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Altius Minerals: Dalton's High Flying Royalty Machine

Listed at the onset of the 1998 to 2002 mining bear market, Altius Minerals and its prospect generator model was borne of "abysmal" markets, chief executive Brian Dalton tells *Global Mining Observer*.

The company's partnership model was an extension of Dalton's university days, when he and co-founder Roland Butler funded their studies prospecting each summer in the Labrador Trough, "then hitting the conference circuits to find partners to option the properties." With the discovery by Chris Verbiski of Voisey's Bay in '93 (the nickel deposit that shot Robert Friedland to acclaim), Dalton began optioning projects along the belt to the "hoard of juniors" that "wanted in."

In 1997, Butler and Dalton listed Altius, only to see the mining markets buckle. "We were partly into our first exploration season. We had a board meeting and you could see that the writing was on the wall. You could see how much we were spending and whilst it was modest, we didn't have confidence that there were any cheques out there at the price we'd pay for dilution."

After a "momentous" meeting, the board struck on its partnership model, which minimized expenditure and dilution by optioning projects out, always retaining a royalty. "We really buckled down." In 6 months, Altius found five joint-venture partners, including Teck and BHP. The model suited majors who had laid off exploration staff but were willing to fund third parties "on the ground," Dalton says.

"The best thing that happened to us was that we started in such negative markets. What we've always found is that the deal you'll attract from a major having spent $50,000 breaking some rocks and putting a model together will not be dramatically different from the deal you'll attract having spent hundreds of thousands, or millions of dollars, so really what you're doing is shrinking your returns."

In the last 5 years, Altius has spent $12.8m on its properties, versus $91m funded by partners. In the same period it has received cash and share payments of $60m. "Exploration is supposed to be all about potential and big home runs, but run properly, exploration can be a profitable business. We've got a five-to-one return."

The figures do not account for capital gains from companies Altius has ➤

➤ spun-out, which Dalton likens to using the stock market as a joint-venture partner. "What we like is to see all of the capital raised for these projects happen outside the Altius structure. In other words, to let the projects fund themselves."

In 2005, Altius shunted a uranium joint-venture into Aurora Energy, in which it kept a 20 per cent interest; 2 years later Altius took capital gains of $208m. It has since injected properties into Century Iron Mines, Mamba Minerals and Alderon Iron Ore, in which has a 25 per cent stake.

Nor does the profitability of Altius' underlying exploration business, which can be likened to a land brokerage business with geological expertise, account for its retained royalty upside. "When we generate a project we automatically assume that we're not going to have a controlling interest, we're always going to be passive and that we're probably going to be partnered with somebody with much deeper financial means, so a royalty is the natural backstop because it doesn't require ongoing funding."

Besides royalties over uranium and gold, Altius has a 3 per cent gross sales royalty over Alderon's giant Kami project. Based on it's feasibility study, the royalty is worth $167m and will generate $20m to $30m per annum for 30 years, with first production in 2015.

Altius also owns a 0.3 per cent royalty over Voisey's Bay, bought off Dalton's prospecting pal Chris Verbiski in 2003. "Back at the time (actually its not that different now) I had all my assets running on this dream of Altius, so failure wasn't really an option. The purchase price was almost our market cap at the time, but it was looked upon as the last financing we'd ever have to do." The royalty paid off its purchase price of $13.6m by 2008.

Dalton plans to "dividend out" the bulk of Kami's royalty income, putting the company's C$278m ($269m) market cap, roughly equal to the company's cash and equity holdings, at a generous prospective yield.

If the market values Altius as a frontier exploration stock, Dalton knows it as a royalty machine. "There are 10 to 15-year lead times from prospect generation to an operating mine," he says, "so now we're at the point where we're starting to see the pipeline go into production. Once we get to a point where there's substantial royalty income, I think we'll be hard to ignore, but we're content to just do it."

EURASIAN NATURAL RESOURCES CORP has rejected an opening bid from the group's founding consortium of £1.75 plus 0.231 of a share in Kazakhmys, equal to a further 79p. The consortium has until 3rd June to table a firm offer.

CENTRAL ASIA METALS has announced record monthly output of 1,114 copper tonnes from its Kounrad plant, Kazakhstan, targeting 10,000 tonnes for 2013.

STRATEX INTNL. has said that a partnership controlled by Rick Rule has more than doubled its stake in the company to 36.3m shares, equal to 7.8 per cent.

MARKET REPORT

Firestone Rises on Liqhobong Financing Plans

LONDON: Firestone Diamonds rose 11 per cent Monday after the company unveiled financing plans for an upgraded treatment plant at its Liqhobong mine in Lesotho, including a $6m forward sale of the mine's smaller stones.

Chairman Lucio Genovese, appointed in January last year, described the agreement as "a very positive step" that "avoids equity dilution in these markets." Firestone has engaged lenders to lead project finance and is negotiating a larger forward sale. It is also looking to "optimise" plans for the plant so as to lower capital costs, currently projected at $167m, including a grid and infrastructure refit.

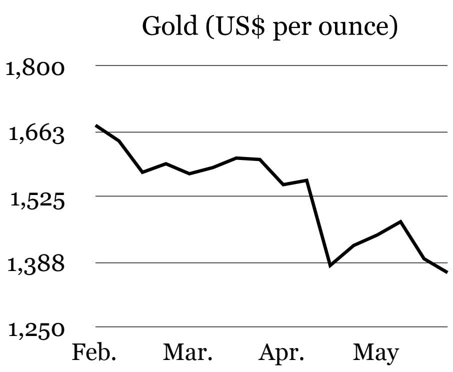
Earlier this month, Firestone reported sales of $5.1m at $91 per carat from two tenders this year. The company is targeting 1m carats per annum from 2015, a fivefold increase on its existing pilot plant. Shares opened Thursday at 3.3p, valuing the company at £18m ($27m). Firestone is backed by hedge fund Audley Capital.

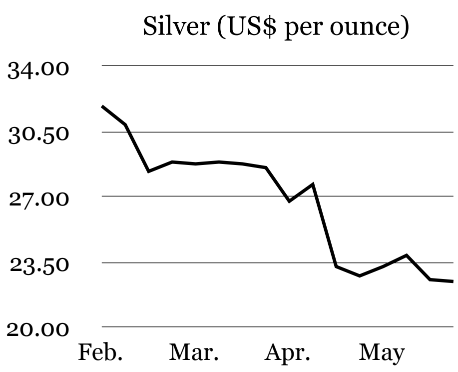
CANADA: Lucara Diamond leapt 9 per cent in late trading Wednesday after the company raised $25m at more than $30,000 per carat from its first auction of exceptionally large stones from its Karowe mine in Botswana. A 239-carat diamond recovered in March fetched $5.8m. "We are ecstatic," said chief executive William Lamb. Shares closed at C$0.73.

AUSTRALIA: Mining engineering co's have unanimously lowered their earnings guidance, reflecting flagging levels of investment in Australia's resources boom. WorleyParsons, Transfield Services, UGL and Coffey Intnl. have all warned on profits this month, sending shares sharply lower. Transfield is off 35 per cent in 5 days at A$0.91.

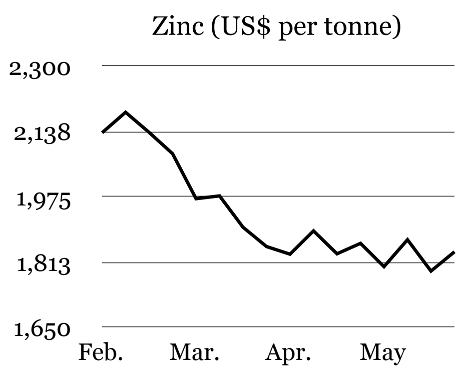
Government data published Wednesday indicates that resources projects in the country costing at least A$150bn ($145bn) have been cancelled or delayed in the last 12 months, equal to half its residual investment.

LUCARA DIAMOND's 239-carat diamond, recovered from its Karowe mine in Botswana, sold this week for $5.75m. It is the largest diamond on record from the country's prolific Orapa kimberlite field, in production for 40 years.





COMMODITIES: Industrial metals and equity markets showed their responsiveness to US Federal Reserve policies this week, falling sharply late Wednesday after Fed chairman Ben Bernanke said its bond buying may slow. Copper was down close to 3 per cent Thursday, whilst Japan's Nikkei Index plunged 7 per cent overnight. "For so long people have taken for granted that money will be free," said analyst Matt Fusarelli. "But as soon as it's not free, then that's when we are going to see big ruction in metals markets."



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