

THE RESOURCE INSIDER

by JAMIE KEECH



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Dear Reader,

In the following pages you will find a window into the world of mining and natural resources. It's a place that I have called home for many years, from my first job cutting core on a drill rig in Mexico to travelling the world and acquiring mines of my own.

It is not a world for everyone, and certainly not for the faint of heart. The risks are high but the rewards can be even greater. It's a world full of obscure places, shady characters, and occasional debauchery.

Most importantly, I believe that the commodities represent a sector that will act as a safe haven in the coming financial storm - one that will be essential to maintaining and creating wealth over the next decade.

The goal of this book is to act as a guide to the intrepid investor committed to growing and protecting his or her wealth in the years ahead. Whether you're new to the space or an old hand, you'll find information here that will help you on your journey.

If you've watched with increasing trepidation as governments and central banks have constructed an ever more perilous house of cards in the years preceding the Global Financial Crisis, then read on as we explore the world for the best opportunities and the biggest wins in the natural resources industries.

Cheers,



Jamie Keech

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June 2018, Vancouver Canada

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WHAT'S INSIDE

Introduction: A Changing World... The Coming Resource Bull Market & Why I'm Getting Involved Now	5
The Global Macro Environment Has Changed	5
A Shift Has Taken Place Globally and is Gathering Momentum	7
The Monetization of Debt (And What It Means)	9
Chapter 1: Jamie Keech, Mining Engineer & Resource Investor	12
The Learning Curve	14
PIPEs	15
What You Don't Know Can Hurt You	15
The Plight of the Retail Investor	16
Chapter 2: An Introduction to Resource Investing	18
Management Matters	18
A Note on Nomenclature	18
Junior Miners	19
Majors & Mid-tiers	19
Developers	19
Prospect Generators	19
Streaming & Royalty	20
Rising Tide	20
How Companies Raise Money	20
The Debt Financing	21
PIPEs & The Equity Financing	21
The Bought Deal	22
The Strategic Partner	22
The Brokered Private Placement	22
The Non-Brokered Private Placement	23
Adding Value	23
Chapter 3: The Art of the Private Placement Deal	24
How the Pros Do it	24
You Gotta Know a Guy	25
The Perks	25
Discounts	26
Warrants	27
Go Public	29
Chapter 4: Why I Am Investing in Private Placements	30
Why Resource Insider	32
What to Expect from Resource Insider Deals	33

(cont...)

Chapter 5: Frequently Asked Questions	35
What is the process and how do I participate?	35
What sort of paperwork am I expected to fill out? Is it complicated?	35
What is the timeline?	35
Where and how do I send money?	36
How do I get my stock/warrants?	36
What do I do with my stock?	36
How do I sell the stock that I purchase in a private placement?	36
What is a holding period or legend?	36
Are there minimums buy-ins?	36
How much does it cost to participate?	37
How many deals should I expect to see each year?	37
What about conflicts of interest?	37
Chapter 6: Conclusion	38

Introduction: A Changing World... The Coming Resource Bull Market & Why I'm Getting Involved Now

The Global Macro Environment Has Changed

Leading up to the Global Financial Crisis (GFC) of 2008, political relationships and central bank policies among the world's largest economic blocks were largely harmonious and in sync. As the GFC hit, this coordination rocketed to levels never previously experienced in our lifetimes. In fact, never witnessed before in *economic history*. It was really quite something to witness, and no doubt it will be talked about and studied in the annals of history as folks try to make sense of it all.

This sustained coordination of financial and regulatory policy between countries was made possible by a couple of events and circumstances. Namely:

1. A common enemy. When the Allies went to war against Hitler and the Nazis it was because they understood that failure of one of them endangered the others. Therefore, a common, united front was not only reasonable but necessary for survival. When the GFC hit in 2007-2008 this same thinking applied; failure in the U.S. banking system would quickly cause failures in the British, Japanese, European and Asian banking systems.
2. The political bodies and those in charge at the time were what could be termed "status quo" and deemed reliable, even trustworthy, and even though many people were increasingly upset with them they posed no unknown risks. The devil you knew was still better than the one you didn't. They promised more of the same, even as the foundations upon which they had come to power were crumbling.

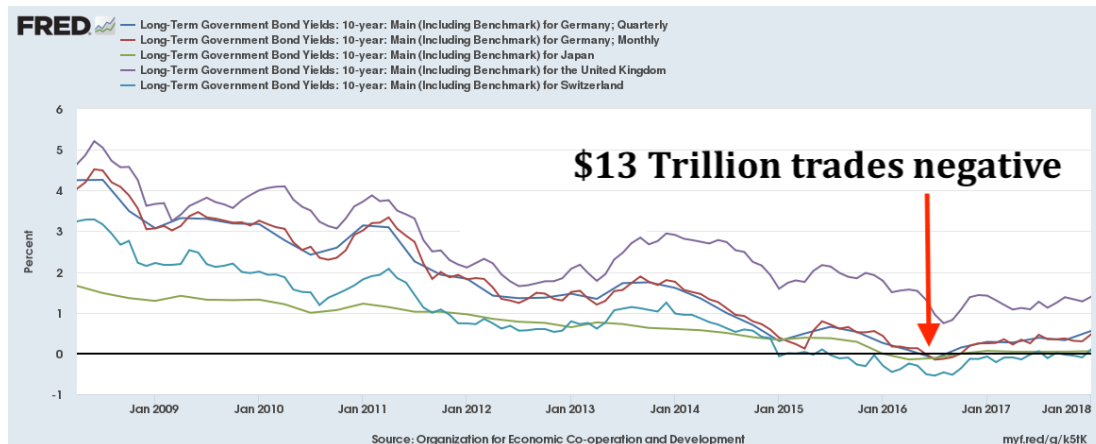
We saw this combination manifest itself in the markets during the GFC in the form of policy across all major central banks being coordinated.

Swap lines were opened and banks, insurance companies, and even automakers were effectively nationalised. And while this was taking place, the political language and narratives were carefully managed by politicians and central bankers across the developed world.

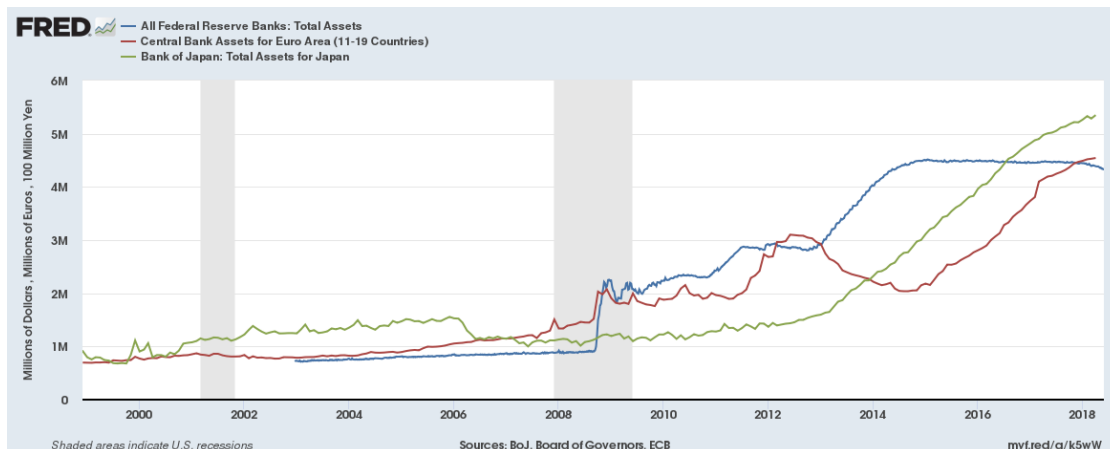
This was essential so as not to scare a market and populace who had just been given a glimpse at how fragile the system really was.

The most effective tool used by far was the manipulation of the cost of capital; interest rates. Extremely coordinated and accommodative monetary policy was required to ensure markets didn't react negatively. You see, when there is no escape valve and when all major economic blocs are conducting the same monetary policy, you can achieve what would otherwise seem impossible. And they did.

Rates collapsed to below zero.



And government balance sheets blew out.



What we have seen here is a situation where the fundamentals (government balance sheets) have deteriorated horribly while the cost of lending those same governments money has actually collapsed.

It's important to realise that this had much more to do with all of the major governments and central banks enacting similar policy measures **at the same time**, thus hemming in the capital, than it did with anything else.

Should one of them have conducted such policies in isolation we would have seen markets react - quickly punishing them and moving capital to alternatives. That no alternatives existed was not only remarkable, but it was, in fact, the glue that held the ship together.

Despite the sheer size and implications of this political union, it was no different to any other financial or political manipulation in history - it works, it gets progressively harder to maintain, and then one day it goes “snap”.

A Shift Has Taken Place Globally and is Gathering Momentum

Here at the Capitalist Exploits HQ, we had been patiently waiting for the proverbial straw to break this particular camel's back. That straw, we argued, would not be economic in nature but *political*.

The poor economic realities of massively indebted governments have been in place for quite some time, growing, and getting worse. What was needed was a catalyst that would expose them. And that catalyst was political.

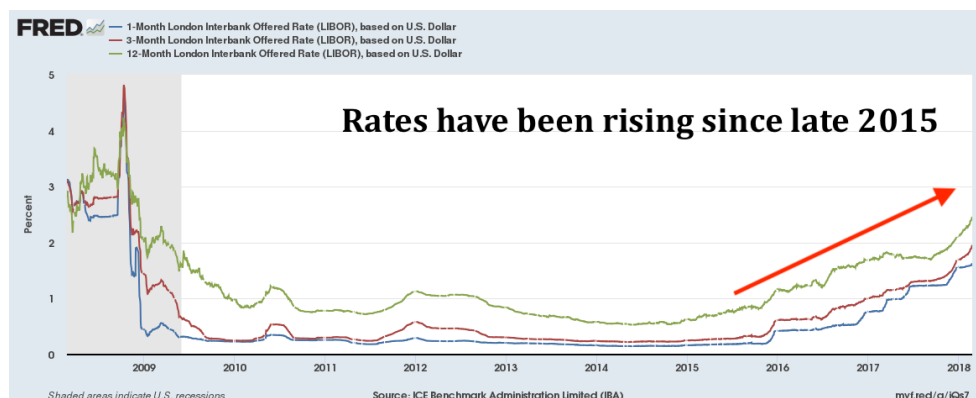
The steady and rising stream of social discontent we see today is largely a result of economic conditions, but it is augmented by social and cultural issues.

We said that this would bring to power world leaders with an entirely different viewpoint and mindset.

These are leaders whose agenda's would be more inward-looking, more derisive, and more antagonistic, leading to policies which would fracture the delicate and fragile sovereign bond markets which had been instrumental in propping up the global economy since the GFC.

Longtime readers will be well aware of what I'm referring to. It's a topic we've covered extensively over the past few years. This was why and how we foresaw and warned about Brexit, it is why we repeatedly explained why Donald Trump would win the U.S. presidency, and it is why we have diligently and repeatedly exposed the enormous problems in Europe and how and why the Euro will fail and the E.U. will fragment.

Those are all elements you'll see in the headlines but we can see the early signs of this in the financial markets. To wit, look at the cost of capital in the interbank market which has been rising steadily since mid-2016.



Now, you may be asking yourself: what does this all have to do with resource investing?

Well, unlike many other blogs/investors/newsletters who write only about resources and have been doing so throughout this last decade of poor performance in that sector, we have good reason to be excited about resource investing now.

And it starts in the bond market.

Another way to look at bonds is to view them as long-dated currency. They are the harbinger of things to come in the currency markets... and we believe that the bond market has turned.

The next step in this process will be significant moving of capital into *real* assets which are both liquid and undervalued. It is where we are set to have a **massive bull market** as the bond bear market takes hold.

Take a look at the [iPath S&P GSCI Total Return ETN](#) which is as good a proxy as any for commodities. You will notice how it bottomed in 2016 at the same time that the bond market topped.



And realise that at \$63 trillion the bond market is *the biggest market in the world*, by order of magnitude.

What will drive this bull market are not only the fear that investors will feel when bonds sell off but how the central banks will react to this.

The Monetization of Debt (And What It Means)

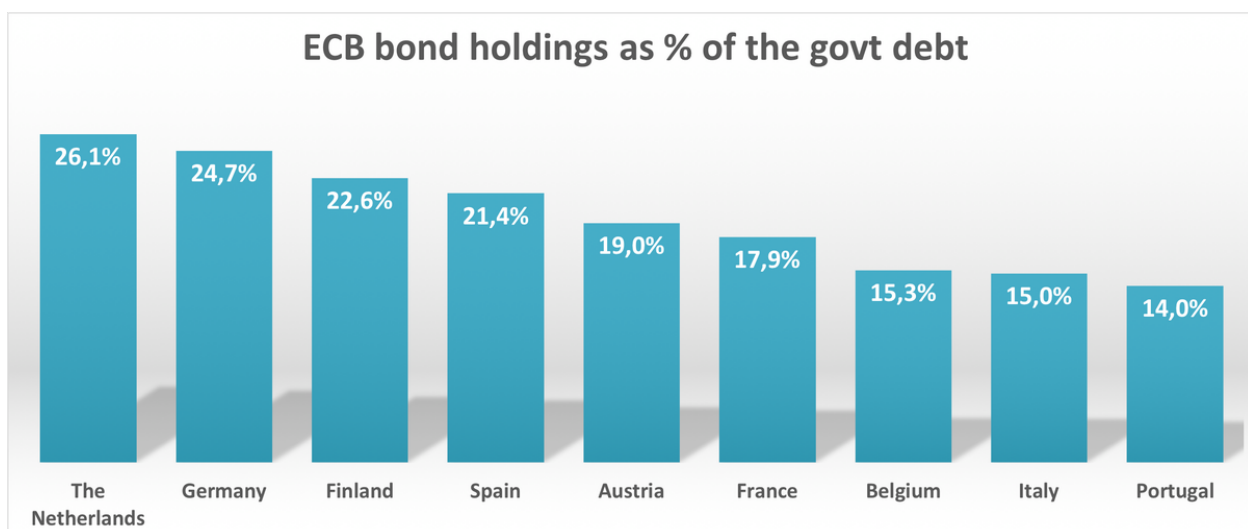
Debts of this magnitude cannot ever be paid off. That much we know. What has allowed the buildup of this debt to occur has been lower and lower interest rates.

Think about it... when the cost of servicing ever increasing amounts of debt collapses to zero, then the aggregate debt really doesn't matter, however large it is. That has been the case and it is true until rates begin to move out of central banks' control.

This crack is taking place as you are reading this. It's not a theory. The Federal Reserve in the U.S. is tightening its monetary policy, with the spread between U.S. debt and German bunds (just as an example) blowing out to the widest they have been in over a decade.

This is the political divergence that I have been harping on about, and it is now manifesting itself in the financial markets.

To further illustrate my point, consider that the European Central Bank (ECB) is the largest creditor of the eurozone nations. It holds almost 25% of German debt and 15% of Italian debt.



Political pressure on the ECB will inevitably rise to monetize part of this debt.

This outcome will do two things.

1. It will create enormous infighting between member states of the EU, further fragmenting the social fabric of the EU and accelerating the distrust for not only the EU but the euro (€). This distrust of the euro will be inflationary as holders move to hold "something else".
2. Monetization of debt is inflationary in nature, so investors will seek to protect themselves from this. Some capital will flow into the USD (\$) simply as it will be seen as the "cleanest dirty shirt in the pile"... but, this will be temporary and, increasingly, asset managers and individual investors alike will seek to allocate towards tangible assets.

It is tangible assets which coincidentally are the cheapest that they have been in decades as Jeffrey Gundlach, the "Bond King", has pointed out himself.



Investors in resources stand to do exceptionally well by benefitting from the “rising tide” effect.

But, as regular readers of Capitalist Exploits may expect, we are going to dig much deeper into how to best position our capital for this scenario.

For the last six months, I have been aggressively researching and scrutinising this thesis, speaking with countless fund managers, industry experts, mining CEOs, and resource investors to identify the best way to execute.

One of these people was Jamie Keech.

When choosing people to work or invest with, nothing beats a good track record stemming from sustained, on the ground experience in an area of focused expertise.

Jamie has amassed a wealth of knowledge and experience in his career as a mining engineer in project evaluation, mergers and acquisition, and resource investing - *exactly* the kind of investing that I eventually settled on as being the best way to allocate my capital.

I needed to have him on my team for this journey.

Together, Jamie and I have been working towards the logical extension of our Insider program - providing our readers information on and access to otherwise exclusive opportunities that we are personally investing in.

As you will see, Jamie and I are going to be entering into a series of exclusive “private placement” deals, in well-researched resource companies that look set to absolutely skyrocket in the months and years ahead.

I hope this practical guide to resource investing resonates with you, and I invite you to join Jamie and me on this epic adventure.

A handwritten signature in black ink, appearing to read 'Chris MacIntosh', with a large, sweeping flourish extending from the end.

Chris MacIntosh

Founder & Editor In Chief, Capitalist Exploits Independent Investment Research

Founder & Managing Partner, Asymmetric Opportunities Fund

Chapter 1: Jamie Keech, Mining Engineer & Resource Investor

When I was 17 years old, I entered the mining world with two goals in mind: make money and see the world. I've yet to be disappointed.

During the last 15 years, I've been around the world many times and have worked on mining and exploration projects in the Yukon, Brazil, Albania, Mexico, Nevada, Mongolia, Peru, Colombia... almost every environment, ranging from the Arctic Circle to the Gobi Desert.



Mogok Ruby District, Myanmar, 2016

Over this time, I've become fully absorbed in the world of mining and how to profit from it. Aside from visiting exotic and crazy locales, the biggest attraction is getting exposure to huge potential returns in a relatively short time frame.

For me, almost every waking hour is spent thinking about how to identify and finance the best teams and projects that the mining sector has to offer. I do this by constantly meeting with top-tier management teams, visiting projects around the world, and combing through as many data as I can get my hands on. This week I met with the CEOs of two promising mining companies, had a beer with a young entrepreneur starting his first exploration company, and chatted with one of the biggest financiers in the space. Next week, I'm off to the Andes in South America for a site visit.

My friends all work in the industry, my family members are mining engineers, and even my fiancée manages natural resource conferences. I have hardly left my home in Canada in the last 5 years without finding a way to turn my holiday into a site visit (much to my family's chagrin).

I eat, sleep, and breath natural resources.

During the last 15 years, I have helped build companies which are today worth hundreds of millions of dollars, and along the way, done pretty well searching the globe for the best mineral deposits.



Site Visit, Alaska, 2015

Like many long term investors, I have made, lost, and remade money - each experience making me a little wiser and further refining my skills.

The Learning Curve

When I finished an undergraduate degree in mining engineering in 2008, a resource boom was in full swing. I had mining companies lining up to give me jobs with fat salaries in exciting locations. I decided I wanted to learn the business from the ground up and took a job exploring for copper in Albania. I loved being out in the field mapping, collecting samples, and working on a drill program. Unfortunately, no one had bothered to tell me that the commodities business was a cyclical one and that when prices drop exploration gets hit first and hardest. I was sent packing after less than a year with the rest of the field crew. I felt pretty stupid for not taking a job at with big mining companies that was able to weather the storm better when the market got tough. So, I decided to head somewhere cheaper, Southeast Asia, to lick my wounds and plan my next big move. That turned out to be grad school at the Camborne School of Mines in the UK.

After a year of completing a Master's degree in engineering and researching mining operations all over Europe, I was thoroughly convinced academia was not for me. It was time to get back in the action. I headed back to Asia where I started working with the world's biggest mining contractor building and operating mines and major projects first in Hong Kong and then Mongolia. After several years of working on projects, first in Asia, and then later the Canadian Arctic, I saw the writing on the wall...

The real money was not being made by the technical guys. It was the entrepreneurs, investors, and company builders that saw the big returns, and I wanted to join them.

I packed up my stuff and moved to Vancouver.

For the first three months I did nothing but network. I met dozens of teams and had countless meetings. Eventually, I found a small team of young, serially successful entrepreneurs with a small project that was just getting off the ground. It took some time, but I convinced them to hire me.

We spent the next 3 years transforming a single asset company to a multi-asset developer worth half a billion dollars and headed by one of the strongest teams in the business. It was one of the most rewarding experiences of my career and it provided me the opportunity to work alongside some of the best entrepreneurs and investors in the business. This experience, beyond providing a deep network of collaborators and exposure to life changing opportunities, allowed me to understand first hand how a great company is built and how it can go on to create value for shareholders.

But, I knew it was time to move on.

During my time in Vancouver, I had not only begun heavily investing my own capital in various opportunities in the mining industry, I had started acquiring and financing projects of my own.

I had come to understand the importance of getting into deals early and partnering with the right people. I was excited to do something big.

It was around that time that one of those serendipitous events that you can never plan for, but that end up changing your life, came about. A good friend of mine insisted that I meet a writer and fund manager named Chris MacIntosh. He said that we saw the world much the same way and that we were both constantly talking about the opportunities we saw in the natural resource sector.

A few days later, Chris and I scheduled a short call... this lasted 3 hours. Later that week we had a second, and then a third. We spoke about the changes we saw occurring globally and how commodities would end up as the obvious sector to find value in the coming years. We discussed the challenge of identifying and working with the best companies, how to best get exposure to the space, and the common pitfalls faced by investors in the space. After several weeks we knew we were on to something and decided to partner up to launch *Resource Insider*. We knew that, with enough capital investing alongside us, we could get access to opportunities that couldn't be found anywhere else.

PIPEs

What Chris and I decided to focus on in those long hours of conversation was *private investment in public equities* (PIPEs) or, as they're commonly known, private placement deals.

There are few opportunities, at the correct time in this cyclical business, that offer investors the combined potential of massive upsides and near-term liquidity as PIPEs.

In a private placement, investors are buying newly issued stock directly from a company (more on this in [Chapter 2](#)). The cash generated from the sale of that equity goes directly into the company's coffers and acts as a catalyst.

Investors are buying the stock before it becomes publicly traded, because of this the company can offer a discount to the publicly listed share price, or they can attach other perks to sweeten the deal. The best deals provide companies with the capital required to create real value and provide investors access to opportunities that are not available on the market.

What You Don't Know *Can* Hurt You

Most investors never have the opportunity to participate in PIPEs. In fact, many investors do not even know they exist. One reason for this is that to participate in a private placement you must be a sanctioned or "accredited" investor. This means that they earn or possess a certain amount of capital subject to the regulations of the jurisdiction in which the investor resides. But, equally important, good PIPE opportunities are exclusive. Industry insiders know that this is where the money is often made, and competition to get access to the best deals can be fierce. Companies want good investors; ones that will support their vision and not abandon management at the first sign of trouble. Most investors do not have the networks or experience required to evaluate

these deals or get access to them; many are poorly advertised and “oversubscribed” (meaning that people want to invest more money than the company is willing to accept).

This can benefit the well-connected insiders that get access to these investments early immensely.

They know that retail investors, excited about the company, and unable to participate in the private placement have only one alternative: purchase their stock on the market. This in turn can drive up the share price.

The Plight of the Retail Investor

The truth is that resource investing is a tough gig. Exploration companies are, by design, looking for something that they do not know with certainty exists; and by the time they find out the money is usually gone. Mines are producing a product, the value of which is usually entirely outside of their control and subject to massive price swings. It's not easy to make money in this sector, but the large wins available to investors can make the challenges worth the risk.

What makes it more difficult and, what few retail investors fully appreciate, is that they are often competing against people with an unfair advantage.

These are the industry insiders that have purchased their stock in the company while it was still private or as part of an early, exclusive financing round, often at a fraction of the cost available to the average investor. For these people, the risk of losing money has been significantly minimized, and the potential for gains increased.

Unlike tech startups in Silicon Valley that usually stay private for years after being financed by private investors and venture capitalists mining companies, given the capital-intensive nature of the business, typically go public very shortly after their founding. This means that accredited investors who participated in the early financing rounds are often able to sell all or portions of their stock at a premium in a comparatively short timeframe, often measured in months as opposed to years.

Smart founders, with good projects, choose the right investors for early rounds - investors that will continue to support the company and help it grow. Unfortunately, loyalty is not always what occurs and some early investors will instead dump their cheap stock onto the market at a premium, thereby driving the share price down. At times a company may be heavily marketed to facilitate this selling, leaving retail investors holding the bag and with a portfolio full of overvalued stock primed for a crash.

Identifying the right opportunities is tough, and few investors get it right all, or even most of, the time. It requires an in-depth knowledge of the projects and people involved in each deal. It means understanding the structure of a company, who the shareholders are, and if it has been structured in a way that aligns the interest of management with that of investors.

This book is designed to provide accredited investors with a roadmap to better understand natural resource investing, to identify opportunities, and to avoid the pitfalls inherent to the sector. Our approach will not be for everyone, but, if the concepts outlined in the pages below resonate with you, you can learn more about how we are working to create value at [Resource Insider](#).

Before we launch into the meat and bones of how we are managing our own capital, let's take a step back and look at the world of investing in natural resources.

Chapter 2: An Introduction to Resource Investing

There are number of options available to investors who wish to gain exposure to commodities and natural resources. Each has its advantages and disadvantages and a unique set of risks and rewards. Different investors, with differing portfolios, will be attracted to different options.

The way that I choose to get exposure to commodities and natural resources is through the purchase of equity in mining and mineral exploration companies. I have yet to find another option that gives me better leverage on my risk capital or consistently holds the prospect of bigger returns.

With that said, mining is a tough business and few companies are ever able to realize on this potential. Therefore, it is essential that investors choose the right projects, led by the right teams, at the right time. Success requires investors to get a few things right.

Management Matters

Management matters, period. There is no other way to explain why a few people make the vast majority of mineral discoveries:

- **Ross Beaty:** founded Pan American Silver, Lumina Copper, and Equinox Gold and has made billions for shareholders;
- **David Lowell:** founded Arequipa Resources, Peru Copper, and has over 15 major discoveries to his name, and
- **Robert Friedland:** Ivanhoe Chairman discovered Fort Knox, Voisey's Bay, Oyu Tolgoi, Kamoakakula, and more.

The average number of discoveries amongst explorationists and geoscientists? *Zero.*

The most prospective and exciting projects in the hands of subpar teams can and often do quickly lose their shine and value.

Mining is hard, failure is the norm, and success requires a great team.

A Note on Nomenclature

There are “stages” of companies in the mining and metals industry and a dizzying array of terms thrown around to describe the various business models employed in the sector. It is essential that any equity investor in the space understand the structure and business model of the companies they are investing in. Here are a few.

Junior Miners

Junior miners are generally exploration companies. Typically, they have no revenue or income of any kind and raise money through the sale of equity. The name of the game for juniors is *discovery*. Their goal is to use the funds that they have raised to find an asset that they can sell to a larger mining company. Juniors typically offer the best leverage on invested capital. When they win, they win big and can bring in a 10x reward or more. However, they are *by far* the highest risk in the sector and only rarely succeed.

Majors & Mid-tiers

Major or mid-tier companies are *producers*. This means that they run operating mines, produce revenue, and (hopefully) a profit. They exist across all commodities. Majors have multiple operations and typically mine a range of commodities. Mid-tiers have at least one mine and are sometimes commodity specific (e.g. gold). Some of the biggest majors are BHP, Rio Tinto, and Vale. Examples of mid-tiers include IAMGOLD, Eldorado Gold, and B2Gold. Majors and mid-tiers offer a much flatter risk profile than junior miners, but they are still susceptible to swings in commodity price, geopolitical risk, and other factors.

Developers

A developer is a company that sits somewhere between the junior and mid-tier status. They have made or acquired a discovery and, rather than selling it to a larger company, are financing, building, and operating the project themselves. This situation is surprisingly rare as few operations and management teams can make the jump from explorer to operator themselves. Even so, it does happen and can generate significant value when managed properly. The primary risk to developers is scope creep, meaning the projects take longer and cost more to put into production than anticipated thereby draining the value out of the company. It takes a very good team to pull a development project off well.

Prospect Generators

The prospect generator is a variation on the typical exploration model. Instead of conducting the expensive work of exploration themselves, prospect generators acquire ground and then sell an ownership share of that project to another company. Typically the outside company will finance and/or conduct the necessary works to advance the project as a means to “earn into” ownership. A well run prospect generator ends up owning small portions of many projects whilst minimizing the outlay of capital. While prospect generators lose the huge upside of any one discovery, they are exposed to significantly more opportunities thus increasing their chance in sharing in the value created by one or more discoveries.

Streaming & Royalty

Streaming and royalty companies are essentially alternative financiers for mining and exploration companies. Instead of buying equity in the company, they purchase a percentage of future metal output (“streaming”) or a percentage of future revenue (“royalty”). Streaming and royalty companies offer one of the safest and highest returning models in the space for investors. They spread their risk across numerous assets and still have significant leverage to rising metal prices. That said, like anything else, finding the best streams and royalties is easier said than done and more than a few companies have screwed it up badly. This model was pioneered by Franco-Nevada Corp. and Wheaton Precious Metals.

Rising Tide

When? That’s the billion-dollar question in the commodities business. The natural resource sector is cyclical, commodity prices go down and they go up. It is rarely a question of if but of when. The problem is ‘when’ can often be a very long time; usually measured in years and sometimes decades. More than a few companies (and investors) have died waiting for commodity prices to rise. Get your timing wrong and it is hard to make money no matter how good the company is.

As JFK said, “a rising tide lifts all boats”. This is an oft-repeated mantra in the mining industry. It refers to the notion that when commodity prices rise the value of nearly every mining company focused on those metals will rise as well, sometimes at an exponential rate. And while this is true, the problem with this mentality is that it only works if the company can survive the dry years. Investors must choose companies with the staying power to survive and thrive in the lean times and those best positioned to prosper when the tide inevitably comes in. They must be well run and have great assets to truly deliver a return on invested capital.

In addition to choosing the best projects run by great teams at (hopefully) the right time industry insiders often take advantage of another little-understood tactic designed to optimize their investments. They participate in ***private placements***.

How Companies Raise Money

In many ways, a corporation is just like a person. At some point in their lifespan, most corporations require an influx of capital beyond that which they can readily produce from revenue. This cash injection can be used to expand an operation, purchase a new asset, or fix a specific problem. Anything that management believes will add value.

The process of obtaining this capital is commonly referred to as ***raising money***, and a company with the ability to raise money is a company with the ability to grow.

Companies have several options available to raise capital, but these typically fall into one of two broad categories: *Debt* or *Equity*.

The Debt Financing

You are probably familiar with debt. If you have ever taken out a car loan or a mortgage it is essentially the same thing on a larger scale. A debt financing entails the lender, or group of lenders, providing a company with capital at a specific interest rate and repayment terms. In theory, anyone can fill the role of lender but this is primarily the domain of banks and other financial institutions.

When a company takes on debt they must pay it back, and then some.

In the mining industry debt is dangerous, often hard to come by, and above a certain level it can often spell death for a company. During exploration companies produce no revenue and are, therefore, extremely unlikely to be offered a debt financing as they have nothing to pay it back with. This is similar to having to co-sign for a car loan for your deadbeat brother in law... except no one co-signs for exploration companies. Later in the mining life-cycle, large amounts of debt can make operating miners extremely susceptible to commodity price fluctuations. If companies are unable to meet debt payments, they are at risk of losing the asset or being taken over.

Fortunately, there is another option...

PIPEs & The Equity Financing

Most investors will have purchased equity securities at some point in their career. If you have bought stock in a company you have purchased equity. Or, you may have done so indirectly and been exposed to equities through a Mutual Fund you invest in or an Exchange-Traded Fund (ETF) you've purchased. Owning equity means that you own a share in a company. It means that if the company does well your stock is worth more and vice versa. The value of your investment is directly tied to the value and performance of the company.

The most common way to make an equity investment is to buy stock on a stock market. Whether this investment is made through an online trading account or a stockbroker, the end result is the same. The stock market acts as a platform with which to buy or sell stock in a listed company. The investor that wishes to buy a given quantity of a company's stock will purchase it at an agreed upon price from another investor that wishes to sell it. This exchange of stock occurs between investors.

There are however unique situations when accredited investors have the opportunity to purchase stock, not from another investor, but directly from the company. This situation is an equity financing.

A company chooses to complete an equity financing as a means to generate capital. This can be as part of a going public event, such as an initial public offering (IPO), or it may be for a publicly traded company that wishes to raise additional funds. This capital may be required to complete a merger or acquisition, advance a major project, or make improvements to existing

operations. It can be anything that management and the board of directors believe will add accretive value to the organization.

Equity financings are particularly common in the mining space as junior exploration companies, by design, do not generate revenue and mining projects often require significant amounts of upfront capital.

To complete an equity financing a company will issue new stock and sell it to a select group of investors. Investors might be a bank, another company, a hedge fund, a private equity firm, or individual investors. It is a unique situation because investors are purchasing newly minted shares directly from the company at a price set by the company and approved by the exchange on which it trades.

A good company can afford to be selective of its investors; a mediocre ones will take what it can get. The process by which newly issued securities are sold to investors can take several forms as detailed below.

The Bought Deal

A bought deal is typically conducted by an investment bank. In this scenario, the bank takes all of the newly issued securities and assumes the responsibility of selling them to clients. Clients in this scenario usually include funds, retail, and high net worth investors. To complete this service the bank charges the company a fee between 3-6% of the value of all securities sold. The advantage to the company is that the bank guarantees the stock will get sold and, if they cannot sell it at the agreed upon price, they must own it themselves or take a loss by selling it at a discount.

The Strategic Partner

In the resource sector, strategic investments are common. In this scenario, the newly issued securities are sold to another company that becomes a major shareholder in the issuing company. In the case of the mining industry, it is common to see major or mid-tier mining companies compete for strategic investments in promising junior exploration companies. They do this to lock down a portion of prospective deposits. This also makes it easier for them to acquire the project in the future should they choose to do so.

The Brokered Private Placement

In the brokered private placement, the company is responsible for placing their own stock with investors, they are often helped along by brokers who sell all or a portion of the stock on the behalf of the company to institutional and retail investors for a commission. The primary difference between a brokered private placement and a bought deal is that the sale of the securities is not guaranteed. A brokered private placement may be completed by one brokerage firm or several and will typically have numerous brokers working to “place” the stock with their clients. Commissions gleaned from this process is one of the main avenues by which brokers make their money.

The Non-Brokered Private Placement

In the non-brokered private placement, the company does not pay a commission and is responsible for selling all of the stock to investors themselves. A company might choose this option because management has close relationships with institutional investors such as hedge funds or private equity firms that want the stock. Additionally, the company might have a following of accredited retail investors that they know wish to purchase the stock. Or they may partner with a group like *Resource Insider* with a strong community of accredited investors that are interested in the financing.

The benefits of a non-brokered private placement are twofold:

1. The company is no longer forced to pay a commission on the capital raised and can thus devote the entirety of the funds to the purpose for which they were raised.
2. It enables the company to build close relationships with supportive investors who understand their business strategy and buy into the vision of what they are trying to achieve.

Adding Value

What is crucial for an equity financing is that it adds value. Issuing new stock means that a company is diluting its existing shareholders. If a company has 1,000,000 shares outstanding in the market and they issue 100,000 more it means each existing shareholder owns 10% less of the company than he or she did previously. This makes sense only if the capital raised adds real value to the company and the subsequent dilution is justified. An investor must understand what the funds will be used for and determine if the financing is accretive.

Chapter 3: The Art of the Private Placement Deal

I work regularly with an informal group of mining entrepreneurs. Most have founded, built, and sold several companies. Many are multimillionaires. This group consist of engineers, geologists, lawyers, ex-investment bankers, and accountants.

One thing we all have in common is that we not only put our money behind our own businesses, but we regularly invest in each other's. There is a rule that insiders in the mining business know: ***Get in early and invest with the people you trust.***

The reality of the mining business is this: *for a project to succeed you've got to be good, and you've got to be lucky.* Even the most promising projects, run by the best people, can go south quickly. Metal prices crash, a change of government results in the loss of permits, bad drill results collapse the share price, or poor metallurgy puts the economic viability of an asset in question. That is the name of the game, and the risks are the natural tradeoff for the staggering returns of the winners.

Even still, there are high-caliber mining professionals who choose to spend the most productive years of their career starting and running early-stage mining companies knowing full well that the odds of success are stacked against them.

These are professionals that could be pulling in fat paychecks as executives at major companies or vice presidents at investment banks. But, they give it up to run startups. Why?

The answer is simple: ***access to deals.***

How the Pros Do it

When you are an industry insider, part of the inner circle, you get access to opportunities other people simply don't get.

Perhaps a geologist you once worked with, who has made several discoveries, is doing a private round of financing to get his new company off the ground before the IPO. You know him, and you trust him. Maybe you put a few thousand dollars in.

Your old accountant just signed on as the CFO of a promising turn-around project. You put a bit of money in during the initial recapitalization.

These are the opportunities your broker does not know about. These are the companies that do not need to advertise for capital or pay banks outrageous commission fees; because they have people in their network lining up to write cheques.

Access to private placements is where many industry insiders make their money.

This is why high performing professionals give up massive salaries at investment banks. This is how they hedge their bets against running one small high-risk company.

They invest in their network.

Leaders in the mining space are tapped in to a closely-knit network of CEOs, explorers, and financiers that are constantly on the lookout for the best deals. When they find one, they call their trusted friends and colleagues to help build, staff, and finance the company.

This is how resource insiders make their money.

You Gotta Know a Guy

The best deals do not need your money.

Yes, they need *some* money, but it does not have to be yours. Often the team of financiers and operators that are arranging the best new deals are trying to determine how they can accommodate all of their colleagues that want in. Sometimes they will limit, or “cutback”, the amount any one individual can invest so that they can fit more people in.

To be blunt, if you do not know the right people, these deals are likely not available to you.

Companies want investors they can trust. They want investors that understand the game plan and are willing to stick with the company through the inevitable ups and downs of a startup. They want people that buy into the thesis and are willing to support the management team to get it done.

This is why they work with the people they know.

The Perks

The reason *great* entrepreneurs and scientists set the bar high for the investors they are willing to invite into their deals is because there are perks to being an insider. To attract the investors they want companies will offer a better deal. This is primarily seen via three incentivizing mechanisms: *discounts*, *warrants*, and *IPOs*.

Discounts

One of the perks commonly associated with private placements is the opportunity to purchase stock at a discount. The discount offered will depend on interest in the deal, perceived risks, and the rules of the exchange the company is traded on.

As an example, the TSX Venture Exchange, where many mining companies are listed, typically allows for common shares issued as part of an equity financing to be discounted at rates of 15-25% of the current share price.

What about premiums?

Equity financings that are in particularly high demand amongst investors will occasionally be completed at a premium to the current share price (often with the addition of a warrant).

When the stock is in high demand, the listed share price can actually rise on the news of a well-received private placement. This means that as the private placement is ongoing or “being filled” the stock price of the traded equities can go up.

An excellent example of this occurred during Aston Bay Resources equity financing in December 2017. Aston Bay announced that they would be raising C\$4 million at C\$0.16, with a half warrant executable at C\$0.20. On April 2nd, the financing closed on nearly C\$4.5M of capital. At that time the stock was trading at over C\$0.25 a share having risen from C\$0.13 over the course of the financing.



Aston Bay Share Price

This means that the private placement participants had nearly doubled their money *before* the financing was even completed; despite the fact that the money was raised at a premium to the starting share price.

This should be tempered with the knowledge that most equity financing will have a multi-month hold period before participants are able to sell their stock or warrants onto the market. Even so, it is still an great example of the opportunity that private placements can provide for investors that participate in them.

Warrants

The offering of warrants is another way that companies sweeten the deal for private placement investors.

First of all... What is a warrant?

“A warrant is a derivative that confers the right, but not the obligation, to buy or sell a security – normally an equity – at a certain price before expiration. The price at which the underlying security can be bought or sold is referred to as the exercise price or strike price. An American [or Canadian] warrant can be exercised at any time on or before the expiration date, while European warrants can only be exercised on the expiration date.” - Investopedia

While this sounds quite complex, it is really fairly simple.

A warrant is a financial instrument that converts to stock at or above a given price.

In a private placement investors generally purchase what is called a “unit”. A unit commonly consists of a combination of shares and warrants. The most typical arrangement being:

1 Unit = 1 Common Share + 1 Warrant

Or

1 Unit = 1 Common Share + ½ Warrant

How does this look in practice?

Here is an example:

You are set to purchase 1,000 units of XYZ Corp. at \$0.20 per unit. Each unit consists of 1 common share and one ½ warrant. Warrants have an execution, or strike, price of \$0.30.

This means post-purchase you will own: 1,000 common shares and 500 warrants.

Once the stock becomes free trading (see Chapter 5: FAQ) you are able to sell the shares at any price of your choosing. However, you are not able to sell the warrants until the share price is at or above \$0.30, and they will have a value equivalent to the share price less \$0.30.

This means that if the share price is \$1.00 your holdings will be worth:

$$\text{Share Value} = \$1.00 \text{ Price} \times 1,000 \text{ Volume} = \$1,000$$

$$\text{Warrant Value} = (\$1.00 - \$0.30) \text{ Price} \times 500 \text{ Volume} = \$350$$

$$\text{Total Value} = \text{Shares} + \text{Warrants} = \$1,000 + \$400 = \$1,350$$

Alternatively, if the share price is at \$0.25 the warrants are not above their strike price and therefore worth nothing so your holdings will be worth:

$$\text{Shares} = \$0.25 \times 1,000 = \$250$$

$$\text{Warrants} = (\$0.25 - \$0.30) \times 500 = \text{N/A}$$

$$\text{Total Value} = \text{Shares} + \text{Warrants} = \$250 + \text{N/A} = \$250$$

Warrants are an added perk if the share price goes up. They help to sweeten the deal for both investors and the company.

It should be noted that warrants and shares can be sold on the market at the same time or separately. This means that an investor can sell all of his or her shares and hold onto the warrants, or vice versa. A common tactic used by investors is to sell their shares shortly after the financing and hold on to the warrants in the event of a price rise. This can allow them to reclaim all or a significant portion of their invested capital while still maintaining exposure to the upside of the company, significantly reducing their risk.

The only limitation to this strategy is that warrants have an expiration date, after which they can no longer be sold. The expiry date of warrants is set by the company and typically ranges between 1 and 5 years.

This means that an investor must sell his warrants prior to the expiration date or they are no longer redeemable. It is possible that the share price never rises above the scratch price before the warrants expire and they cannot be sold.

Go Public

One of the most common scenarios in which an accredited investor participates in an equity financing is when a company “goes public”. The most common route to “going public” is an initial public offering (IPO) or reverse takeover (RTO). Typically going public will coincide with an equity financing. In this situation, the advantage to accredited investors is that they are able to purchase stock in the company before it is free trading on an exchange.

If the deal is considered particularly “hot” and there is significant interest in owning the company, private placement participants can obtain stock before market trading drives up the price. Participation in an equity financing for a going public event can lend investors a first-movers advantage.

Chapter 4: Why I Am Investing in Private Placements

It's easy to be bullish on commodities. But like all investing; it's the execution that really counts...

The most significant opportunity we foresee in the near future stems from capital outflows from the sovereign bond market.

We believe a significant percentage of capital in this gigantic \$63 trillion dollar market will need a new home. We can debate what percentage this might be, but given that a mere 5% of this market represents \$3.15t, even if our view is *partially* right, that is "market moving" money.

As political and economic unity in the world's largest economies fracture, institutional investors will most likely allocate their capital into assets of real tangible value. Aside from the loss of confidence in government bonds (and by proxy, currencies), the reason for this is that natural resources represent strategic assets for governments, who will increasingly look to secure stable supply lines given the continuing breakdown of established cross-border trade relationships and political instability. The last thing that any government needs is internal social unrest brought on by a scarcity of natural resources.

Further adding to the attractiveness of this sector is that many important markets, such as uranium, have been all but abandoned by investors over the last decade. This is despite basic supply and demand fundamentals; meaning that these assets should remain attractive irrespective of the geopolitical macro situation currently heightening their appeal.

We believe we have identified these markers early enough to enter the market at the right time.

The question then becomes: **How best to execute?**

I occasionally purchase stock on the public markets when I see what I believe to be a significantly undervalued company or a unique trading opportunity. My primary focus, and the way I prefer to get exposure to the natural resource market, is through participation in private placement deals. The reasons for this are threefold:

- Private placements are ***catalytic capital***. The money I invest goes directly into the company to complete value-add work, not to some traders account on the other side of the country. Done properly this should increase the value of the company and therefore my investment.
- Participating in private placements allows me to get to ***know who I am backing***. I research the management team, learn about the projects, and reach out to the company to hear the plan straight from the horse's mouth. I want to meet the people I am putting my capital behind, and listen to them tell me face-to-face what it will be used for. Anyone can put together a flashy website or powerpoint presentation. It is harder to fake it in

person, especially when I get to pepper them with questions. When someone tells me how they are going to spend my money, I hold them accountable to that.

- **Negotiation.** I have found no other option that allows me to negotiate the price I will pay. Whether it is for a discount or the inclusion of warrants, when a company completes an equity financing investors have a say in what they are willing to pay. Unlike trading on the market, the company sets the price and can incentivise investors to participate.

Trading stock is a hard road, you are competing with highly competent and well-financed individuals and organizations. Many companies have their upside “priced in”, meaning that the company is often trading at a premium based on the anticipation of an event, be it drill-hole results, near-term production, or any other value-add scenario. Here you are dealing with basic human psychology, the fear of missing out on an opportunity, that can drive the price of a stock (even a good one) way beyond a reasonable purchase price. Add to this the fact that when you are buying stock on the market, it might well be from the very investors that participated in the company's last financing. It could be that those investors are taking advantage of the excitement around the company (warranted or otherwise) to sell the stock they purchased at reduced prices.

The beauty of a private placement is that it can effectively sidestep this gold rush mentality.

Without significant resources and a deep understanding of what they are looking at, it can be challenging for retail investors to make money trading on the market. There is a case to be made that investing in the resource industry is not investing at all but rather speculation. The reason for that is simple: *pretty much every mining company or natural resource stock reaches a point where you should sell it.* It is not like buying Coca-Cola where you can buy and hold onto your stock for the next 25 years. The value of a mining company is too dependent on outside influences. Even the best run company with world-class assets lose value as metal prices drop (we have seen it again and again).

Many people buy commodity-focused ETFs which have the advantage of providing exposure to the resource industry. If you are not interested in doing any research, this is not a bad choice. The problem with this mentality is that you get the good with the bad. The duds pull down the value created by the winners. ETFs gives investors exposure to the industry as a whole but constrain the big wins.

In a highly cyclical market, my aim is to get exposure through a smaller portfolio of companies that I believe offer the best leverage to commodity price upswings and have the greatest chance of maximizing my return on invested capital.

First and foremost I am a mining engineer and an investor. You won't hear me telling you that the price of gold is “just about to take off” every day for next 25 years irrespective of what is going on in the world. There is a time to get into commodities and a time to get out. I believe the macroeconomic and geopolitical signs are all pointing towards a bull market in the space; Chris and I started *Resource Insider* to take advantage of that. Our goal is to identify what we believe to be the best private placement deals, invest our own capital, and provide our subscribers

information on how to access these opportunities. That is how we intend to leverage our capital in the coming commodities rush.

RESOURCE INSIDER

Why Resource Insider

I started [Resource Insider](#) for two reasons:

1. To bring together a dedicated group of well informed accredited investors able to provide the critical mass of capital necessary to secure access to the best deals in the sector.
2. To build a community of like-minded individuals dedicated to sharing ideas and finding the best opportunities in the natural resource space.

Resource Insider is a community. One dedicated to improving the wealth and lives of all of our members. The open exchange of ideas is paramount to its success and actively encouraged.

In addition to hosting regular webinars, Q&A's, and updates, *Resource Insider* has dedicated social media groups where members can interact with myself and each other.

I will look at any project our members recommend, and, if it makes sense, we will pursue it.

Resource Insider members receive regular reports discussing where we believe the best opportunities lie and identifying risks. We provide on the ground information, from site visits, exclusive interviews, and extensive research. In short, we provide our members with the information we believe is essential for investors to make informed decisions in the natural resource space and nothing more.

Resource Insider is an independent research service focused on providing access to game changing information. It is certainly not for everyone. It falls outside the realm of comfort for the average investor who is solely interested in trusting his or her capital to the financial advisor with an office in the nearest strip mall.

Given that membership is limited, we accept only accredited investors of a certain quality. Investors who are intellectually curious, make their own decisions, and take action. Our members are people who want to learn about resource investing, are not afraid to ask questions, and have a taste for adventure.

What to Expect from *Resource Insider* Deals

Our mandate is simple: Obtain the highest return on capital invested in the natural resource sector. This will be done primarily by leveraging private placement opportunities in the mining and metals space.

We will be looking across commodities and locations, at companies of varying size, value, and business model. This means that one deal could be an early stage nickel exploration project in Asia, the next a royalty company based in Toronto, and the next a development stage asset in Latin America.

We will be looking for promising projects lead by experienced proven teams. That said, many of our deals will be with small to midsize companies that are working on earlier stage projects. This is where we can get the *most* leverage for our capital and drive the best deals.

It is important to note that this is very different than buying stock in Apple or General Electric. This is risk capital focused on entrepreneurial ventures with the prospect of multi-time returns, but, also, the risk of partial or total losses.

For each investment opportunity presented at *Resource Insider*, our team provides an in-depth look at the technical aspects of the project, the management team, the financial realities, and the corporate structure of the company. We conduct our own due diligence in the form of site visits, discussions with management, review of publicly available information, and consultation with experts in the space. This information will be made available to subscribers along with a risk and reward profile of the opportunity, a summary of the catalysts required for project success, and a risk analysis. At the end of the day each of our members must decide if an opportunity presented is right for them and their portfolio, but we'll provide the information that we used to make our own decisions.

Our team will be investing capital into each of the private placement opportunities we explore and will provide regular updates on all investments held in the *Resource Insider* portfolio. We will tell you how we manage our capital invested in each deal, and there will, of course, be full disclosure of any potential conflicts of interest, always.

Chapter 5: Frequently Asked Questions

Note that the answers to the following frequently asked questions pertain to a general, or typical, non-brokered private placement but will vary case by case.

What is the process and how do I participate?

Once you have become a *Resource Insider* member you will be notified of all upcoming investment opportunities we are exploring. You will be able to review information on the structure, timeline, and fundamentals of each deal and after conducting your own research choose to participate as you decide best suits your portfolio.

The *Resource Insider* team will explain the fundamentals of each opportunity along with breaking down the investment thesis that drove us to pursue that deal. When available we will be providing additional information such as site visit reports, interviews with management, and supplementary analysis.

The mechanics and timeline of each investment opportunity will be spelled out as clearly as possible, and the *Resource Insider* team will be available for questions and clarifications.

What sort of paperwork am I expected to fill out? Is it complicated?

A typical featured investment opportunity will require participants to fill out paperwork directly with the issuing company, this is called a subscription agreement (sub-agreement). This requires the participant provide information about themselves, their location, the amount of money they wish to invest, their status as an accredited investor, and information pertaining to their trading or brokerage account.

Information will also be provided on where to send the sub-agreement upon completion. This may be completed either via hard copy or online depending on the transaction. For each deal, the *Resource Insider* team will provide detailed instructions on how to fill out the paperwork necessary to participate. It is important to note however that this paperwork must be submitted to the company you are investing in, *not Resource Insider*.

What is the timeline?

The timeline during which participants must complete the necessary paperwork and transfer the adequate funds will vary case by case. The goal is to provide subscribers with as much time as possible to make all the necessary arrangements. A typical timeline is in the two-week range.

Where and how do I send money?

This will be unique to each investment opportunity, but, typically, investors will be required to forward the necessary funds to a financial institution and account of the issuing company's choosing. This is usually best completed by money wire or electronic transfer. Occasionally cheques or certified bank drafts are accepted.

How do I get my stock/warrants?

Upon completion of the deal, the company will issue the new stock (and warrants if applicable). Generally, investors will have the choice to have the physical stock certificates sent to their address, or directly to their broker to be deposited in their account. Alternatively, it is often possible to have the stock electronically transferred to a brokerage firm for deposition into the investor's account.

What do I do with my stock?

If you chose to have the physical stock transferred to you, you can either deposit it into a brokerage account or store it yourself.

How do I sell the stock that I purchase in a private placement?

Once your stock has been deposited into a brokerage account and is free trading, you are able to sell it on the market as you would any other security.

What is a holding period or legend?

Often stock purchased in a private placement is subject to a hold period, referred to as having a "legend" on the stock. This means that, for a set amount of time, the investors who participated in a placement are unable to sell their stock. A typical hold period is around four months.

Are there minimums buy-ins?

We have set no minimum buy-ins for *Resource Insider* member. Members may choose to participate in all or none of the deals discussed. However, the issuing company may dictate that each investor choosing to participate allocate a minimum amount of capital. We anticipate this to be in the \$5,000 - \$10,000 range for any given deal.

How much does it cost to participate?

Once you are a paid *Resource Insider* member, there is no cost to participate in any private placement or investment opportunity discussed.

Additionally, *Resource Insider* takes **no** commission or fees from the deals being featured.

How many deals should I expect to see each year?

We will be examining and participating in as many good opportunities as we can find. Ones that are accretive to our portfolio and that, we believe, will be of interest to our subscribers. With that said, we do not know exactly how many that will be each year. Our goal is to provide the details of 6-12 private placement deals each year. If more good opportunities present themselves, we will not hesitate to pursue them.

What about conflicts of interest?

Any conflicts of interest with the *Resource Insider* team will always be clearly stated. If one or all of us are shareholders in a company featured this will be clearly stated. If we are, or were ever, involved in building, managing, or advising a company we feature or intend to be in the future, this will be clearly stated. Our intention is to invest our own money into the deals that we feature, if for any reason we are unable to do this or elect not to, this will be clearly stated.

Does Resource Insider or any of its staff receive incentives for the opportunities it shares?

No. The price of membership pays for all research and due diligence performed, meaning you know that our interests are 100% aligned with subscribers'. We do not stand to gain any sort of commission, payment or equivalent from the opportunities presented to subscribers. This means we are able to maintain our independence in looking for the best opportunities and are not guided by ulterior motives.

Chapter 6: Conclusion

“Life moves pretty fast.
If you don’t stop and look around once in awhile,
you could miss it.”

— FERRIS BUELLER

The world is changing quickly. Things that have worked in the past cannot be assumed to work in the future. As the political ties that have bound the world's most powerful economies come undone and the forces that, for the past decade, have coordinated to control interest rates and manipulate the cost of capital falter, we are in for a massive paradigm shift. The bond market will flounder and investors will move to put their capital in hard assets that are both liquid and undervalued. Smart investors will start now.

At *Capitalist Exploits* we believe that one of the best ways to prepare for this shift is by investing in natural resource companies today. To accomplish this and to align our portfolio with this strategy, we will be participating in equity private placement deals in mining and natural resource companies.

I believe that private placement deals offer an unparalleled opportunity for returns and are the most effective way to leverage capital in the natural resource sector. It is why industry insiders regularly participate in this type of deal, and access to the best opportunities is highly competitive.

Our team will be on the ground visiting projects, meeting with management teams, and combing through technical and financial data. We will be searching for the best opportunities and working to negotiate the best deals out there.

We are excited about the coming commodities rush and working alongside those who join us for the adventure. If what we have discussed in this book resonates with you visit the [Resource Insider](https://capitalistexploits.at/join-resource-insider/) for more information.

“Each entered the forest at the point which he himself had chosen, where it was darkest and there was no way or path. If there is a path it, is someone else’s path and you are not on an adventure.”

– Joseph Campbell

