

An Excerpt from.....**Bulletin #468, December 19, 2010**

### **Leveraging exploration dollars and keeping an interest**

**Altius Minerals** (ALS, Toronto, 13.74) is another of our favor low-risk ways of gaining exposure to resources. With most of its operations in Newfoundland and Labrador, Altius employs the OPM (other people's money) method of exploration. The typical *modus operandi* is to stake ground, undertake initial exploration and then form a joint venture company with a partner who must spend a certain amount of money on exploration with the aim of eventually taking it public. Altius typically gets a significant chunk of publicly traded shares, which it sells down opportunistically, and a royalty on future production.

It has employed this strategy successfully a few times in the past, on gold and uranium properties, most recently in a sale by Fronteer of a uranium property originally discovered by Altius. Its \$650,000 investment returned about \$180 million, plus a 2% royalty. And now we have just seen it executed again on a prospective iron ore deposit.

### **A new public unit**

Altius spent about \$2 million exploring the Kami property which it had staked in 2004. Following a joint-venture deal last year, the j-v company went public in early summer as Alderon. Now that the required expenditures have been made, and following some very successful drilling, Altius owns 29 million shares in Alderon (whose stock has moved from \$1.30 to \$3) plus a 3% royalty on future production. Thus, Altius' investment of \$2 million is now worth almost \$90 million, plus the royalty.

The completion of this transaction—where each dollar increase in the Alderon stock price equates to almost \$1 increase in Altius' NAV—is largely responsible for the recent rally in Altius' share price, up from under \$11 in early December. Altius' share price has been in a long, steady—some would say laborious—increase from the credit-crisis lows just under \$5.

### **Lots of cash and numerous j-vs**

Altius is active on other fronts as well, with a new strategic alliance with Cliffs Natural Resources (a \$10 billion U.S. company) to explore for nickel and iron properties, funded by Cliffs.

Altius has a strong pipeline of early stage properties, as strong as ever, according to the company, but it is also expanding its project generation activities to other jurisdictions in Canada, while it will seek royalties anywhere.

Altius has a large cash pot, nearly \$200 million (presenting over half its newly increased market cap). Last month, it invested approximately \$25 million into an investment

company, to be run by Paul van Eeden, investing in early stage resource companies, including private placements. The deal is intended to increase the returns on its cash, while increasing exposure to the resource sector.

**Still inexpensive, buy on pullbacks**

All in all, we continue to count Altius as one of our top resource investments, with conservative management, a solid balance sheet, current income (from its Voisey's Bay nickel royalty), multiple royalties on development properties, a large pipeline of exploration properties, and perhaps, most of all, a low-risk business method and disciplined, patient execution that reaps great returns for shareholders. We are definitely holding Altius, but given the recent stock price appreciation, would wait for a pullback before adding to positions.