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# The Red Baron Report

Hunting Down the Best Returns – Dave Kaiser, Investment Advisor 604-643-7459

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The Red Baron Report is a publication for clients, focused on analyzing current and potential economic and market conditions and outlining opportunities in the resource, energy, biotech and tech sectors. Dave Kaiser is an Investment Advisor with Canada's largest independent investment dealer, Canaccord Capital Corp.



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## The BC Mining Poster Boy - Redcorp Ventures (RDV:TSX)

Over the past two weeks the junior resource sector underwent a healthy correction driven primarily by gold's drop under \$400. Many companies had as much as a third of their perceived value shaved off while others fared much better. The key word here is "perception" and what makes one exploration company perceived as having a value higher than another is a combination of factors including management, liquidity, story, assets, location, propaganda, etc. When an overall market correction takes place the bids often thin out very quickly and the offers turn into market orders. This market activity gives us the opportunity to see which deals are better supported and have more substance. This is extremely important because we want to be very selective in our choices and build a basket of juniors that are or will be perceived as market darlings some time in the near future.

I continue to hunt for value plays that essentially offer an existing resource with exploration upside. If the market continues on its current pace there will be less of these companies available at current valuations. Having recommended and financed dozens of gold and silver companies in the last year I am further diversifying into base metal plays. In the last issue of The Red Baron Report I endorsed one of Graeme Currie's top junior exploration picks (Knight Resources – KNP:TSXV) as well as one of my own, Eagle Plains Resources (EPL:TSXV). Both companies provide investors with exposure to advanced base metal drill programs this summer. I continue to believe British Columbia will become one of the more explored areas as the government continues their pro-mining platform and settles native issues by offering some of the mining tax revenues similar to the way they have in the timber and oil and gas sectors. One of the companies that I think will benefit immediately from a change in perception ironically happens to be my latest recommendation – Redcorp Ventures (RDV:TSX).



Redcorp, through its subsidiary Redfern Resources, owns 100% of the Tulsequah Chief claims located in the northwest corner of BC near the small community of Atlin. Tulsequah Chief is a project that will be remembered by many analysts as a mid-sized gold-copper-lead-zinc deposit that went through the environmental and native ringer. Redfern is the poster boy of what can happen when a mining company wants to do business in BC. Redfern first acquired a 40% interest in the Tulsequah Chief claims under a joint venture agreement in 1987 with Cominco. In 1992, Redfern acquired the remaining 60% interest in the claims and Cominco's 100% interest in the adjoining Big Bull claims. Both the Tulsequah Chief Mine and Big Bull Mine were last operated by Cominco in the period 1951 to 1957 and thereafter closed the mines due to low metal prices. Cominco never re-opened the mine and caretakers lived at the site until the mill equipment was dismantled and sold in the late 1970's. Both were underground mines that produced in the aggregate 910,000 tonnes of ore.

Redfern recognized that the deposit had the geological characteristics of a volcanogenic massive sulphide (VMS) deposit rather than the replacement/shear-hosted affinity previously ascribed to the deposits. This recognition had important implications as VMS deposits typically occur as several lenses within a favourable geologic horizon.

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This meant that there was likely to be more ore at Tulsequah Chief than previously identified. Redfern, as sole owner, proceeded with large programs in 1993 and 1994 leading towards feasibility assessment and permitting decisions. All of this work had been successful in defining a large and continuous extension of the previously mined deposit. In 1993, Redfern obtained a positive pre-feasibility study result and in 1994 initiated full feasibility studies. Concurrently an application was made to obtain a Mine Development Certificate under the prevailing environmental assessment regulations. The feasibility study of the Tulsequah project to determine if mine re-opening was feasible and economical was completed in 1995. Aspects of the original feasibility study were re-visited and updated in late 1996 and early 1997 in a feasibility update focusing principally at modifications to the metallurgical flow-sheet and process, access road updated design and costs, mining methods and mine scheduling optimization, and attendant updates to all other project components resulting from these modifications.

The 1997 Feasibility Study update concluded that the Tulsequah project was feasible with positive economic results. The study estimated a total pre-production capital cost of CAN\$148 million for a 2466 tonne/day production rate with an operating cost of \$58.61/tonne of ore. In 1997 the study used long-term metal prices of \$0.95/lb of copper, \$0.57/lb of zinc, \$0.28/lb lead, \$385/oz gold and \$5.00/oz for silver, all in \$US at an exchange rate of CAN\$1.00 = US\$0.735. On a 100% project equity basis this was forecast to generate a pre-tax internal rate of return on investment (IRR) of 20.44%.

Unfortunately for Redfern, 1997 was the beginning of the longest metals bear market in decades and the likelihood of raising the capital expenditures for the project dwindled. Redfern also underwent a process in what I consider to be a time wasting embarrassment for the province, environmental groups and natives. In March of 1998, after a successful environmental assessment review of the proposed project development and operations Redfern received a Project Approval Certificate ("PAC") from the BC Ministry of Mines. Redfern also applied for and received a Special Use Certificate for the proposed mine access road in May 1999. In June 2000, the Supreme Court quashed the PAC after a judicial review petitioned by the Taku River Tlingit First Nation ("TRTFN"). The Supreme Court found that the government had made "procedural errors" and on July 26, 2000, ordered a re-consideration process for the continued review of the project and a new decision on project approval. A re-consideration process commenced and never reached a conclusion and the process was set aside by order of the BC Court of Appeal when that court remitted the project back to the responsible BC ministers for a new PAC.

The Crown and Redfern filed an appeal of the June 2000 Supreme Court decision to quash the original appeal. In September 2001 the Appeal Court ruled in favour of the Crown and Redfern on all administrative law counts but declined to overturn the order of the Supreme Court to quash the PAC, ruling instead that the project be remitted back to the responsible Ministers for a new decision on the PAC in which the Ministers must consider the potential for infringement on aboriginal rights and entitlement. That decision by the Ministers was announced on December 13, 2002 when a new Project Approval Certificate (PAC) was granted. The new PAC allows the Tulsequah project to proceed to development subject to satisfaction of two primary conditions related to completion of studies addressing confirmation of the nature of sediments underlying the proposed tailings pond and satisfactory completion of chronic toxicity testing of proposed water treatment plant effluent. Redfern may also proceed to require the remaining mine operating permits. The Special Use Permit for the access road, previously obtained by Redfern in 1999, is re-validated by the new PAC. There are several other conditions to the PAC including approval from Fisheries and Oceans Canada ("FOC") that could still delay the project. Complying with the conditions would move the project closer to production.

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The Tulsequah Chief processing plant is designed to process 900,000 tonnes per annum of sulphide ore containing copper, lead, zinc, gold, and silver. Average annual production of payable metals is forecast to be 57,600 ounces of gold, 2,310,000 ounces of silver, 22 million lbs of copper, 9.9 million lbs of lead and 98 million lbs of zinc. A mine of this size has a likely production period of 9 years after a 2-year construction period. The feasibility study would have to be revised to be 43-101 compliant but before doing so management plans to conduct \$6M in exploration to expand the existing resource as well as move another 3 million tonnes of ore in the inferred category to the proven category. After consulting with several geologists the potential to expand the resource appears to be very high and could increase the mine life for several more years.

Redcorp hosts a stellar management team headed by Terry Chandler, P.Geol and includes Jonathan A. Rubenstein (also director of Canico Resources), Robert G. Carmichael, B.Sc. P.Eng, Abraham Aronowicz, Ph.D., Wayne J. Babcock, B.Sc., P. Geoph. (also director Dynamic Oil & Gas), Michael Kenyon (also director of Canico Resources). All these individuals are very experienced and capable of moving this project into production.

The company has 47.7M shares outstanding on a fully diluted basis and with a 200-day moving average of \$0.30 provides a market capitalization of just over \$14M. This is cheap when you take into consideration the project has a measured and indicated resource of 788,000 ounces of gold equivalent and an additional inferred resource of 381,000 ounces of gold equivalent. More importantly, the price of zinc has not kept up to pace with the other base metals and buying Redcorp makes a great call on zinc. Redcorp appears to be about eight months behind in properly capitalizing and marketing itself as other junior companies have done. As mentioned earlier, Redcorp provides a proven asset with exploration upside and I believe it will only be a matter of ensuring retail and institutional investors that the issues surrounding the mine development plan are resolved.

The investments mentioned in this report should be considered highly speculative due to the nature of each company's involvement in the exploration for, and the acquisition, development, production and marketing of, natural resources and its current stage of development. Natural resource exploration involves many risks, which even a combination of experience, knowledge, and careful evaluation may not be able to overcome. There is no assurance that any commercial quantities of natural resources will be discovered or acquired by any of the companies.

## Red Baron Coverage Universe

| COMPANY                      | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|------------------------------|---------------|---------------|------------------------|
| <b>IMA Exploration (IMR)</b> | <b>\$3.30</b> | <b>\$3.65</b> | <b>0.96</b> 05-27-2003 |

Further drill results further reveal substantial high-grade silver-copper-lead discovery in Patagonia. The real question is how big will this discovery eventually be as a large IP chargeability anomaly points to something massive. Great news flow continues to stimulate the market. Warrant overhang quickly diminishing.

| COMPANY                 | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|-------------------------|---------------|---------------|------------------------|
| <b>Shore Gold (SGF)</b> | <b>\$1.75</b> | <b>\$1.95</b> | <b>1.01</b> 06-26-2003 |

25,000 tonne bulk sample in progress on Shore's 100% owned Star Kimberlite in Saskatchewan. Positive results from this massive program may move the project to feasibility. 4000 tonnes kimberlite stockpiled. Milling to commence any day. Stock will be on a rollercoaster as results are released - a traders delight.

| COMPANY                        | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|--------------------------------|---------------|---------------|------------------------|
| <b>Anooraq Resources (ARQ)</b> | <b>\$3.05</b> | <b>\$4.18</b> | <b>0.81</b> 08-23-2003 |

South African platinum explorer in the Bushveld Complex managed by well-known Hunter Dickinson Group. Recent agreement to combine platinum group assets with Pelawan Investments.

| COMPANY                        | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|--------------------------------|---------------|---------------|------------------------|
| <b>Everton Resources (EVR)</b> | <b>\$0.40</b> | <b>\$0.65</b> | <b>0.28</b> 10-06-2003 |

Drill results from Dominican Republic gold prospect disappointing. Discontinuing coverage.

| COMPANY                     | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|-----------------------------|---------------|---------------|------------------------|
| <b>Diamond Fields (DFI)</b> | <b>\$0.59</b> | <b>\$1.08</b> | <b>0.79</b> 10-17-2003 |

Ouch! Recent currency issue with Rand stops diamond production temporarily and investors are not impressed. Great exposure to diamonds and nickel in Sierra Leone, Madagascar, Greenland and Namibia. Look for market to react positively when diamond production recommences.

| COMPANY                          | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|----------------------------------|---------------|---------------|------------------------|
| <b>European Minerals (EPM.U)</b> | <b>\$0.87</b> | <b>\$1.09</b> | <b>0.51</b> 10-25-2003 |

Recently recommended value-play with key management. Primary European gold vehicle for Endeavour group. Looking to move Varvarinskoye gold deposit into production. Other potential major acquisitions in the Ukraine. Watch for revised feasibility study to increase NAV.

| COMPANY                         | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|---------------------------------|---------------|---------------|------------------------|
| <b>Mansfield Minerals (MDR)</b> | <b>\$0.51</b> | <b>\$0.65</b> | <b>0.59</b> 11-10-2003 |

Argentina vehicle for the Leask brothers with a million ounce gold deposit. Recent joint venture agreement with IAMGold to explore Aguas Calientes epithermal gold-silver property. More exciting news to come from this junior.

| COMPANY                      | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|------------------------------|---------------|---------------|------------------------|
| <b>Amera Resources (AMS)</b> | <b>\$0.89</b> | <b>\$0.95</b> | <b>0.67</b> 12-10-2003 |

Grosso Group vehicle for Mogote Project. Decision to either joint venture out the property to a major or fund it themselves should come in near future. With recent success with IMA watch for investors to follow management to Amera.

| COMPANY                       | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|-------------------------------|---------------|---------------|------------------------|
| <b>Knight Resources (KNP)</b> | <b>\$1.10</b> | <b>\$1.13</b> | <b>0.96</b> 01-15-2004 |

Exploration and drill program to commence in May-June. Great exposure to potentially large nickel discovery in the Raglan area of northern Quebec.

| COMPANY                   | CURRENT PRICE | HIGH PRICE    | RECOMMENDED AT         |
|---------------------------|---------------|---------------|------------------------|
| <b>Eagle Plains (EPL)</b> | <b>\$0.63</b> | <b>\$0.64</b> | <b>0.38</b> 01-15-2004 |

Plans to drill the Kalum gold project and joint venture partner SpectrumGold budgets \$5M+ for Copper Canyon/Galore Creek projects. Watch for additional joint ventures on Eagle Plains portfolio of base and precious metals projects.

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