

The Sky's the Limit in Saskatchewan: Tom MacNeill

The Gold Report www.TheAURreport.com

10/26/2012

COMPANIES MENTIONED

- 49 North Resources Inc.
- BHP Billiton Ltd.
- DNI Metals Inc.
- NOVAGOLD
- Omineca Mining and Metals Ltd.
- PotashCorp.
- Rio Tinto Plc
- Tembo Gold Corp.
- Vale S.A.
- Westcore Energy Ltd.

Saskatchewan's unique political history has created a modern-day last frontier for exploration. Within its borders is a treasure trove of early-stage resources, so many that Tom MacNeill, president and CEO of 49 North Resources, says his Saskatchewan-focused natural resources company can't tackle every project it wants to. As an incubator enterprise to raise capital for early projects throughout Saskatchewan, MacNeill's company is capitalizing on the build-out of capital markets in the province. Read why MacNeill says Saskatchewan is wide open in this exclusive interview with [The Gold Report](#).

Source: [Brian Sylvester of The Gold Report](#)

The Gold Report: Tom, few if any Canadian provinces are booming the way Saskatchewan is. Québec used to be Canada's top province for mineral exploration and now some believe the recent election of the Parti Quebecois could curtail resource investment in the province. Is Saskatchewan just an election away from boom to gloom?

Tom MacNeill: I seriously doubt that. Saskatchewan is fundamentally different than Québec in that Saskatchewan doesn't politicize as many things.

More important, a lot of the changes happening under the current Saskatchewan administration were initiated by a left-wing government starting with the Roy Romanow and Lorne Calvert Saskatchewan New Democratic Party (NDP) administrations. We've come out of the dark ages here. We had very left-leaning governments that led us on a path to overt nationalization of certain parts of industries in the 1970s. In the 1980s, the pendulum started swinging in the other direction. A big part of the changes with leveling the royalty playing field in oil and gas and becoming friendly to mining development and business started in the 1990s and 2000s under NDP administrations.

"Saskatchewan is going to do great over a very long period."

We don't have any fear that we could go back with a swing in government. That was obvious in the election last fall. Dwain Lingenfelter, the leader of the New Democratic Party at the time, started

making noise about creating a Saskatchewan oil and gas company again, using old party rhetoric from the 1970s and 1980s. He was rebuffed even by his own party because things are good here because business is getting done. We're not going to go back.

Also, Québec didn't have the mandate to change as much as one thinks. Anything the Parti Quebecois wants to do will take budgeting. Since they have a minority government, there will be a confidence vote the first time they try to do anything rash. Their rhetoric is mostly hot air because the party is going to be compromising on a whole range of issues or else it will not be able to govern. We don't have that problem in Saskatchewan.

TGR: Do politics play too much of a role in resource development?

Streetwise Reports LLC

101 Second St., Suite 110
Petaluma, CA 94952

Tel.: (707) 981-8999 x311
Fax: (707) 981-8998

jluther@streetwisereports.com

THE ENERGY REPORT

THE GOLD REPORT

THE LIFE SCIENCES REPORT

THE CRITICAL METALS REPORT

TMacN: It can play a good role in resource development by staying out of it unless necessary. In the 1970s, we created three of the most detrimental things to our capital market in Saskatchewan history: SaskOil; Saskatchewan Mining Development Corp., the forerunner of Cameco Corp. (CCO:TSX; CCJ:NYSE); and [Potash Corp. of Saskatchewan \[PotashCorp\] \(POT:TSX; POT:NYSE\)](#), which was formed in 1975 through legislation.

At that time, the government gave itself the right to back into any project it wanted by recouping 50% of the capital costs to the explorers and developers that expended it. The effect was similar to what we see in other jurisdictions that lean that way—it scares away external capital. People don't want to deal with government because they feel that it can change the rules at any time.

More important, the average taxpayer was burdened with the risk of resource development. Taxpayers were saddled with the risks of the downtimes. The Saskatchewan government jumped headlong into the resource business because resource prices had gone up 400% between 1969 and 1974. It's a very volatile business, as we all know. The commodity cycle goes up and down. By the time it went down, taxpayer dollars were being expended on capital projects and investments that were underwater.

TGR: Let's get into a tangible example of politics playing a role in investment in Saskatchewan. In fall 2010, Anglo-Australian mining powerhouse [BHP Billiton Ltd. \(BHP:NYSE; BHPLF:OTCPK\)](#) made a bid for Potash Corp. of Saskatchewan, but the bid was killed by Prime Minister Stephen Harper, his conservative government and Saskatchewan Premier Brad Wall. Did that send the wrong message to the investment community?

TMacN: It probably wasn't helpful from Saskatchewan's perspective. The whole world is getting sensitive about trade barriers and international capital flows and that didn't do us a lot of favors. It didn't particularly hurt us either because we're wide open for business, which is clear. We had the unique situation where a very high-profile transaction happened leading into an election year and that really got the fervor going.

TGR: Saskatchewan remains fairly top heavy when it comes to publicly traded resource companies. There is Potash Corp., Cameco and not a lot else. Why is that?

TMacN: It's a function of our history. Both of those were Crown corporations. Since they've been unshackled, they have become the best companies in their leagues in the world. As Crown corporations, they were sterilizing the rest of the capital market beneath them because capital fled.

Saskatchewan has early-stage prospectors and senior mining companies that are absolutely behemoth, but we have no capital market supporting that because our capital market left in the years when socialism was the flavor of the day.

"The Saskatchewan Geological Survey has been around for about 75 years and it does some of the best work in the world to get explorationists a head start."

Capital markets are just starting to come back. We've got one investment banking group in Saskatchewan. Jeret Bode and Kevin Thompson at MGI Securities in Saskatoon have done in excess of \$500 million (M) in core finance activity, maybe more, in the last few years. There's also [49 North Resources Inc. \(FNR:TSX.V\)](#), two labor-sponsored venture capital funds and Lex Capital Management, which

operates a couple of funds out of Regina. That's our entire institutional capital market. . .still very, very small.

We're still living the hangover. However, that hangover is an opportunity that's similar to our neighboring province Alberta a half-century ago. There's a big void between the top-heavy senior mining companies and the bottom end of the scale where we work, but we're happy to watch that fill up over the coming decades.

TGR: You've been able to take advantage of that paucity of capital.

TMacN: We get to deal directly with the majors once we prove something up. We can deal directly with the senior mining companies. All the major ones are in Saskatchewan now. [Rio Tinto Plc \(RIO:NYSE; RIO:ASX; RIO:LSE; RTPPF:OTCPK\)](#), [Vale S.A. \(VALE:NYSE\)](#) and BHP are all here and looking for the large-scale projects that this province is filled with.

Our advantage is that there is no one else here doing it. We see everything that's happening on our landscape. Once we get to the point where we've developed an asset that would be of interest to a large integrated miner or oil and gas enterprise, we can deal with it directly.

TGR: Have you had any trouble raising funds?

TMacN: We haven't tried in the last two years. We've been working internally with our own generated cash flow because the capital market has been abysmal. From July 2010 to July 2011, there were about \$4.3 billion (B) in financings on the TSX Venture Exchange. The following 12-month period had just \$1.2B. We've been keeping our powder dry waiting for things to turn. We saw a false market bottom in 2010–2011 because the companies had enough money to limp along. That's finally been drained out of the system.

TGR: You don't believe we've seen the bottom?

TMacN: We're heading to it now. The most recent bottom was this summer, but things haven't improved enough for me to confidently say it was *the* bottom. There's too much at play right now.

TGR: Are there some tangible financing advantages for a company operating in Saskatchewan?

TMacN: There would be some real advantages if there were others besides us. They would have a wide-open playing field. We have a backlog of resource projects in our own offices here in Saskatoon. There are reams and reams of projects. We simply cannot develop every high quality project that we see. The Saskatchewan Geological Survey has been around for about 75 years and it does some of the best work in the world to get explorationists a head start. Government is very supportive. We have infrastructure everywhere. It's still wide open here.

TGR: Are there any other publicly traded companies that are operating exclusively in Saskatchewan?

TMacN: There are very few of those. Typically, a Saskatchewan project is brought into a company that exists with assets elsewhere.

We have a large holding in [Westcore Energy Ltd. \(WTR:TSX.V\)](#), a Saskatchewan-headquartered company developing coal. It's a long-term project with the intention of defining a substantial resource in thermal coal for conversion to crude oil and other high value carbon products. It has a partnership with Quantex Energy Inc. in

Calgary, has defined a number of deposits and is in the process of putting together the initial NI 43-101 calculation of the size of the coal deposits it has identified so far.

TGR: You're a contrarian investor. What are some recent investments you've made?

TMacN: We haven't made a lot of new investments this year. We've been trading the companies in our portfolio. We'll continue to buy shares of [Tembo Gold Corp. \(TEM:TSX.V; TBGPF:OTCQX\)](#) because it's been so beat up. We buy Westcore Energy when it's been beat up. We have been cultivating the investments that we do have and making sure that those companies have enough cash to keep moving through this dry spell in the capital market to keep projects advancing.

That's why we created 49 North. Until we came on the scene, when things got really lousy, companies had nowhere to turn. 49 North supplies capital when the times are very lean so the companies within our portfolio can avoid hyper dilution. The companies that are near and dear to us, we care about their health and welfare and can help them with their cash flow by taking a financing down at reasonable prices and they can view that as an untouchable part of their float until markets turn. We're a bit of a lender of last resort or an investor of last resort in the bad times, not just there to exploit things in the good times.

TGR: What is Tembo doing?

TMacN: It's caught in the crossfire of a downward gold market. However, everything that it's been working on is going as planned—it defined a series of new targets, did a broad-based exploration program and is now homing in on the Nyakagwe and Ngula targets, which look prospective and are continuations of the structure that comes off of Bulyanhulu, the largest mine in Tanzania, which is owned by African Barrick Gold Plc (ABG:LSE).

Tembo has been crucified on the back of bad news from other companies in the region. For example, Canaco Resources Inc. (CAN:TSX.V) announced results in May on a resource calculation that was much less than what the market expected. Hana Mining Ltd. (HMG:TSX.V) had the same experience in that the market was very disappointed with the resource calculation on its copper project in Botswana. Investors typically buy in a jurisdiction. If they own Canaco, they were likely to own Tembo. Some institutions said, "Whoa! We're getting scared by some of the things that are happening here." Ironically, Hana just received a takeover offer at twice its recent trading price. Things can happen fast.

It's the early days for Tembo. It has been doing great work with lots of exploration and drilled many holes, nearly all of which are hitting exactly what one would expect to hit. There are more than 2,000 artisanal miners in more than 100 shafts and lateral workings on the property, mining gold anywhere from 8–50 grams per ton (g/t). In this sense there's already an active gold mine on the property. Tembo is drilling underneath where the artisanal workings are and hitting the same type of structural material as Bulyanhulu, and Bulyanhulu typically gets better at depth.

TGR: Does it have the cash to drill more holes?

TMacN: Tembo is in the midst of a \$4M fundraising right now. There isn't a lot of money going around, but there always is money for good projects. In a down market the investment community likes the dust to settle first and then look around to see who's still alive.

Tembo is definitely one of those enterprises that is worth paying attention to because once things turn, it should turn quickly. I've said to Tembo's management that my expectation is that once they put 100 more holes into the project they will probably have proved up the region's next mine. We will continue to buy at these extremely cheap levels and support the company any way that we can as it moves forward.

TGR: You recently bought back about 10% of your share float. What's the thinking behind that?

TMacN: We renewed our normal-course issuer bid because our stock is grossly undervalued. Our stock trades at less than \$2/share with a \$30M market cap. That's significantly less than the gross value of our oil and gas alone, which we carry at book value. We've got significant cash flow from our oil and gas operations. We have the ability to farm out to those with deeper pockets because we have so much development land. We end up with a big hunk of free oil for doing that because we've spent the money upfront derisking it. We're a very deep value play at these prices. Buying our own stock back is one of the best deals out there.

TGR: You recently sold CVG Mining Ltd. Tell us about that deal.

TMacN: [Omineca Mining and Metals Ltd. \(OMM:TSX.V\)](#), a group that we've worked with for a very long time, is taking over CVG Mining. Omineca is the product of a spinout from the sale of Copper Canyon Resources to [NOVAGOLD \(NG:TSX; NG:NYSE.MKT\)](#). We were significant institutional investors in Copper Canyon with the resulting sale to NOVAGOLD working out very well for all involved.

It's a way to give CVG the profile needed to raise the capital that's necessary for start up. The cash flow should be extraordinary in a short period of time and it likely will take much less than \$10M to put into production. Omineca's associations, high quality management team and excellent track record, combined with our connections provide it a number of avenues to raise capital.

The group at Omineca is very good. The company is based in British Columbia, has very close connections in industry and government and is familiar with the permitting environment. The project is nearly fully permitted and ready to go.

TGR: You have a position in [DNI Metals Inc. \(DNI:TSX.V; DG7:FSE\)](#), which plans to use bioleaching to recover various metals from black shale in Alberta. What's happening with that company now?

TMacN: DNI Metals has been doing everything it said it was going to do and has been having great success with it. The initial resource on the Buckton Zone, which is a shale that runs 10–20 meters (m) thick with polymetallic material in it, was defined at 250 million tons (Mt). It also is abundant in rare earth elements, which makes the per-ton value very attractive. The LaBiche formation, another black shale that was assumed to be barren cover rock, turned out to have better rare earth element content than the Buckton pay zone.

The LaBiche formation is so thick, up to 100m, that it has a multiple of the tonnage of the 250 Mt initial Buckton resource. The company should be able to expand the gross Inferred resource in short order to 3.5 billion tons (Bt) and once all of the work from drilling is processed, likely in 2013, it should be able to report on a resource of about 5 Bt. Let's look at the metrics: 5 Bt of \$30 rock, maybe even \$50 rock with scandium credits, and costs of \$5–15/ton based on other projects like Talvivaara in

Finland, creates a profit somewhere around \$20/ton. It costs about \$1B to build the plant. Even if it only profits \$10/ton and metals prices stay where they are, there's \$50B in potential profit sitting in the ground.

TGR: Why isn't the project getting more attention?

TMacN: People don't understand it. In 1967, when Suncor Energy Inc.'s (SU:TSX; SU:NYSE) first operating mine started processing bitumen into synthetic crude oil, they cracked the champagne bottle. But the oil sands were misunderstood by the investment community. It took a long time. Quite frankly, it was not until the late 1990s that the international investment community perked up to what was going on there. It's a process. . .given the success of the oil sands, the timeline for DNI Metals should be much shorter.

DNI Metals has been doing a great job of going through all of the scientific work, making sure that it is professional, confirming and reconfirming that drilling is where it needs to be. The preliminary economic assessment (PEA) is underway. The company should be able to finish up the processing work on the drilling that's been done so far very shortly. It is striving to hit a 5 Bt resource at grades that should provide rock values in the \$30–50/ton range. This suggests an enormous quantity of profit in the ground that is an analog to the neighboring oil sands mining that started 40 years ago. The beautiful thing for DNI Metals is all of the roads, power, manpower, infrastructure and experience with strip mining in the area—it's all there.

DNI Metals is a small junior exploration company that doesn't spend its budget on beating its drum. It spends it on good science and that's good for us because we love massive resources that are being developed at low costs. It will catch on.

TGR: Investors want something that's more near term, maybe?

TMacN: This is very near term. DNI Metals is going to have a PEA and a resource calculation that's huge. The next steps will be to either finance its way into or partner up for a test facility. If you do good science, you end up with good projects, and then the capital market comes knocking.

TGR: When we [spoke](#) in February you said that it would take a few more years to see where the macroeconomic policy of the world's financial leaders takes us, but that it would ultimately prove positive for gold. Is that picture any clearer now?

TMacN: It's not a lot clearer because there hasn't been much traction in world economies. Central bankers are going to keep their foot on the gas pedal until the car fires.

If you've ever owned a car that's carbureted, during a cold winter you go out and try to start it by pumping the pedal a couple of times. That's the first round of quantitative easing (QE). But it doesn't start, so you try it again. You pump it a few more times and it fires, but it stalls out. That is QE2. So, you put your foot right to the floor. You hold the choke all the way open until it fires and when it fires it runs a like a son of a gun because there's so much fuel coming through it and you can't even contain the revving for a while, even when you take your foot off the gas. That's QE3.

Central bankers have said that they're going to hold the gas pedal all the way down until the car starts. Great, because you will, at some point, have a period of inflation that cannot be contained no matter how much they try. All of this macroeconomic QE is likely to result in inflation at some point, which is going to be very good for gold.

Let's say that all of this macroeconomic QE doesn't cause rampant inflation, but instead sticks the way the central bankers want and that it creates real economic growth. That's going to be good for oil because it's at supply/demand capacity right now and an expanding economy on the back of QE will drive up the price of oil. That is going to be inflationary. There will be a follow-on that will bring the price of gold up.

Oil trading volume is up 25% in the last quarter, which means that institutions and investment bankers are trading it as if it were just another financial asset. That adds volatility to it. We've seen oil go up to \$110/barrel (bbl) and down to \$79/bbl in the last 12 months, and then back and forth and anywhere in between. That means the world doesn't know which way it's going yet.

TGR: Are you more bullish on Saskatchewan or gold?

TMacN: I can predict Saskatchewan a little bit better than I can predict the price of gold. We're going to do fine because we're in the very early stages of economic development in Saskatchewan. Saskatchewan is going to do great over a very long period.

However, there are likely going to be much higher gold prices very quickly. There's too much implied risk in the system and too much desire for competitive currency devaluation worldwide in order to get rid of debt on government balance sheets. It's coming. I will not predict when because things are too volatile at this stage but we can see those clouds on the horizon.

TGR: Thanks, Tom.

[Tom MacNeill](#) established 49 North Resources Inc., an incubator enterprise to raise capital for early-stage projects to develop resources throughout Saskatchewan, in 2006; he serves as president, CEO and director of the company. His 25+ year career includes positions as an investment adviser with a major Canadian brokerage firm, management accountant within the mining industry, CFO of a Canadian trust corporation and extensive resource portfolio management.

Want to read more exclusive *Gold Report* interviews like this? [Sign up](#) for our free e-newsletter, and you'll learn when new articles have been published. To see a list of recent interviews with industry analysts and commentators, visit our [Exclusive Interviews](#) page.

[The Gold Report](#) : [The Energy Report](#) : [The Critical Metals Report](#) : [The Life Sciences Report](#)

IMPORTANT DISCLOSURES

- 1) Brian Sylvester of *The Gold Report* conducted this interview. He personally and/or his family own shares of the following companies mentioned in this interview: None.
- 2) The following companies mentioned in the interview are sponsors of *The Gold Report*: 49 North Resources Inc., Tembo Gold Corp., NOVAGOLD and DNI Metals Inc. Streetwise Reports does not accept stock in exchange for services. Interviews are edited for clarity.
- 3) Tom MacNeill: I personally and/or my family own shares of the following companies mentioned in this interview: 49 North Resources Inc., Tembo Gold Corp., DNI Metals Inc., Omineca Mining and Metals Ltd., Westcore Energy Ltd. I personally and/or my family am paid by the following companies mentioned in this interview: 49 North Resources Inc. I was not paid by Streetwise Reports for participating in this interview.

The Gold Report, *The Energy Report* and *The Life Sciences Report* do not render general or specific investment advice and do not endorse or recommend the business, products, services or securities of any industry or company mentioned in this report.

From time to time, Streetwise Reports LLC and its directors, officers, employees or members of their families, as well as persons interviewed for articles on the site, may have a long or short position in securities mentioned and may make purchases and/or sales of those securities in the open market or otherwise.

Streetwise Reports LLC does not guarantee the accuracy or thoroughness of the information reported.

Streetwise Reports LLC receives a fee from companies that are listed on the home page in the "Learn More About Companies in this Issue" section. Their sponsor pages may be considered advertising for the purposes of 18 U.S.C. 1734.

OTHER DISCLOSURES

Streetwise - *The Gold Report*, *The Energy Report* and *The Life Sciences Report* are Copyright © 2012 by Streetwise Reports LLC. All rights are reserved. Streetwise Reports LLC hereby grants an unrestricted license to use or disseminate this copyrighted material (i) only in whole (and always including this disclaimer), but (ii) never in part.