

“His father helped him from the age of 12 to invest in gold equities. He grew up hearing over the dinner table tales of miners, prospectors and grubstakes”

## Looking for a monster

ROB McEwen, one of North America's most high-profile gold enthusiasts and now chairman and chief executive of US Gold Corp (UGC), has bought some more shares in his company – over US\$8 million-worth.

But even that spending spree is dwarfed by what he was willing to pay when he came to the financial rescue of Minera Andes Inc (MAI) in February. Then, he paid out C\$40 million (worth US\$32 million at the time) in exchange for MAI shares.

While the reason for his UGC purchase was straightforward – the company wants the money so it can continue to spend about US\$1 million a month exploring its properties in Nevada and Mexico – MAI desperately needed cash if it was not to lose its prime asset, 49% of the San José silver-gold mine in Argentina.

Always willing to put his money where his mouth is, Dr McEwen reckons he now has more than US\$100 million of his personal fortune invested in gold shares, while at the same time also having a big holding of gold bullion.

To say the least, Dr McEwen – among his many awards is an honorary doctor of law degree from York University in Toronto – is very bullish about gold's long-term future. He says loudly and often that he expects the price to rise to about US\$2,000/oz by the end of next year and the market could see gold at US\$5,000/oz by 2012 to 2014 before the precious metal's “super cycle” ends.

He bases these projections on gold's role as a hedge against inflation. The global credit crunch has seen politicians throwing money at almost anyone who asks for it, he points out, and the fiscal stimulus measures governments are taking will eventually stoke up inflation.

Dr McEwen likes to illustrate his point about the consequences of “paper currency printed in excess” by pulling from his wallet a note that proves he is a dollar billionaire – it is a Zimbabwean 100 billion dollar note given to him by a colleague and once worth about C\$30. The face value of the bill reflected the African country's hyperinflation but it was replaced at the end of last year because by then it was practically worthless.

Dr McEwen acquired his latest bundle of UGC shares when the company made a US\$44 million placing, completed on May 19. He bought 4.008 million shares for US\$2 each. This followed – for him – relatively modest purchases in the market in January when he bought nearly 853,000 UGC shares at a cost of about US\$891,000.

All his recent buying was not quite enough for him to maintain his previous percentage share of UGC. His holding slipped from 22.4% to 21.2% but he remains the company's biggest shareholder. UGC has a market value today of about US\$205 million.

His rescue of MAI lifted his interest from 20% to 37% in that company, which the market values at roughly C\$166 million. He also owns 24% of another junior exploration company, Rubicon Minerals Corp, Toronto-listed and valued at about C\$451 million.

After putting the C\$40 million into MAI, Dr McEwen became the company's executive chairman. MAI's crisis arose because the San José joint venture made a cash call and MAI's share was US\$11.3 million. MAI also had to pay Macquarie Bank US\$7.5 million by March 7 under the terms of a US\$17.5 million credit agreement. But all MAI had in the way of cash and equivalents was US\$2.5 million.

Dr McEwen stepped in at first with an offer that would have seen him paying C\$0.33/share – in line with the then market price – and his stake in MAI rising from 24.3% to 53.7%. However, with the looming possibility of Hochschild Mining plc – MAI's partner in the San José venture – making an outright bid for MAI, the terms were reconsidered and Mr McEwen agreed to pay C\$1/share. This resulted in his C\$40 million contribution, taking his shareholding to 37%.

So where does all the money come from? Dr McEwen, now 59, is the son of a Canadian investment banker, Donald, who ran a small securities firm, McEwen Easson. His father helped him from the age of 12 to invest in

gold equities. He grew up hearing over the dinner table tales of miners, prospectors and grubstakes.

After he graduated with a BA from the University of Western Ontario, he remained with the family company, apart from a couple of breaks – to York University in Toronto for his MBA and a stint at the Merrill Lynch investment bank. He bought control from his father in the early 1980s soon after McEwen Easson had set up a separate holding company for gold shares and gold bullion called Goldcorp.

After his father's death, Dr McEwen had control of Goldcorp and used it to take over Dickenson Mines Ltd because he felt sure that Dickenson's then poorly-performing Red Lake gold mine in north-western Ontario had great potential. He had to fight another mining industry investor, Ned Goodman – of Dundee Bancorp Inc – in an intense battle for control of Dickenson.

He also had family feuds and lawsuits to deal with as he restructured Dickenson and Goldcorp. But, after he made a C\$10 million investment to explore the Red Lake site in 1995, within six weeks his exploration chief, Dutch van Tessel, came up with nine drill samples averaging a grade 30 times what the company was then mining.

But then, in 1996, the Red Lake work force went on strike. Dr McEwen ignored advice from his production people and refused to give way. The strike lasted 46 months, during which time he received death threats worrying enough to make him fit bullet-proof glass in his windows.

“It was the first time the United Steelworkers of America walked away from a mine,” he says. The changes he was then able to introduce pushed Red Lake's annual production up and costs down – from 53,000oz at a cost of US\$360/oz in 1996 to 504,000oz at US\$59/oz in 2001, making it one of the world's lowest-cost gold mines.

In that year, in a move that surprised the rest of the industry, Dr McEwen had all of Goldcorp's proprietary geological data posted on the internet and offered a US\$575,000 prize to anyone who could come up with the best strategy for finding Red Lake's next 6Moz of gold resources.

He also showed his flair for fresh thinking in 2001 when the gold price had sunk to US\$270/oz. Convinced that the price must rise to a more reasonable level, Goldcorp held on to some of the gold it produced. Dr McEwen recalls: “At one point Goldcorp had more gold than 50 of the 150 central banks in the world that held gold.”

He also received much personal attention in 2003 when he emerged as Canada's highest-paid, listed-company executive, taking home US\$94.6 million, mostly by exercising stock options. He ex-



Photo: Bloomberg

Rob McEwen in the vaults of US Gold Corp, 2005



plained he had built up Goldcorp over 18 years and had taken relatively little money out until he exercised those options.

Dr McEwen points out that the Red Lake mine today is still considered to be the richest gold mine in the world. During his tenure at Goldcorp, he says, it was transformed from a collection of small companies into a "mining powerhouse" and its market value rose from US\$50 million to about US\$8 billion. "More importantly, the shares of the company produced a compounded annual growth rate of 32%."

In 2004, searching for someone to succeed him while at the same time widening Goldcorp's appeal by turning it into a 1M-2Moz/y producer, Goldcorp merged with Wheaton River Minerals and he handed over the chief executive's role to Wheaton's Ian Telfer. Dr McEwen remained chairman for a while but bowed out and left the Goldcorp board in October 2005.

By then he had already taken control of UGC and had big plans to develop it. The attraction was UGC's land holdings on the Cortez Trend in north-central Nevada, which has geology similar to Nevada's Carlin Trend where more than 40 deposits have been discovered, between them containing 180Moz of gold.

UGC owns the Tonkin Springs project on the Cortez Trend and before Dr McEwen became involved



Rob McEwen addressing US Gold's reception at the Prospectors and Developers Association of Canada (PDAC) conference in March this year

attempted a number of joint ventures but had run into difficulties. The problem, Dr McEwen suggested just after he had taken control, was that all UGC's partners looked for near-surface deposits in the hope of getting into production as quickly as possible. "We should be looking for a monster," he said. And UGC needed to drill deeper, as no previous hole had gone down more than 250ft (70m)

He also in those early days aimed to get a solid stock market listing for UGC – it is now on the New York and Toronto exchanges – so he could raise more money and start a C\$30 million drilling campaign at Tonkin Springs.

Dr McEwen personally bought strategic stakes in

other junior companies exploring on the Cortez Trend and in July 2007 UGC took over three of them all at once – White Knight Resources Ltd, Nevada Pacific Gold Ltd and Tone Resources Ltd. This consolidation took UGC's land holdings on the Cortez Trend up from 36 square miles to 170 square miles.

Coincidentally, also in July, 2007, Dr McEwen was appointed to the Order of Canada, that country's highest civilian honour. Like many other successful Canadian entrepreneurs, he has been an enthusiastic supporter of good and charitable causes – for example, he and

his wife, Cheryl, donated C\$20 million to Toronto's McEwen Centre for Regenerative Medicine.

It seems likely that UGC will make more acquisitions before long. Dr McEwen says: "The [gold] market is crying out for more consolidation." And, at this particular time, when so many junior companies are having extreme difficulty raising money and their share prices have collapsed, "it makes sense to consolidate."

He suggests that consolidation will be particularly driven by institutional investors. They frequently have holdings in several juniors and they "are likely to come up and say: You two will get together."

## PEOPLE & APPOINTMENTS

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### Green shoots – or weeds?

#### Stephen McCarty considers the slow recovery of City staffing

**T**HERE seem to be some positive signs of a recovery in the City. A number of mining brokers I have been talking to this week have bemoaned the loss of their junior staff and interns as they now have way too much work to do. The prospect of going to the market for capital is not quite as daunting, and their board rooms are now occasionally home to investors with an appetite to spend.

Clients are phoning me in ever-increasing numbers asking if I am talking to any exceptional candidates looking to move (yes), what the market is paying (*as little as it can get away with*) and how many good people are sitting at home just waiting for a call (*not as many as you might think*). Candidates let go by the City earlier in the year are less despondent as they are interviewing for jobs requiring a suit rather than a name tag and hair net. There is no doubt that the recent rise in commodity prices across the board has triggered this resurgence in the appetite to hire, but, as always happens in a downturn, most organisations have been overly cautious and over-pruned their staff. There are always good deals to be done, and this requires good bankers and analysts. I don't think we will ever see the highs of 2007 again, but at least the City seems to be off the critical list and slowly recovering.

*Stephen McCarty is head of the Commodity Practice at NFJ BlackSheep International*

#### ■ HEAD AT DE BEERS DIAMOND JEWELLERS

**Guy Leymarie**, chief executive of De Beers Diamond Jewellers, a joint venture between De Beers and LVMH, is to step down when his contract finishes on January 1, 2010. He has held the position since 2004. He will be succeeded by **François Delage**, who for the past two years has overseen the launch of Forevermark, a De Beers Group initiative.

#### ■ AFRICAN COPPER BOARD CHANGES

African Copper plc has announced the appointment of **David Rodier** and **Jordan Soko** to the board of directors. **Michael Evans** has resigned from the board and **Roy Corrans** will step down from his current role of chairman but will remain on the board. **David Rodier**, 65, will be appointed as the new chairman of the board. He is currently a director of Zambia Copper Investments Ltd (Bermuda). He has not been a director of any other company during the last five years.

#### ■ NEW CHIEF AT KOLA

Kola Mining Corp has named **Victor Tskhovrebov** as president and chief executive. Prior to joining Kola Mining, Mr Tskhovrebov was an independent consultant specialising in infrastructure projects and M&A in Russia. He has eight years of experience as an investment director, investment associate and equity analyst with JSC Sovfracht (a major Russian transportation company), Alfa Capital Partners (a private equity fund) and Renaissance Capital.

#### ■ OZ PROPOSES CHANGES

Oz Minerals has made a number of executive appointments. The appointees are all currently Oz Minerals executives. The appointments are subject to the proposed transaction with China Minmetals Non-Ferrous Metals Co Ltd which remains subject to receipt of final Chinese regulatory approvals and the approval of Oz Minerals shareholders at the company's AGM on 11 June. The management positions will take effect immediately on completion of the transaction, following which the executive committee of Oz Minerals, which reflects the senior level of management, will be reduced from its current level of nine members to six. Reporting to the chief executive will be the following executives: **Andrew Coles**, chief financial officer; **Mick Wilkes**, executive general manager operations; **Tony Manini**, executive general manager exploration and business development; **John Nitschke**, executive general manager projects and technical support; and **Francesca Lee**, company secretary and general counsel.

#### ■ LARA CFO

Lara Exploration Ltd has announced that **David L Miles** has been appointed chief financial officer of the company, replacing **Michael Sadhra**, who has resigned. Mr Miles is a chartered accountant with a BSc in geology and has over 20 years of experience in a large multinational corporate environment, primarily with Cominco Ltd.

#### ■ ANGLGOLD ASHANTI BOARD CHANGE

**Wiseman Nkuhlu** is to join the board of AngloGold Ashanti. He has been named chairman of the audit and corporate governance committee, from June 1.