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Altius Minerals Corporation (ALS.V, C\$4.99)

The most important asset in any business is management. I have often described my portfolio not as a portfolio of stocks, but rather a portfolio of people. The problem is, you cannot get to know somebody well enough in just a few meetings, and so buying these speculative exploration stocks is really a lot like dating.

If I come across a company I like I might buy some. With time I will either get to like them more in which case I will either hold my position or perhaps add to it. Or, I might decide that I don't like it all that much and then I'll sell it. The good thing about companies is that they are (usually) not jealous if you have more than one.

If you're lucky, you will find an outstanding company every now and then. Unlike wives, however, you can also have more than one keeper. I realized long ago that Altius Minerals was a keeper.

Altius is an exploration company that strictly follows the joint venture model. Their main focus is in Newfoundland and Labrador where they have considerable regional expertise and equally important, excellent community relations. By using the joint venture model Altius was able to create substantial leverage for its shareholders. For the benefit of anyone not familiar with the term, it refers to an exploration company that joint ventures its projects to other companies thereby reducing the amount of money it needs to spend on exploration by giving up equity in its projects. The benefit is that you protect the share structure of the company, where you suffer very little dilution, and hence maximize your ultimate leverage to any success.

Altius does not spend a lot of its own (shareholders) money on exploration. As a general rule of thumb it tries not spend more than \$100,000 on a project in Newfoundland until a joint venture partner is found to take it further. Because it is more expensive to work in Labrador, their goal there is to spend no more than \$200,000 on a project, and in many cases they spent a lot less.

Since its incorporation in 1997 Altius has probably spent about \$2 million in total on exploration on all its projects and it has had almost \$20 million spent on its projects by joint venture partners. As shareholders we therefore got ten-to-one leverage on our exploration dollars.

There were two exceptions that Altius made on its goal of not spending more than one or two hundred thousand on a project. They spent \$485,000 on their Rambler copper-gold project in Newfoundland and then, in a twist to the traditional joint venture model, contributed the project to a new company called Rambler Metals and Mining PLC that trades in London for a 30% equity interest. That equity in Rambler is now worth about \$10 million -- a twenty-for-one return on investment so far.

Altius spent roughly \$600,000 on its Central Mineral Belt joint venture with Fronteer Development, an investment that is worth somewhere around \$80 million today -- that is well more than a one hundred-to-one return on investment.

Altius and Fronteer packaged their interests in the Central Mineral Belt joint venture into a company called Aurora Energy Resources that is going to go public in the near future. The Initial Public Offering was announced this week.

Two years ago Altius purchased a portion of the Voisey's Bay nickel deposit net smelter royalty for which it paid \$13.6 million. Today that royalty interest is worth at least \$20 million. That is perhaps not as spectacular a gain as the previous two, but it is a significant gain nonetheless.

In addition, Altius announced this week that it has formed a new joint venture in which it owns a 37.5% interest, called Newfoundland and Labrador Refining Corporation (www.nlrefining.com), that is evaluating the feasibility of building a new refinery in Newfoundland.

Among exploration companies Altius is truly an aberration. Exploration is a capital intensive business that doesn't generate any revenues, only expenses. Yet Altius has retained earnings on its balance sheet without brackets around it. That is because it unfortunately (it eliminated tax loss carry forwards) had to account for the gain in its holdings in Rambler Metals and Mining shares. If we exclude that gain, the total accumulated deficit since incorporation would be less than \$4 million, which isn't bad for running a capital intensive business with essentially no revenues for almost nine years, and in the process creating assets worth around \$120 million.

Another way to look at it is that Altius raised a total of \$22 million in capital and it created \$120 million worth of assets with that money. That is a five-to-one return on investment if we take all the costs of running the business into account.

On a fully diluted basis Altius has just under 30 million shares outstanding that trade for around \$5 a share. That gives the company a market capitalization of \$150 million. I am comfortable valuing its assets at around \$120 million with no value given to its 37.5% interest in the new refining company, which leaves us with a \$30 million shortfall. Included in the \$120 million is \$10 million for all of its exploration assets outside Rambler and Aurora Energy, and I can think of numerous public exploration companies that trade at five times that amount with less desirable assets. So, in the context of the market we are in, Altius does not strike me as an expensive company.

I tried to buy more Altius this week when the stock dropped, but was unsuccessful. I already own a bunch of it, but if it stays under \$5 a share I think I'll have to buy more.

Paul van Eeden

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