



Sitting on a Gold Mine. by Natalie Pace

Exclusive Q&A with Celebrated (Former) Goldcorp CEO, Rob McEwen

Last February 2005, gold mining CEO Rob McEwen, the former Chairman and CEO of Goldcorp (nyse: GG), abandoned the eight billion dollar company to lead an off-the-boards Denver-based company. Has McEwen found a new gold mine or is he dragging investors through a quixotic dream?



Rob McEwen, Chairman and CEO, U.S. Gold
Photo Credit: Norm Bettis

2002 was a record year for veteran gold mining executive, Rob McEwen. He won Northern Miner's Man of the Year Award, Ernst & Young's Ontario Entrepreneur of the Year Award in the Energy Category; and the Prospectors and Developers Association of Canada's Developer of the Year award. Under his leadership, Goldcorp was named one of *Fast Company* magazine's 50 Companies of Innovation, and was selected by *Business Week* magazine as one of the 50 most innovative companies on the web.

After 18 years leading Goldcorp, McEwen could have been enjoying the golden years of his career. As Goldcorp's Chairman and CEO, he'd survived a bitter 46-month labor strike, found new reserves in a tapped out mine, invented the Goldcorp Principle (now an industry standard for identifying new reserves through open-sourcing), won industry awards, received media recognition, attracted investors and positioned the market capitalization of Goldcorp to rocket from \$50 million to its current cap of \$8.707 billion.

As Goldcorp's largest individual shareholder, McEwen doesn't need more money. And as the most celebrated mining executive in the world, McEwen's position as Chairman and CEO of Goldcorp was secure. So why did he leave that throne to start digging in the Nevada desert with a little known corporation that trades off the boards? U.S. Gold is not producing gold at this time. They are hoping to discover gold in the "Lower" level on their land. Sound too speculative for your blood? So far, it's paying off for McEwen, who bought 33% of the company for \$4 million on July 29, 2005. U.S. Gold now has a market capitalization of \$168 million, giving McEwen's 11.1 million shares a value of over \$56 million.

But will it pay off for investors? Should you bet \$5.05 per share that McEwen can get a listing for his new company, strike gold, and produce metal at a reasonable cost, all at a time when the gold mining industry is experiencing a critical labor and materials shortage? Is McEwen crazy for

thinking he can strike gold twice in one lifetime? We asked that and more in the following exclusive interview between U.S. Gold's Chairman and CEO, Rob McEwen and Natalie Pace, CEO, i-Sophia.com.

Natalie -- When you announced that you were leaving Goldcorp, you said that Goldcorp had grown beyond your skill sets. That statement seemed so outlandish, given all of your achievements, that many journalists, including me, thought it was a public relations ploy to keep investors from jumping ship.

Robert McEwen -- I read about other companies where the founder/entrepreneur built it up to a certain point, and then sometimes the company just stalls. We had gotten to a point where we needed something to take it to the next step. I came to the conclusion that it wasn't a perfect match for me, that there were signs and room for change and improvement.

Surely the Board disagreed with you...

The board said, "Why? Everything is going so well. We're profitable and low cost." Well, yes, that was true, but with all the new regulatory issues, the job became more procedural, and not as spontaneous.

And now, Ian Telfer, the former CEO of Wheaton River, is Goldcorp's President and Chief Executive Officer, Doug Holtby is the Chairman of Board and you are simply the largest individual shareholder...

When we bought Wheaton River, we said their management would end up running Goldcorp. They said, "Really?" Wheaton River was producing the same amount of gold at a lower cost because they were already producing copper, which brought their cost down. We were able to generate three times the cash flow, three times the earnings per share, increase reserves by 100 percent, and do it all by issuing 70 percent of the company. They had no debt. The combined company had \$600-700 million in cash and liquid assets. That put us in a very good position for the next step. In February 2005, we completed the purchase of Wheaton and Ian Telfer became president. I'll watch this because I'm the largest individual shareholder, but I was basically unemployed. Since then I've made major investments in four companies, and two, I've become CEO of.

[i-Sophia note: Mr. [McEwen](#) is the CEO of [U.S. Gold](#) and [Lexam Explorations](#).]

According to U.S. Gold spokesperson, Ian Ball, you have had ongoing discussions with AMEX, and plan to file an application "in the near future." What further actions do you need to take before qualifying for a listing on the big boards? (i-Sophia note: currently U.S. Gold is being traded off the boards, under the symbol, USGL.)

We needed a shareholder's meeting, which was in November 2005. We had to increase the number of shares that could be issued and put the corporation in a position that could move forward. We hired Ann Carpenter, who had been in the industry for more than 20 years, a very capable individual. She came in as President and COO. There were changes to the board, where we added two new directors, Michele Ashby, who founded the Denver Gold Group (the largest gathering of gold institutional investors), and Dr. Leanne Baker, who spent a lot of time running Salomon Smith Barney's research department. Once we got the corporation and board ready, we get to go around Nevada talking about gold and U.S. Gold. We'll be drilling in the early spring.

It's important for potential investors to understand just how speculative an investment in U.S. Gold is at this point. When you talk about drilling, you are really talking about trying to discover, not mine, gold.

What intrigued me is that the property is sitting along a fissure, a crack in the Earth. The Carlin Trend is thought to hold 180 million ounces, with more than 60 million of it produced. Nevada is the back yard for the largest gold companies in the world--Newmont, Barrick, Placer Dome. This area has the second highest concentration in the world, behind South Africa, and is the third largest producer of gold, outside of Australia and South Africa. It has the geopolitical benefit of being in Nevada. Nevada is a mining friendly state, and U.S. Gold's property is located 8-10 miles away from a major discovery made in 2003. U.S. Gold owns 100 percent of this property, along the same trend as the discovery property.

Your neighbor, Nevada Pacific Gold reported a discovery of Lower Plate rock on its property, but U.S. Gold has never attempted to drill that deeply before, right?

The majority of the exploration has been done close to surface. The Cortez Trend goes to the Lower Plate, so the focus is to look at deeper drilling. I look at this area, this trend, and think of it like a sandwich. The top slice is Placer and Newmont; the bottom slice is Newmont, Placer and Barrick. In the middle is the meat of the sandwich, where a large number of exploration companies with weak treasuries have fragmented their ownership, and they don't have any market following. If you can go in and consolidate these interests and create a high profile with a junior company, it will be attractive to investors who believe that a discovery is possible in this district.

If anyone can strike gold, consolidate companies, get a big board listing and attract investors, you're certainly at the top of the list. After all, you're just repeating what you did so successfully at Goldcorp, where you made the new discovery of reserves at Red Lake Mine and invented the Goldcorp Principle.

This is what you get with big discoveries. When Placer Dome bought the Cortez Trend, their market capitalization grew by \$4 billion, or an increase of 35-40 percent. If you have a junior company, it would get multiples of its price. That is what I'm looking at. In the best-case scenario, the Cortez Trend (where U.S. Gold has property) is another Carlin Trend, and you earn 20 times your money.

That's the best-case scenario. The real world is that digging for gold is a long way from producing it at a profit.

When you look at the Carlin Trend, which is 18 miles away, we are 15 years behind that in terms of development and exploration. Cortez Hills was discovered in 2003. The first discovery in 1991 was considered a one-off, but we now know that the deposits occur in clusters. So, the thinking is that you are going to have a similar type of trend here. There is ample evidence of this.

There have been numerous reports of a critical shortage of drilling personnel, materials and rigs in Nevada last year. Is that still the case?

All your raw materials for building a mine are back ordered. Rates for labor have shot up dramatically. When Goldcorp started sinking its new shaft, there was only one other project in Canada, right now there are 10. There is a shortage of people who do that work. There is a shortage of steel, cement and even rubber for tires of trucks. All of the sudden you have this huge ramp up in demand, and the system hasn't been able to accommodate it yet. The enrollment at mining schools had been going south. Now you have all these projects, and it's coinciding with all these people retiring. There's this real squeeze.

So, how do you staff up in that environment?

When I was searching for a new president, everyone told me there was a shortage of labor. There isn't a shortage of labor if you consider the other half of the industry. I participate in Women in Mining. There are all sorts of women who don't have a shot at the top. That led to the hiring of our president. People are ignoring, and not utilizing the full pot. If you look at the population mix, that should be a pretty good proxy for the executive suite.

Profit margins must be getting squeezed in this environment.

You want to bring a mine in that is producing gold at a low cost. A lot of people produce gold that is expensive. Gold was moving higher against the dollar, but now we're seeing strong gains in all of the major currencies. It's creating a much larger audience viewing the performance of gold. There are more people coming in, and less supply, which tends to push prices.

Is U.S. Gold currently producing?

No.

What is your anticipated cost per ounce?

We have to find it first.

Will you use the Goldcorp Principle to target exactly where the highest probability of the reserves is located?

We'll certainly be trying to incorporate open source in this model. It's a different time. When we did it back in 2000, the industry was in a recession. Today it is booming. There is a shortage of people, and we start drilling in spring.

What is the current debt load of U.S. Gold?

Zero. I went in at the end of July and bought a third of the company. I addressed the debt, changed management, and moved the company forward by adding new management and board members and focus. I had 17% interest in the property that adjoins U.S. Gold on three sides. That's about 35-40% of the trend.

You've coined a marketing phrase for U.S. Gold, "Right Time, Right Place, Right Trend!" which is similar to what you were saying for Goldcorp in 2002, when gold was under \$400 an ounce and Goldcorp shares could be bought for \$11.50. Gold closed at \$557 on January 27th, with Goldcorp shares up to an all-time high of \$25.77. Why do you think gold will continue going higher?

From a gold standpoint, if you go back to 2001, there was concern that the Central Banks would sell and that would depress the price. In the Washington Agreement, the banks limited the amount of gold they would sell in any one year. Russia has said they would like to double their gold holdings. If they did that in one year, that would be 20% of the world's annual production. South Africa wants to increase their gold. The Islamic nations are talking about a gold-backed currency. China might diversify some assets in gold.

\$557 per ounce is high for this decade, but much lower than the peak price of \$850, set in January 1980. Jim Jubak noted this month that when you adjust for inflation, the 1980 high is actually about \$2,100 an ounce in today's dollars. "So instead of being 65% of the way to the historical high," he writes, "We're only about 25% of the way there."

We're not at the peak yet. The Federal fund rates were near 15% in 1980. I would venture to say that interest rates will be going higher, and that we're four to five years away from our peak in gold.

Without a production line, you are a long time away from income.

If we were lucky enough to make a major discovery, that would address everything.

Did the former executives of U.S. Gold, William and David Reid cash out their equity stake in the corporation?

Bill and Dave were quite welcoming of an investment and a change of management. They served as consultants, and they quite willingly remained shareholders. They have about 1.5 million shares between them.

You admitted to Dorothy Kosich, a writer for MineWeb, that the odds of finding a good gold deposit are "very small." It makes sense for you, a man who cashed out almost a hundred million in 2003, to speculate on small odds, but do you really think the average investor should be so quixotic?

Like any investment, it should be undertaken with an eye to saying, "Can I afford to lose it?" If it is not discretionary funds, you really have to watch what you're doing, especially if you're going to invest in gold. Investing in a startup company in any industry means you're never sure it will pay off. Statistics tell you that only a few of them work. Explorations are similar. When I bought into the Red Lake Mine, where we had our big discovery at Goldcorp., that mine had been written off as having no potential. We found the richest gold mine in the world.

Goldcorp has rewarded investors 800% over the last five years.

If you are participating in a new discovery, it's like sitting on a rocket. I've always been a big believer in exploration. Are you investing in an area where there is a lot of gold or some? Is it an area where there is a lot of infrastructure? You can reduce the odds. For someone who has never ventured into speculative startups - like biotech - investing here is a bit of a stretch. I can say that the biggest returns will occur in the junior sector, rather than the seniors. If they [Newmont Mining, etc.] have a discovery, it will not have a meaningful impact on their share price. In the junior companies, it will.

While at Goldcorp, Goldcorp invested in Bioteq Environmental (a water cleanup corporation based out of Canada). Why?

Bioteq has been used to address past mining sites where there is a water quality concern. Also, there are a couple of companies when they set up a new mine, they include Bioteq's technology to make sure their water quality exceeds that required by the regulators.

What environmental roadblocks at U.S. Gold concern you?

If you're not going to mine responsibly, you don't have a chance of getting it started. It's not to say that U.S. Gold had a sterling record. They were always challenged economically. It hasn't been operating for 10 years or more. There is a little bit of cleanup to be done there.

Tell us more about your recent philanthropic efforts, specifically the [McEwen Centre for Regenerative Medicine](#) at the Toronto General Hospital.

It's a consuming passion. It was set up to lead the work in regeneratives - a leading edge research for most disciplines of medicine today. It's about causing your body at a cellular level to work to repair damaged parts of the body - organs, tissues, bones, etc. There are a large number of scientists studying that in Toronto. Regenerative medicine appealed to me because it has the promise and the potential of shortening hospital stays by reducing the time to cure a patient. Health care is only going higher. In this regenerative end, if we could encourage and foster the research, we could provide an answer to a growing need in society for heart and vascular systems, spinal damage, etc. For me, having grown up in the financial and mining industries, when I poked my nose into the hospital, here was a world I could not even imagine. Mother Nature has been kind to me, so I should give something back.

Well, in addition to the gift of health, Mother Nature has given you quite a talent for striking gold, which is why [U.S. Gold](#) might be an attractive investment for a very daring investor who has a little extra pocket change and a few years to speculate with. Click to go to the [Gold Report Card](#), where i-Sophia lines up the numbers of major (and one junior) gold mining companies.

Full Disclosure: On 2.6.06, three business days after the publication of this article on i-Sophia.com, Natalie Pace intends to add shares of U.S. Gold to her personal portfolio. *Please note: I-Sophia.com does not act or operate like a broker. We are a media and information center. This article is intended to educate and inform individual investors, and, thus, to give investors a competitive edge in their personal decision-making. The publicly traded companies mentioned in this article are not intended to be buy or sell recommendations. ALWAYS do your research and/or consult an experienced, reputable financial professional before buying or selling any security.*