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- K.F.L.
- L.R.
- E.C.J.

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leader in point & figure

for Peso file

Dow-Jones Indices	
30 Industrials	933.52
20 Rails	213.54
15 Utilities	162.11

There are two times in a man's life when he should not speculate: when he can't afford it, and when he can:
 Mark Twain, PUDD'NHEAD WILSON'S CALENDAR

May 7, 1965
 Friday 9 A.M.
 Vol II, No. 92

CURRENT MARKET ANALYSIS

Since there is no change from last week's detailed market forecast, we will now proceed to examine a special situation.

In our search for new silver mines in which to invest, we came across Peso Silver. There are no blue-chip silver companies, so one must rely on diversification for safety.

In our rummaging about, we learned that Charter Oil owned a large portion of Peso, giving us a "double play." Since Charter is attractive in its own right, since low-priced oils are now in vogue, and since Charter has apparently been overlooked so far, we are adding it to our Long-Range List for investors. This could take time (so traders keep away). The stock is eligible only for risk accounts that stress capital gains over income. Try to buy around current levels, and avoid reaching for the stock.

NEWLY RECOMMENDED - LONG RANGE LIST #2
SPECIAL INSTITUTIONAL REPORT
Charter Oil (CHR - 2)

CHARTER AND PESO

Charter Oil stock is a speculation which has possibilities in two fields now attracting increased market interest; namely, silver mining and oil exploration in northeastern Canada. The ventures combined in this stock do not require an investor to take any wild gamble. At the current market price for Charter of \$2.00 (US), present assets plus the net working capital alone would seem to justify this quotation, even if the company's future should not be as bright as appears likely.

Charter Oil acquired control of Peso Silver Mines in 1963 after Food Machinery & Chemical discontinued its exploration of the property because of large financial commitments in other divisions of its business.

Peso has eight possible silver mines in the promising Yukon district of northwestern Canada. Mineralization of many areas there is so extensive that the exploration department of Falconbridge called it a "new mineral empire"; it was largely because of these prospects that Falconbridge Nickel, a few years ago, acquired control of United Keno Hill, a prominent silver producer there.

Charter, with 2,397,852 shares, owns 1,500,000 shares of Peso's 3,900,000 shares — so the investor in Charter has, in effect, 33/100th of a share of Peso behind each share.

Peso has no funded debt. In addition to this indirect interest in Peso, a Charter stockholder might eventually receive direct participation, since Charter has in the past paid dividends in Peso shares (last year Charter declared 1 Peso for every 10 of its own shares). The investor can of course buy into Peso directly, but in so doing he would become subject to the 15% equalization tax on foreign securities. Charter is traded on the American Stock Exchange as well as on Canadian exchanges, and there is a large floating supply of stock held by U S citizens; Charter bought on the ASE carries no tax unless purchased from a foreigner.

PESO SILVER (\$1.30 in Canada)

In the first fiscal year of Charter's control (the 12 months ended July 1964) Peso greatly expanded both its claims and its exploration. The land holdings were increased from 18 to 150 square miles, making Peso the largest holder of silver and gold prospects in the Canadian Yukon. On some deals, Peso has had as a minority partner Northfield — one of the Thayer Lindsay companies — and Charter has also supplied the capital for this partnership. Large-scale development schemes might be sought. For example, preliminary negotiations are now underway for partial financing by W R Grace & Co. It is also worth noting that Peso now sells for less than it did when the company had only about one-fourth as much land as now.

Peso is not merely an inactive holder of mineral prospects. It has not only expanded its claims in the area from 230 to 2,000 within the past two years, but it has also spent (as of March 31, 1965) some \$3,590,000 (around 90¢ a share) on exploration and development, both above and below ground. As a result of these expenditures, two of the mines might be ready for production in a year or so, and these could earn 50¢ to 70¢ (C) per share. The company thinks it might take another \$10 million to bring in all eight mines. If these mines are brought in serially, the cash flow from those properties already operating should provide a large portion of the needed capital.

Peso's attraction is not limited to potential earnings (at the present price of about \$2 from its first two mines. There are 115 other prospects as well. Some of these would certainly pay more money than others, however. It might help to finance one of them. How

Sorry, but this is the best copy I can produce at this time
JH Johnson
 CMS

the rest will be financed, management was not able to say.

A higher price for silver is of course a decided possibility. Such an event would have a dramatic effect on the fortunes of Peso by greatly increasing the cash flow from these two mines, and thus make it much easier to open the rest. On any reasonable advance in silver prices (which we think inevitable) Peso could produce as much as 15,000,000 oz. of silver, which would make it a major factor in the field.

Peso enjoys another unique attraction. This little company is the first to have gotten the photographic film industry seriously interested in considering the purchase of silver mines to produce commercial silver at a reasonable price. Peso has entered into negotiations with two of the largest American film processors to buy into it. Such purchases would not remove control from the present management, and a photographic purchaser's price would have to be at levels far above Peso's current quotation. If such a deal can be concluded soon, Peso's shares are likely to reflect this good fortune at once, and in a substantial way. This move is a very logical step for the film companies to take. Silver will continue to be in tight supply even if the U S removes all of it from coinage; the U S however is unlikely to do more than reduce the silver content by half or two-thirds.

PESO SILVER'S MINING INTERESTS

The 2,000 claims and properties are in two entirely different areas of the Canadian Yukon — the Mount Nansen and the Mayo districts (which are some 80 miles apart). These claims involve not only silver, but also gold, lead, zinc and antimony.

At Mount Nansen: The Mount Nansen exploration has been very encouraging. By the end of 1965 at least 200,000 tons of ore should be proven, enough to justify the purchase of a second mill will to start operations at 200 t/d. Since the ore bodies have only been tested down to 1,000 feet, and seem to go deeper, a new 500-ton mill may be needed later on. There also remains over 20,000 feet of vein zones to be explored. Peso hopes that ultimately Mount Nansen will become a major silver producer.

The indications are that the mill feed will have about 30 oz. of silver per ton plus 0.55 oz. of gold, for a value of \$62/t (C). Another \$300,000 will be needed to start the operation in high gear. Mining and milling costs have been estimated at up to \$20/t, to which must be added transportation, smelting and selling charges. If estimates are proven out, Peso should make 50¢-70¢ per share from the initial stages of mining at Mount Nansen. No Canadian taxes will be payable for the first 3 years of the new mine's operations. Northfield Mines holds a 20% interest in this mine.

At Mayo: The Mayo area is one where United Keno has been operating successfully for many years. Peso has the 100% of the Peso Rex property, plus 50% of Silver Titan. The former are the sites of plants on which FMC Corp (Food Machinery & Chemical) did extensive work. An investment of \$2,000,000 had it have been made, which

was expected to pay out in only 2.7 years (at the lower metal prices then prevailing). The present management of Peso has not done much additional work on these Rex veins since the ore is erratic. It is high in silver as well as in lead and zinc, and thus is similar to United Keno Hill's ores.

In Mayo, Peso is concentrating on the Shanghai mine of Silver Titan, which looks quite promising. Peso spent \$100,000 on it in 1954 and has since stepped up the pace. The total is \$450,000 to date. Underground exploration seems to indicate a major ore body. The grades run high, with 40-100 oz. of silver per ton, and lead and zinc up to 30%. A further \$200,000 will be spent on underground exploration. Plans for a 200 t/d mill are not yet detailed, could be from 200-500 t/d. The earnings from a 200 t/d mill in Mayo would be higher than at Mount Nansen — due to the better grades of ore. These large expenditures reflect Peso's considerable optimism, and if their hopes are confirmed, shareholders might possibly have twice as much from Shanghai as from Mount Nansen.

In summation, Peso has several propositions which, in this brief survey, we shall not outline. It is worth mentioning that one of these presents interesting possibilities with regard to gold. If Peso continues to find prospects and develop them, its large holdings should make this Company increasingly interesting to investors.

SILVER'S TREND TOWARD HIGHER PRICES

The investment attraction of the Peso situation should be judged against the strong trend toward much higher prices for silver. We do not intend in this Letter to go into a long discussion on silver. Suffice it to say, that the Free World in 1964 produced 215,000,000 oz. of silver versus 213,000,000 oz. in 1963 versus 211,000,000 oz. in 1962 versus 209,000,000 oz. in 1961 versus 207,000,000 oz. in 1960 versus 205,000,000 oz. in 1959 versus 203,000,000 oz. in 1958 versus 201,000,000 oz. in 1957 versus 199,000,000 oz. in 1956 versus 197,000,000 oz. in 1955 versus 195,000,000 oz. in 1954 versus 193,000,000 oz. in 1953 versus 191,000,000 oz. in 1952 versus 189,000,000 oz. in 1951 versus 187,000,000 oz. in 1950 versus 185,000,000 oz. in 1949 versus 183,000,000 oz. in 1948 versus 181,000,000 oz. in 1947 versus 179,000,000 oz. in 1946 versus 177,000,000 oz. in 1945 versus 175,000,000 oz. in 1944 versus 173,000,000 oz. in 1943 versus 171,000,000 oz. in 1942 versus 169,000,000 oz. in 1941 versus 167,000,000 oz. in 1940 versus 165,000,000 oz. in 1939 versus 163,000,000 oz. in 1938 versus 161,000,000 oz. in 1937 versus 159,000,000 oz. in 1936 versus 157,000,000 oz. in 1935 versus 155,000,000 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returning 40 oz. of silver per ton of ore, and if the cash flow were \$30 per ton, then the film company would have a credit of 75¢ per oz. against a selling price of \$1.29. This would give the film company cheaper silver than was available to it even when silver was selling at 90¢. Film companies could well afford to tie up some money in such an investment.

BACKGROUND OF CHARTER OIL'S ASSETS

Incorporated in 1950, Charter Oil had acquired by the end of the fiscal year 1964 (ended July 31) land holdings in Canada as follows: Northeastern British Columbia - 27,689 net acres, Alberta - 41,910 net acres, and Saskatchewan - 43,404 net acres. There was also a net royalty interest at 1% to 5% in 1,486,735 acres, in Alberta, Saskatchewan and the Arctic Islands.

Charter has been an active trader of properties in recent years. In 1963, it sold its investment in Northern Ontario Natural Gas and Cascade Natural Gas for \$2,082,826; and also disposed of its drilling subsidiary. Late in the same year, it sold oil producing acreage in northeastern British Columbia for about \$2,400,000 on which a profit of \$2,047,000 was gained. During fiscal 1964, Charter sold certain securities which registered a gain of \$772,000.

Charter's operating income is not significant at present. Last year's sale of production plus royalties amounted to only \$90,467 against which were charged operating expenses of \$314,742 (including depreciation, depletion and exploration costs of \$123,900). Capital gains during the year, of \$2,270,204, went directly into surplus rather than being shown in the income account.

Charter bought control of Peso Silver Mines in November 1963, taking 1,400,000 shares at \$1 (C) and 500,000 at \$1.50. Other transactions in the stock included a special sale of 500,000 Peso at \$2.10. Charter at present holds about 1,680,000 shares of Peso at a cost averaging approximately \$1.30.

On July 31, 1964, Charter had \$1,756,000 convertible debenture 5-3/4% bonds due to mature in 1972. These are payable in U S dollars, and convertible into common at \$3.75 (US) per share.

On March 22, 1963, Canadawide Investments Ltd acquired control of Charter, buying most of its stock around \$1.50 (US). It then assumed management. Two-thirds of Canadawide is owned by Anlagebank of Zurich, Switzerland.

THE NEW OIL DISCOVERIES AND CHARTER'S POSITION

In February of this year, Banff-Acquitaine-Sooey made a big discovery in the Rainbow Lake area of northwest Alberta, adjacent to the large gas discoveries just over the boundary in British Columbia. Banff's well flowed oil from one zone, and gas emitted from three others. The well is being kept a "tight" hole, with no information released pending land sales (due to start on May 6). This is the first time oil has been found in the area, and it should greatly accelerate drilling there.

While it is too early to assess the value of the discovery, it seems possible geologically that the entire trend of Canadian oil and gas lies along a sweeping curve running from the coast (near the boundary of Alberta) and curving up toward Alaska. This curve

would carry right through northwestern Alberta and northeastern British Columbia, and the Rainbow Lake discovery tends to confirm this theory.

Holdings of independents in the area of Rainbow Lake show Banff with 7,700 net acres, Acquitaine with 77,000, Central Del Rio with 43,000 and Charter with 15,000. Charter originally picked up this block for only \$3 per acre. Adjoining sales about two months ago were at about \$20, although the price now ranges from \$50 to \$200. General speculation is that the area may hold a Mid-East type of reserve of 6 billion bbls. and perhaps 5 to 10 trillion c.f. of gas. Active drilling in the area will undoubtedly assume boom proportions. Pacific Petroleum is operating some land near Charter. Charter has just been approached by at least six companies for farm-outs of the acreage.

This boom has so far added about \$2,000,000 to the value of Charter's holdings. Prior to the boom, Charter's acreage in northeastern British Columbia had been appraised at \$2,400,000 by J C Sproule & Associates, a leading consulting firm. The boom in lease values has recently increased the appraised value of Charter's land holdings by an estimated \$2,000,000, or almost \$1 per share.

The Charter holdings in Alberta and Saskatchewan are probably worth another \$1,000,000. New discoveries have occurred in Saskatchewan within the past month. For the first time in several years, this province, too, begins to look attractive. All Canada seems poised on the verge of an exciting oil rush, which is understandable since the discovery of a possible 6 billion bbls. in the north would more than double the present total proven reserves of oil for the entire nation. At the end of 1963, there were 4.8 billion bbls. Investors would do well to follow drilling results and land sales very closely for the next year. Investment in Charter, with its holdings, is one good way to do it.

CONCLUSIONS: A good, rock-bottom estimate of the total value of Charter's land holdings, including its working capital and investment in Peso (at the market) is from \$3.25 to \$3.50 (C) per share after deducting debt. If an actual discovery is made on its lands, the value of these acres could go up much more.

If silver goes up to \$2 (US) per oz., then Peso's earnings from the Mount Hudson properties could rise from the estimate of 50¢-70¢ per share (in the next year or two) to 85¢-\$1.15. This advance would also bring closer the actual mining of the Shanghai vein which should be more profitable. Under these conditions, if Peso stock sold for only a low 5 times earnings, Charter's ownership should advance in value to more than \$4.00 per share.

To this figure should be added the current value of its oil and other assets of \$3.25-\$3.50 per share, giving the investor a near-term value of around \$7 for Charter stock.

Charter at \$2.00 in New York represents an interesting "double play." If both its main interests turn out well, it could appreciate quite substantially in price. Even if only one makes good, it is still worthwhile in terms of sizeable percentage capital gains.

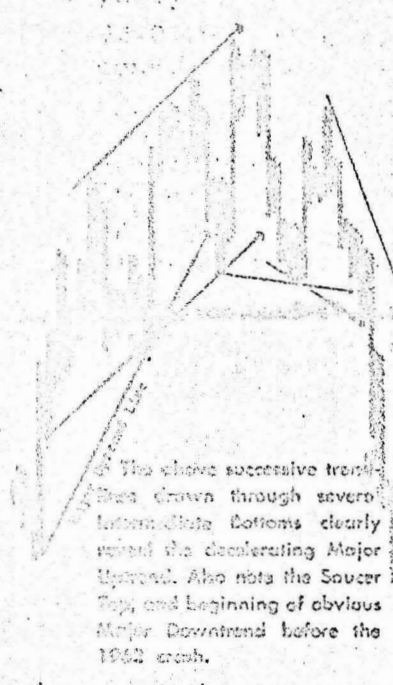
D.S.

HOURLY POINT A FIGURE DOW-JONES INDUSTRIAL AVERAGE. Every move five points or more since July, 1967. It is axiomatic that the DJI represents mass psychological response to business cycles. Given that gradual rates of directional changes in the cyclical DJI are slowly measurable, and given that graphic delineation of changing trends accurately portray DJI direction, it follows that orthodox trend analysis should predict percentages of the probable whereabouts of future business cycles. This chart obviously describes varying rates of cyclical change, both on Minor and Major scales. With pencil and ruler, draw in additional trendline connecting any series of tops or bottoms, but not a top with a bottom.

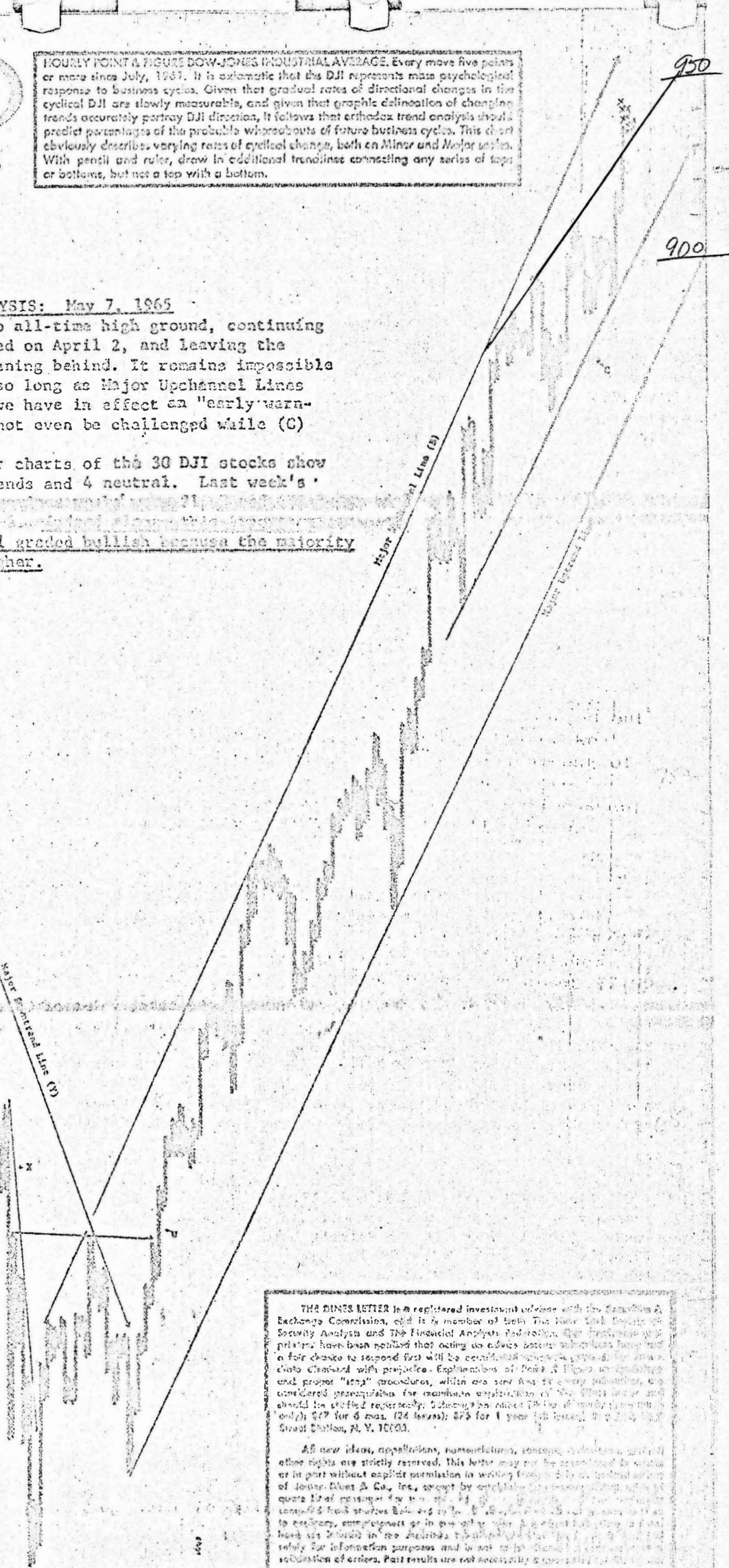
CURRENT DJI ANALYSIS: May 7, 1968

The DJI again lunged into all-time high ground, continuing the spring rally we predicted on April 2, and leaving the flabbergasted pessimists moaning behind. It remains impossible for a bear market to begin so long as Major Upchannel Lines (A & B) point upward; and, we have in effect an "early warning system" because (A) cannot even be challenged while (C) is not yet violated.

Internally, near-term bar charts of the 30 DJI stocks show 10 in Upstrends, 7 in Downtrends and 4 neutral. Last week's changes were 13, 8 and 6 for upstrends, downstrends and neutral, respectively. Technical Indicator is still graded bullish because the majority of these 30 stocks looks higher.



(X) is steepest angle of Major Downtrend, (Y) more moderate downward angle. (Z) drawn through two tops is all but neutral. When (W) rose through (Z) in November 1962, the Upward breakout triggered a classic Dow Theory buy signal, and shifted the percentages from neutral to up.



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