases. Inside Track makes every effort to ensure that the contents are accurate and complete, but errors or omissions are inevitable. If any developments interest you, contact the companies directly for more information.

Asia Pacific Resources Ltd. - the company and its partner, **Metro Resource Co Ltd.** has engaged British-based **Dresdner Kleinwort Benson** to provide financial advisory services in connection with arranging long-term offtake potash contracts. **Scotial Capital Markets** is also engaged to act as fiscal agent for with regard to equity financing. Asia Pacific Resource and its partner are looking for U.S. \$500 million financing to put their Thai potash deposit into production.

Capella Resources Ltd - the company has received results of check fire assays on the two quartz grab samples at the company's S-claim group 40 km northeast of Merrit.. Encouraging results prompted the company to stake an additional 775 hectares for a total claim of 950 hectares.

DiamondWorks Ltd. - **Newstar Securities**, a company wholly owned by **Robert Friedland**, has acquired 6,060,606 shares and 6,060,606 warrants of DiamondWorks, each warrant entitling the holder of acquire one share at \$1.65 until July 15, 1998. Assuming full exercise of the warrants by Newstar, Mr. Friedland would be deemed to beneficially own or have control or direction over a total fo 14,121,212 shares, which would represent 13.9% of the issued shares of DiamondWorks.

Indochina Goldfields Ltd. - the company has received the final engineering report and production plan for the phase I development of the Bakyrchik gold project in Kazakstan. Prepared by **Kvaerner Metals Davy** of Toronto, the plan outlines an annual production of 120,000 and 130,000 ounces of gold for fifteen years. Management will use the report to "proceed with project financing" and initiate the "proposed 18-month construction schedule."

International Wayside Gold Mines Ltd. - progress report for 1997 provided. Company informed the Cariboo Mine Development Review Committee of its intention to purchase the remaining 50% of the Cariboo Gold Quartz mine, the Island Mountain mine and the Mosquito Creek gold mine.

International Curator Resources Ltd. - After a lengthy in-

vestigation, the company has decided that the leach-precipitate-flotation process with an SX-EW finish to produce copper and cobalt offers the most promise. With this process, zinc is recovered as a by-product; whereas before it was considered a waste; manganese and its byproducts may also be recovered, thereby enhancing project economics. Tests on how best to recover manganese will be undertaken shortly. The company intends to proceed to final feasibility by mid-1998.

Leigh Resource Corp. - The VSE has accepted for filing the company's agreements dated November 3 with E.A. Tagoe & Brotet Mining Co Ltd. whereby Leigh, in return for scheduled payments over a number of years, has the option to acquire 90% of the Brotet concession No. 158, Nkwanta concession No. 101 and Esamang & Aiyem concession No. 102, all in Ghana, subject to satisfactory due diligence.

NovaWest Resources Inc. - The VSE has accepted for filing two agreements between the company and **Dennis Bordin** whereby Novawest can acquire 100% interest in two properties in Evelyn Township, Ontario.

Pacific Bay Minerals Ltd. - released survey results by **Westmin Resources** on its TY property in the Finlayson Lake exploration camp. The soil sampling program outlined several multi-element trends with values up to 125 ppb gold, 8.8 ppm silver, 479 ppm Cu, 244 ppm lead and 3,351 ppm zinc.

Tenke Mining Corp. - Tenke's exploration work at the Dipeta syncline results in the identification of a new in-situ resource of 8,600,000 tonnes of copper and 442,000 tonnes of cobalt. The identification of this new resource almost doubles the reported geological resource of Tenke Fungurume mining concession in Zaire. In-situ value of copper and cobalt reportedly U.S \$75 billion.

Vannessa Ventures Ltd. - encouraging results from the current exploration program on the company's Potaro diamond property in Guyana prompted the company to acquire additional prospecting rights to an additional 2,255 acres.

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