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**Altius Minerals (ALS.V: C$1.75)**

In practice Altius is the best example of how a junior exploration company can operate with joint venture funding. Even though the company is only five years old, its track record for executing the joint venture business model is unparalleled.

Since 1998 Altius has arranged financing for twenty eight projects with partners such as Agnico-Eagle Mines, Barrick Gold, BHP-Billiton, Cameco, Inmet Mining, Noranda, QNI and Teck-Cominco. As you can see this list includes not only some of the largest mining companies in the world, but also some of the best.

These joint ventures of course mean nothing unless we, as shareholders, can profit from them. The benefit to us is threefold. Firstly, the exploration work generated by these joint ventures has added value to Altius’ property portfolio since the more we know about the projects, the more likely we are to make a discovery. Secondly, we have been able to advance twenty eight projects by spending very little of our own money. Thirdly, reducing the amount of capital that Altius has to spend on project development has allowed it to increase the number of active projects in its portfolio.

Exploration is a numbers game: the more projects you explore, the higher the probability of making a discovery.

**Performance**

Look at it this way. Goldcorp, renowned to be one of the premier gold mining companies, has for many years served as the standard against which gold companies are measured. It has one of the richest gold deposits in the world, a superb management team, among the lowest production costs in the industry and a share price that reflects all of the above. Goldcorp’s share price has outperformed almost all other gold mining companies on North American stock exchanges over the past five years. In spite of the fact that Altius doesn’t yet have a producing gold mine, its share price has outperformed Goldcorp’s over the past five years. Why?

Attracting high quality joint venture partners validates Altius’ projects. It means that their ideas are subjected to peer review, where the peers in this case are among the leaders in the mining business. Not only do the projects have to pass muster, they have to be good enough for these majors to want to spend their money to develop the geological concepts that Altius brings to the table. And what really sets Altius apart is that in all cases it is the operator of the projects. Not because Altius insists on it, but because its partners realize that Altius’ expertise, regional knowledge and professionalism is of the highest standard.

Which do you think would be easier: for Goldcorp, a $2 billion company with essentially only one mine, to double in value without an increase in the gold price, or for Altius, a $20 million company with fifteen projects under joint venture and an additional twenty five projects in inventory, to double in value?

For Goldcorp to double in value without an increase in the gold price it would either have to double the value of its flagship Red Lake deposit, or discover another “Red Lake”, both of which are unlikely albeit not impossible. Still, the point is that Goldcorp has to create another $2 billion in
value, which is, frankly, not going to be easy.

Altius on the other hand has to create only $20 million in value for us to double our money. Can Altius do that?

Consider their Mustang Trend joint venture with Barrick on what is currently the most exciting prospect for discovering another Carlin style gold district outside Nevada. The Gold Strike Mine on the Carlin Trend in Nevada is what transformed Barrick Gold from a small, struggling company into one of the largest gold mining companies in the world. Carlin-type gold deposits in Nevada represent an estimated 100 million ounces of gold and are the foundation of companies such as Newmont and Placer Dome, in addition to Barrick, of course.

The joint venture between Altius and Barrick has already identified three key target areas within the 100 kilometer-long land package in central Newfoundland that are consistent with Carlin deposit models. And remember, it is Barrick that says the project has merit and it is the one spending the money, not some backwater promoter with a story to sell. Not only has Altius found all the right geological signatures for Carlin mineralization, it has found rocks containing high-grade gold as well.

These are still early days for the Mustang Trend and Barrick is back again this year with another aggressive budget to further develop the project. It’s worth noting that the Mustang Trend is large enough to host the entire Carlin Trend and Altius has a free, 25% carried interest courtesy of Barrick, on all exploration and development costs right up to mine construction. If a major discovery is made on the Mustang Trend it could be material to Barrick’s $9 billion market capitalization. Imagine what impact it would have on Altius’ $20 million market capitalization.

More than gold

Cameco, the world’s largest uranium producer, is Altius’ joint venture partner on the Rocky Brook project in the Deer Lake basin of southwestern Newfoundland. The goal here is to find the source of boulders that contain up to 11.5% uranium oxide, 859 ounces per tonne silver (not a typo) and 11.8 ounces per tonne gold (again, not a typo). We are talking about rocks with a gross metal value of approximately $11,000 a tonne. For comparison, the in situ gross metal value of a high-grade, one ounce per tonne gold deposit is about $365 per tonne of rock. It won’t require many $11,000 tonnes to make a phenomenally profitable mine. Only 100,000 tonnes would have an in situ gross metal value of more than $1 billion whereas an exceptionally high-grade, one ounce per tonne gold deposit would require about 3 million tonnes of rock to equal that.

Altius again demonstrated why it is the partner of choice for the best mining companies in the world when it showed that the prior owners of this project had incorrectly interpreted the direction of ice-flow in the region. It was previously thought that the source of these high-grade boulders was to the south when in fact it is to the north. Altius also discovered that the boulders are magnetic and indeed, a positive magnetic signature has been observed north of the boulder field, approximately where Altius expects the source of the boulders would be based on glacial till (debris) sampling.

While Altius is the operator, Cameco is funding the project with a $2.5 million exploration commitment to earn a 65% interest in the project. If Altius finds the source of these high-grade boulders, and if there are even just a few hundred thousand tonnes of ore, the discovery would be significant for Cameco’s $1.7 billion market capitalization.
Multiple opportunities

As mentioned, fifteen of Altius’ forty exploration projects are subject to current joint ventures. I described only two to illustrate that Altius tackles big ideas and big-impact projects. Furthermore, because they get their ideas tested and developed by joint venture partners (other people’s money) it frees up their resources to identify more, new opportunities.

Most exploration companies acquire a project, raise money, do some work and find nothing. Then they have to find a new project, raise new money and try again. Due to the low probability of success in exploration, the probability of investors making money in these companies is slim. That is why Doug often refers to them as burning matches.

But what Altius has done is create a viable business model that can be sustained by giving up a percentage of each individual project, where the exploration risk is the highest, while limiting its capital stock dilution, where the risk is the lowest. In so doing it maximizes shareholders’ interests across the spectrum of their projects and because multiple projects can be advanced simultaneously through the use of joint venture partners, it increases the probability of our exploration success.

Including this year’s budget, joint venture partners will have spent over C$8 million on Altius’ projects. Concurrently, the advancement of Altius’ projects should lead to a steady increase in the value of its portfolio, which in turn should lead to an increase in the share price even before a discovery is made.

Some projects will fall by the wayside – that’s inevitable – but on balance the only way to make demonstrable progress is to drill and find out what’s going on underground.

Further risk reduction

As I was writing this – it always happens – Altius announced that it had reached an agreement to buy 7.5% of the 3% net smelter royalty covering the Voisey’s Bay nickel deposit in Labrador, the one that Robert Friedland sold to Inco for $3 billion. Altius will pay $9.75 million in cash and issue 750,000 warrants to Archean Resources, a private company owned by the two prospectors who discovered Voisey’s Bay, in exchange for 7.5% of the units in a new partnership being formed to hold the royalty, as well as an option to increase its interest in that partnership to 10%.

If you are not familiar with the Voisey’s Bay deposit here are some tidbits. In addition to the more-or-less $3 billion acquisition cost, Inco has budgeted an initial $776 million to develop the deposit. Inco further estimates that it will invest a total of approximately $2 billion in Labrador for mineral development over the next thirty years. As is apparent from these numbers alone, this is a giant ore deposit. Over the current planned life, which is conservative, Voisey’s Bay will produce 110 million pounds of nickel, 85 million pounds of copper and 5 million pounds of cobalt or, in dollar terms and at today’s metal prices, more than $500 million a year in revenue.

Initial production at Voisey’s Bay will come from the Ovoid Zone, a large, high-grade deposit. What’s more, the Ovoid will be an open pit mine. Open pit mines generally have much lower production costs than underground mines so not only will Voisey’s Bay be one of the largest nickel mines in the world, it will also be one of the lowest cost mines. Not that Altius has to be concerned with the mining cost since it is buying a net smelter royalty, i.e. a revenue royalty as opposed to a net profits interest.

There is a lot more mineralization at Voisey’s Bay than just the Ovoid zone. Exploration drilling has already identified the Eastern Deeps zone, Discovery Hill and Reid Brook. While I don’t intend to bore you with the details of each, the point is that Voisey’s Bay is going to be in production much longer than the initial mine plan envisages and will produce far more revenues than currently assumed. And the royalty Altius is purchasing covers not only any expansion at Voisey’s Bay, but any additional projects that Inco’s Voisey’s Bay Nickel Company makes, or acquires, in Labrador.

So why do I like this deal? Just on the current mine plan, assuming current metal prices and exchange rates, Altius paid a total of just over C$10 million (adding in the value of the warrants) for what should be in excess of C$1.5 million in annual cash flow. The mine plan calls for thirty years of production although, again, I suspect that Voisey’s Bay is going to be in production for much longer than that. Even so, just assuming Altius gets C$1.5 million a year for thirty years, with no increase in metal prices for the entire thirty years, and applying a ten percent discount rate to the income stream, which is quite severe considering prevailing interest rates, the royalty that they are buying for C$10 million is actually worth about C$15 million.

I used current, fixed metal prices, and generally metal prices increase with inflation, so in effect using fixed metal prices and a ten percent discount rate is penalizing the net present value twice. At a more realistic five percent discount rate the net present value of Altius’ royalty is C$24 million. That is C$14 million more than what Altius is paying for it.

Why is Altius getting such a good deal? The prospectors want to sell a portion of their royalty for cash, so they can at last see the fruits of their discovery in their bank accounts as opposed to just their balance sheets. Also, Brian Dalton, the President of Altius, is a tough negotiator. I know. I’ve been across the table from him. He was at the right place at the right time, saw an opportunity and created enormous value for shareholders.
Brian is always focussed on creating shareholder value because he is one of the largest shareholders himself.

Most junior exploration companies have to continuously raise capital in the market to sustain their exploration efforts. Altius has already demonstrated that it is one of the most efficient junior exploration companies and now, with this royalty, they will likely never need to raise money again unless they make an enormous discovery, in which case the shareholders will profit like bandits anyway.

On the one hand I am sad that my favorite exploration company has to issue 6.25 million shares to buy this royalty. On the other hand, just about all the risk has effectively been taken out of owning the stock. Altius is now, without any doubt in my mind, the lowest risk exploration company you can find. The potential upside in the stock is huge, not only from its current exploration portfolio, but also from the fact that the royalty they are buying gives you exposure to both the expansion of Voisey’s Bay and all the discovery potential of anything found or acquired in Labrador by Inco’s Voisey’s Bay Nickel Company. Not to mention Altius’ own expansion into Labrador which was recently announced. And with more than C$1.5 million in free cash flow every year you never have to worry about them running out of money.

Altius has many more, equally exciting projects that we just don’t have the space to discuss. Without doubt, more joint ventures are on the way and that will lead to more drilling and that should increase the value of the stock.

What I would like to leave you with is that Altius is not about one specific project. Altius has refined the business model of financing exploration through joint ventures to the point where it is almost cash flow positive just from the management fees it collects every year. This is remarkable for an exploration company. Of course when the royalty payments kick in Altius will have significant free cash flow.

Let’s recap: the US economy is going nowhere; the US dollar has been scuttled; the gold price will rise because it is inversely correlated to the dollar; higher gold prices increase the demand for new gold deposits, increase exploration expenditures and increase exploration company share prices by virtue of increased investor awareness and demand. With Altius we get leverage to our exploration dollars and any discovery Altius makes will further be leveraged to the gold price. While we wait for a discovery, we profit from the increased demand for exploration stocks.