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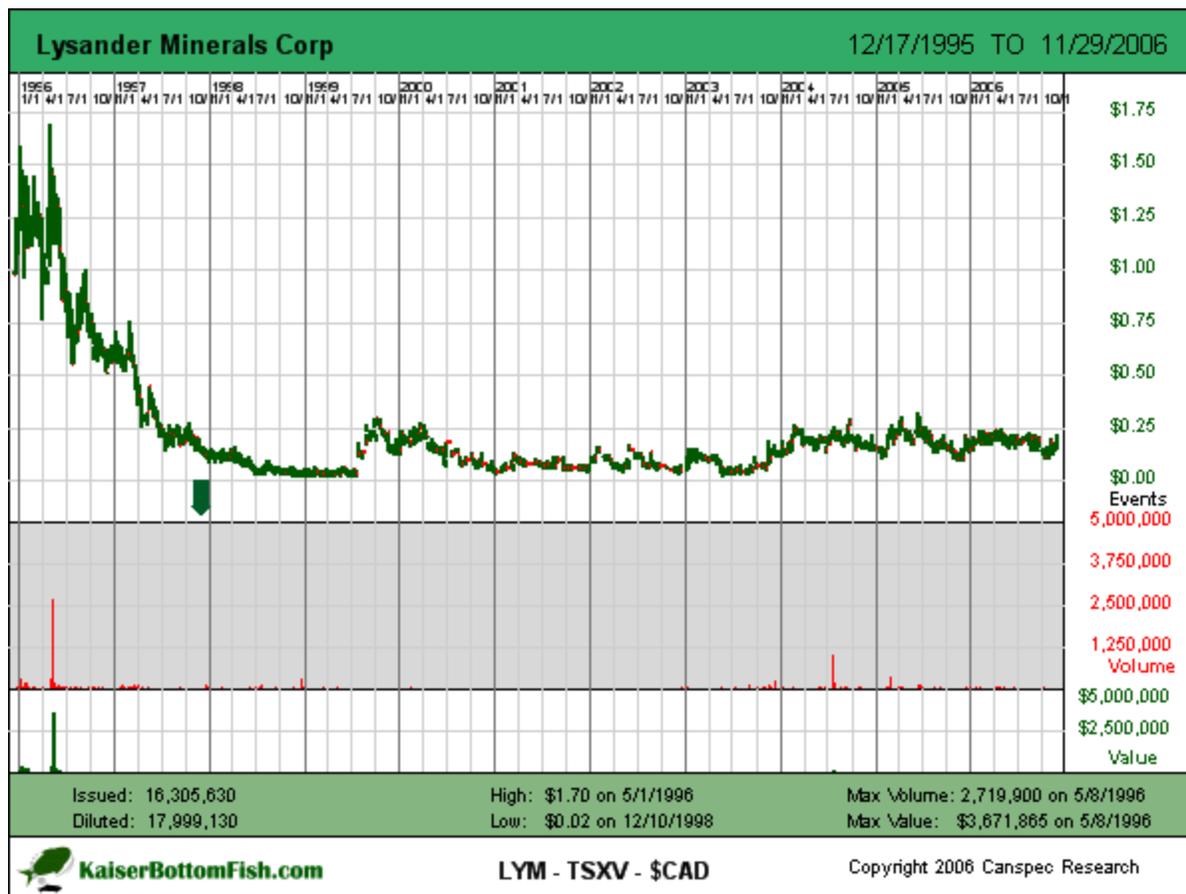
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Express 2006-06: Eastfield and Lysander propose spin out and combination of Lorraine-Jajay stakes

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Eastfield and Lysander propose spin out and combination of Lorraine-Jajay stakes

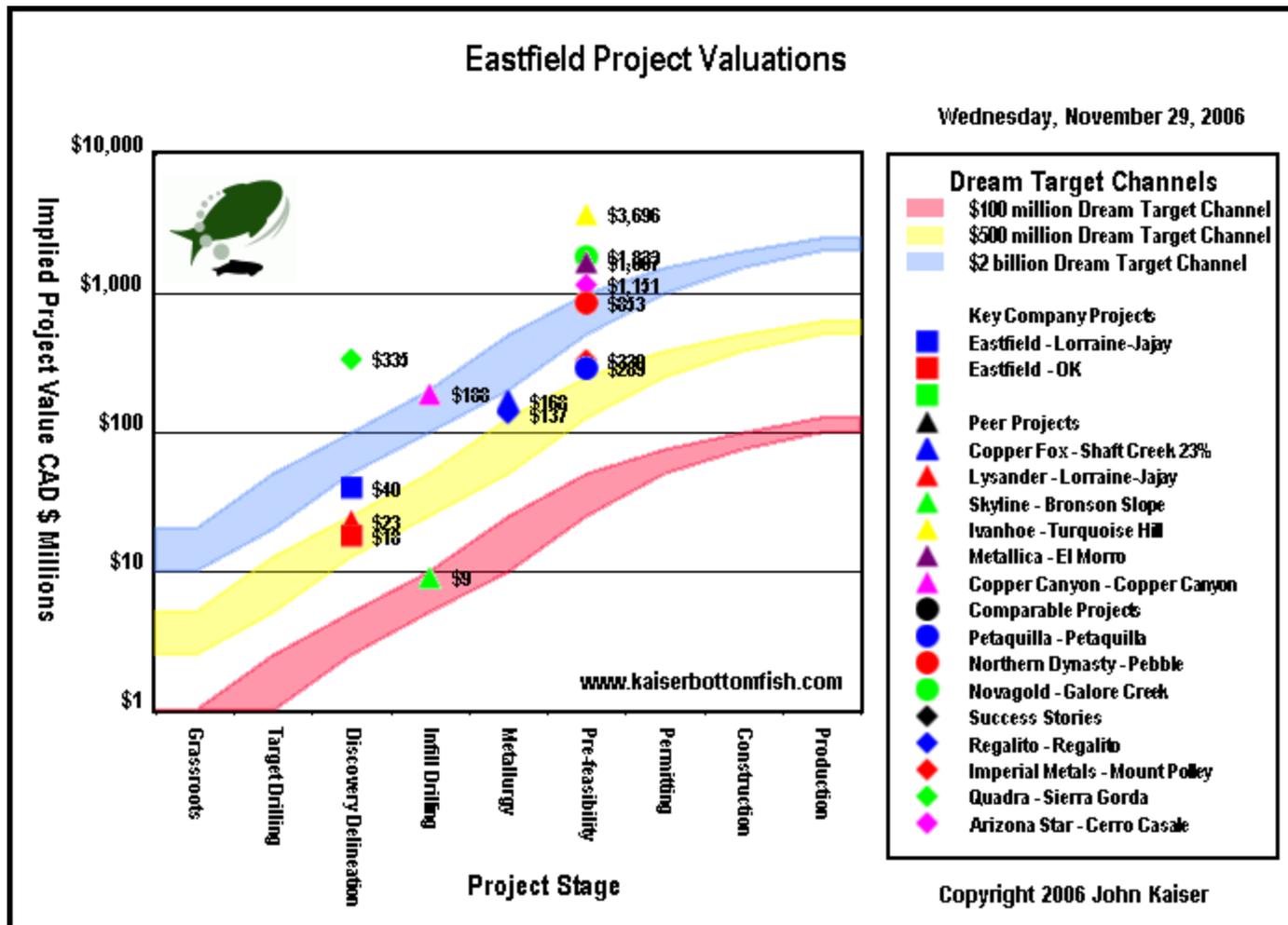
Synopsis: Eastfield Resources Ltd (ETF-V: \$0.16) and Lysander Minerals Corp (LYM-V: \$0.22) have announced a plan to spin off and merge into a new company their respective 17.5% carried interests in the Lorraine-Jajay copper-gold project in northern British Columbia. The precise terms remain to be determined, but it is understood that the shareholders of each company will as a group receive an equal number of shares in the new company, with Lysander shareholders receiving 1 new company share for each existing share. Currently there are 16,305,630 issued and 17,999,130 fully diluted shares of Lysander, while Eastfield has 41,809,919 issued and 45,589,919 fully diluted. Using the fully diluted numbers, this should result in Eastfield shareholders receiving roughly 0.4 new company shares for each Eastfield share. Eastfield would like the ratio to be 0.5 shares, which Lysander could make possible by completing a private placement of 2.5 million units over the next few weeks. Lysander has received financing overtures, but Don Mustard for the moment is adamant that he will not finance until the Lorraine-Jajay interest has been spun off. However, Lysander has no working capital, and would like to conduct a key six hole drill program on its 100% owned Osilinka copper-gold project next spring. I suspect if the stock were higher the Living Legend would succumb to common sense and get the money into his treasury.



While Eastfield has been pestering Lysander to do a deal along these lines for the past year, the impetus for the decision now is unofficial word that Lorraine-Jajay has become a high priority for Teck Cominco, which apparently is planning a major drill program in 2007 that will include targeting potential feeder systems for the various zones of copper-gold mineralization. Eastfield has an open bottom-fish cycle based on a top priority bottom-fish buy recommendation in the \$0.10-\$0.19 made on November 3, 2003 when copper prices were breaking out and a Kennecott back-in right had been negotiated away. Eastfield had a brief run to a high of \$0.56 in January 2004, but since then has wallowed in the bottom-fish buy range while management farmed out Eastfield's remaining BC projects to a variety of juniors.



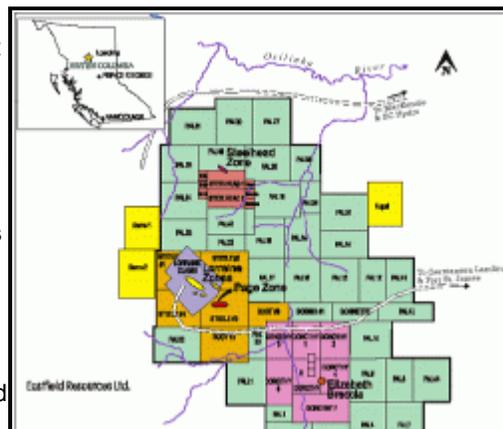
Lysander is a former bottom-fish recommendation made in 1994 which achieved modest success in 1996 but was closed out as a loser in 1997. At the current price Eastfield's 17.5% stake in Lorraine-Jajay has an implied value of \$40 million, while Lysander's 17.5% stake has an IPV of \$23 million. Lysander's IPV represents fair speculative value for a \$500 million dream target, which has to be a plausible target if Teck Cominco is to stay interested in the project. If we combine the two interests on terms which in effect double the number of fully diluted Lysander shares, the IPV of the new company will still be \$23 million at \$0.22. But here is the Spec Value Hunter bargain: what will be the price of the other 18 million shares of old Lysander which retains 100% ownership of the Osilinka copper-gold project and the Pinchi project that adjoins Lorraine-Jajay? Surely not zero! Given that the surviving Lysander will have a modest fully diluted capitalization and at least one interesting project, I would expect the stock to be worth at least \$0.15 if not more. Furthermore, I doubt the new company with 36 million fully diluted shares, a 35% carried interest in Lorraine-Jajay, and an upcoming aggressive exploration program by Teck-Cominco on an advanced copper-gold project that already has a resource with an in situ gross value of \$1.6 billion, would stay at \$0.22 very long. In fact, I suggest that the post spinoff price of the company with the 35% Lorraine-Jajay stake will rapidly climb to \$0.40 where the IPV will be the \$40 million we currently see in Eastfield's stock price. In other words, Lysander is an easy double from current levels over the next two months just as a result of the plan of arrangement.



Judging by the \$0.06 jump on Wednesday the market has started to understand the Lysander play. It no longer makes sense to recommend Lysander as a bottom-fish, but it does make sense to recommend **Lysander Minerals Corp as an Absolute Good Spec Value Buy at the current \$0.22 price with a \$0.40-\$0.50 short term target.** With regard to Eastfield, if \$40 million is a reasonable IPV for a project such as Lorraine-Jajay, it means that the market is not giving credit for any of the other five projects Eastfield has farmed out on a 40-45% net basis. However, once they are separated from Lorraine-Jajay they will command a value, and I would be surprised to see the price any lower than the current level. Eastfield will have about \$1 million working capital and 5 BC projects on which others are spending money. One of them is the copper-molybdenum OK deposit near Powell River that is farmed out to a still private junior. That itself deserves a bottom-fish buy recommendation in the \$0.10-\$0.19 range. But of course the spun out half share should be worth \$0.40, or net \$0.20 to the Eastfield shareholder. So it looks like Eastfield will also nearly double just as a result of the spin out. For these reasons I am **confirming my top priority buy recommendation in the \$0.10-\$0.19 range for Eastfield Resources Ltd.**

Background information on the Lorraine-Jajay project

The Lorraine-Jajay deposit was discovered in 1947 by Kennecott, but never developed because the resource of 32 million tonnes of 0.66% copper and 0.25 g/t gold (US \$50 rock at \$635 gold and \$3.15 copper) cobbled together from several zones was deemed too small. (This resource calculation was completed by Giles Peatfield in 1998 before NI 43-101 standards came into effect.) Lysander had optioned the Lorraine property from Kennecott in 1994, but blew its brains out on a gold project in Brazil, after which the late Arthur Fisher emerged in charge of the company. Lysander optioned up to 75% of Lorraine to Eastfield in October 2000, but Eastfield had a hard time generating market interest due to weak copper prices and a back-in right Kennecott retained in case a 150 million tonne plus resource was discovered. That is the sort of outcome this project needs to justify development, so it is understandable that the market failed to get excited.



I had recommended Eastfield as a

top priority

bottom-fish buy in the \$0.10-\$0.19 range on November 3, 2003 after Kennecott had waived its back-in right and copper prices had broken out of their bear market rut. By March 2004 Eastfield had raised over \$2 million at prices up to \$0.60, but the stock faded when the Cyclical Bears roared onto the field during Q2 of 2004 with dire predictions that the commodity "bubble" had peaked and would soon "bust". Eastfield did not help its cause by drilling a dozen dud holes on targets that some suggest should never have been considered in the first place. Although Eastfield was not yet vested (it needed to spend \$4 million to earn 65%), in June 2005 it agreed to farm out the project to Teck Cominco on terms that resulted in Eastfield and Lysander each retaining equal interests in a net 35% carried interest if Teck Cominco chose to finance production. The option was actually just an option to option Lorraine-Jajay. Teck Cominco advanced \$750,000 to each of Eastfield and Lysander to spend on the property. If Teck Cominco declined to option the property the advance would become convertible into stock at the greater of \$0.50 or a 40% premium to the market price. In January 2006 Teck Cominco did decide to option the property, and the \$1.5 million became part of its requirement to spend \$9 million by Dec 31, 2010. Teck Cominco budgeted \$2.3 million for its 2007 program that focused on extensive mapping but did include 17 drill holes of a reconnaissance nature designed to help it better understand the property's geology. Assays are pending for a number of holes and Teck Cominco is still compiling and evaluating the results.

Apparently Teck Cominco likes what it is seeing, and is paying more than lip service to Don Mustard's theory that a 12 km wide magnetic ring on the property is indicative of a large alkaline intrusive at depth with carbonatite characteristics. The Lorraine-Jajay deposits bear more similarity to the Galore Creek, Mount Polley and Afton deposits than standard porphyry systems (silver, platinum and palladium values are present), and it has been suggested that these deposits are part of the IOCG (iron oxide copper gold) deposit spectrum whose most famous member is Olympic Dam in Australia. An analogue in Chile would be the Candelaria deposit. Teck Cominco's goal apparently is to find higher grade feeder systems at depth. Should Teck-Cominco succeed, the post spinout Lorraine-Jajay junior would become an obvious takeover target for Teck Cominco.

*JK does not own shares in any of the stocks mentioned herein

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