

Adrian Day

ADRIAN DAY'S GLOBAL ANALYST

We received a bolt from the blue yesterday, with the news that Altius's refinery subsidiary had filed for bankruptcy. Needless to say, the shares collapsed, falling virtually in half, before a modest recovery to close at \$7.25. What's the story, and what to do we do?

BACK TO ITS ROOTS, ALTIUS IS GREAT VALUE

Friday morning, the 40% Altius-owned Newfoundland and Labrador Refinery Corp. filed for bankruptcy protection. This was triggered by an application by a creditor to have the company declared bankrupt.

What's the background to this? Back in March, NLRC announced a delay in the development of the Newfoundland refinery project because of adverse conditions in the capital markets. As far as we can piece together, it appears that all of its suppliers and service providers were willing to work with the company to delay deliveries and reschedule payments—NLRC had already ordered long lead-time items—all, that is, except the Montreal-based SNC-Lavalin, an environment and engineering services outfit. It appears that Lavalin continued on working, despite the announced delay, and, ignoring efforts to reschedule, demanded immediate payment in full.

High-stakes poker...or blackmail?

Because NLRC, with about \$2 million in the bank, didn't have the cash—well-known to Lavalin—the company made application to have NLRC adjudicated bankrupt, forcing NLRC's hand to file its bankruptcy filing, which provides a six-month breathing room. One company spokesman told me the news was "like a big hit in the stomach...we never thought it would come to this."

The tragedy of the situation is that the economic fundamentals of the proposed project remain very favorable (as stated by NLRC in its announcement), and it was developing well on all fronts, including the critical environmental permitting, except that is the capital raising.

Altius' board decided, for better or worse, not to put more money into the company to pay Lavalin's invoice. Altius certainly could have done so readily, but this could raise the perception, if not more, than Altius was responsible for all of NLRC's bills and could be seen as an open-ended liability for Altius.

What now? The bankruptcy filing provides NLRC with six-months breathing room. During this period, the company could work out a settlement with Lavalin, sell some of its assets, or be "stolen" out of bankruptcy since the refinery license remains extremely valuable. Let's just hope that in that eventuality, Lavalin is not

part of the acquisition group. We don't expect NLRC to be liquidated, though that remains the ultimate end-play of any bankruptcy hearing.

Refinery project still viable, but Altius' interest reduced?

In any scenario, Altius' potential from the refinery is less. Optimistically, something could be worked out and Altius retain its most of its interest, though the project would be tarnished making future funding that much more difficult (pricey). The project could be purchased out of bankruptcy with Altius' interest and role much reduced. The project itself without question is still valuable and has enormous potential; NLRC still has great value; and Altius will likely come out of it with something.

Altius is very cheap, based on other assets

But what if...? But suppose the refinery goes away, what are we left with? First of all, it must be emphasized that NLRC is a separate company. The filing concerns NLRC, and Altius's assets should be absolutely protected. Of course, one might expect Lavelin to go after Altius, once the six-month period expires—indeed, that was probably their intention from the start—but Altius should be fully protected.

So without the refinery, Altius is essentially back to its roots as a low-risk “project-generator plus”. The best way to look at the company is on an asset basis.

Cash	\$170 million
Shares in companies	\$25 million
Voisey's Bay royalty	\$50 million

All of these assets give us more than the current market cap. It's difficult to value exploration, but all of Altius' 17-odd joint ventures, including several royalties on undeveloped projects, add another \$50 million or so. This figure allows for the fact that Altius has the cash necessary to develop the projects; and has a broad diversity of projects throughout Newfoundland and Labrador, in terms of minerals (everything from potash and iron-ore to gold, base metals and uranium), partners and stage of development.

Some of this is subjective; the value of the royalty for example depends largely on the volatile price of nickel. But the assumptions I've used are not aggressive.

Trading for less than asset value

So on a sum of parts basis, one comes up with an NAV over \$9 and a target price (give a premium over NAV for the exploration) of around \$10, giving absolutely zero value to the refinery and assuming the \$50 million invested were completely lost. (Please understand that I fully expect Altius' share price to eventually be worth much more, and that's even without the refinery, as they have exploration success. This is based purely on current asset values.)

So, do we buy? First, I believe Altius is great value here: it has a solid balance sheet, ongoing cash flow; top management; and a diversity of projects as discussed above. The cash hoard provides downside projection to the company while I expect developments in the next several months of many of their exploration projects, the iron ore exploration in particular.

Buy, buy, and buy some more

However, recent refinery developments and stock movements will tarnish the company to some extent and the market certainly. The big moves in the stock price over the past year, both up and down, can be attributed to the refinery and to a new group of shareholders interested solely in that project. If they haven't already sold, they are moving out, leaving Altius with shareholders who see the value in the rest of the company (though still seeing the potential of the refinery, of course). But it will take a while to work through this, and most certainly the market will be watching ongoing development at NLRC.

Altius is great value and three to five years from now, I expect the stock price to be much higher. But the market could be volatile and sloppy in the near term. If you don't already own Altius, buy now, aggressively. If you already own a reasonable position, you might buy a little more now and look to add even more on weakness.

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SEMINAR REMINDERS I'll be hosting a client and subscriber meeting on *Friday, July 11th in Las Vegas*. This will be a small informal affair, an opportunity to discuss frankly the markets and various companies. It is complimentary and you are welcome to bring guests, though you should register by calling our office at 410-224-2037.

I'll be in Las Vegas attending the **FreedomFest** conference from July 10-12, 2008. FreedomFest promises to be one of the most interesting conferences of the year, with subject ranging from philosophy and history, arts and entertainment, to public policy and geo-politics, law and religion. There will be a debate on Islam as a religion of peace; Winston Churchill as war leader; and on who really wrote Shakespeare, and much more. For complete information on FreedomFest, please visit their website at www.freedomfest.com. (You do not need to be registered for this conference to attend our private meeting, but I would highly recommend it.)

Then, September 23rd, we will host another private subscriber meeting in Jacksonville. Details to follow, but mark your diaries now.