



## "We should be looking for a monster like Cortez Hills" – Rob McEwen



Photo: Bloomberg News

### Once a gold bug...

FRESH from completing the merger of Goldcorp, the Canadian company he headed for 18 years, with Wheaton River Minerals, Rob McEwen has grabbed effective control of a small exploration company, US Gold (USG). He spent US\$4 million for 33% of USG, and last week installed himself as chief executive.

But Mr McEwen's carefully laid plans for USG might not go as smoothly as he had hoped. Coincidentally, another small explorer, NovaGold Resources, was buying USG shares at virtually the same time as Mr McEwen and now has a 17% stake (*MJ*, August 5, p13).

Mr McEwen does not seem particularly perturbed by this. He tells me he has had a chat with Rick Van Nieuwenhuysse, NovaGold's president, "and we will keep the dialogue going. We might do something together."

In turn, Mr Van Nieuwenhuysse, who was Placer Dome's head of exploration before he set up NovaGold, says his company had discussions with USG some time ago about a joint venture or possibly even a merger. Then USG announced a proposed merger with two other exploration tiddlers, Romarco Minerals and Western Goldfields.

NovaGold acquired its stake from some disgruntled USG shareholders as a strategic investment. "We didn't want to interrupt the three-way merger but we wanted to continue our previous discussions from a position of strength," he says.

He had no idea that Mr McEwen had also bought USG shares until Mr McEwen and NovaGold revealed their holdings on the very same day.

Mr McEwen immediately put an end to USG's part in the proposed three-sided merger. He says he is not interested in it, and the proposed terms were dilutive for USG.

And what makes USG so attractive? The answer: its Tonkin Springs project. This is on the so-called Cortez Trend in north-central Nevada which has geology similar to Nevada's Carlin Trend. And Carlin is where, during the past 20 years, more than 40 deposits have been located containing between them 180 Moz of gold.

The Cortez Trend has been a hot topic since April 2003, when Placer Dome revealed details of

its Cortez Hills project – one of the most important gold discoveries in the US in the past decade. At the end of 2004, Cortez Hills had proven and probable reserves containing 14.8 Moz, and last year produced more than 1 Moz, shared by Placer (60% owner and manager) and Rio Tinto (40%).

Mr McEwen says USG attempted a number of joint ventures in the past with respect to Tonkin Springs but had run into some difficulties. The problem, he reckons, was that all USG's previous partners looked for near-surface deposits in the hope of getting into production as quickly as possible.

He has other ideas. "We should be looking for a monster like Cortez Hills. US Gold has 36 square miles (93 km<sup>2</sup>) that are pretty close to Cortez Hills but has not put a drill-hole down below 250 feet (76 m). The Cortez Hills deposit starts at 800 feet below surface."

At present USG is traded on the over-the-counter Bulletin Board market in the US. Mr McEwen says: "I'd like to get a solid listing – either Nasdaq or Amex, maybe a Toronto one. Then I'll have to put some more money in and do the drilling – put together some targets to go after."

There's no limit to the investment he is willing personally to make in the project. "And it will be a long time before I run out of cash," he points out. Nevertheless, he is also acutely aware of the fact that it will be a long time before USG has any cash flow, and other shareholders will want him to be prudent about raising additional finance.

It's true that Mr McEwen is not short of a dollar or two. For example, he was Canada's highest-paid listed-company executive in 2003, taking home US\$94.6 million, mostly by exercising stock options. He explained he had built up Goldcorp over 18 years, and had taken relatively little money out until he exercised those options.

Mr McEwen is the son of a Canadian investment banker who helped him from the age of 12 to invest in gold equities. He grew up hearing tales of miners, prospectors and grubstakes at the dinner table. After he gained a BA from the University of Western Ontario and an MBA from York University, Toronto, he followed his father into the investment

business by joining Merrill Lynch.

But he wanted to get into the gold-mining business, and in 1998 stepped into a takeover battle as a 'white knight' and emerged as majority

owner of Red Lake, an old and underperforming gold mine in Ontario.

In his early Goldcorp days, he toughed out a 46-month strike at Red Lake from 1996, during which 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 53,000 oz at a cost of US\$360/oz in 1996 to 504,000oz at US\$59/oz in 2001.

When he took over, Goldcorp was an investment company with a market value of C\$50 billion. Today it is valued at more than C\$7 billion.

Last year, Mr McEwen's scheme to widen Goldcorp's appeal by making it a 1-2 Moz/y producer via the merger with Wheaton was threatened for a time by the unwelcome intervention of Glamis Gold, which wanted Wheaton for itself. But Mr McEwen won through, and then handed over the chief executive's role to Wheaton's Ian Telfer.

Mr Telfer almost immediately started to dispose of equity investments made by Goldcorp while Mr McEwen was in charge. Mr McEwen bought two of them – stakes in Guyana Goldfields and White Knight Resources – then went into the market to top up his holdings.

He now owns nearly 12% of Guyana Goldfields and 17% of White Knight. The latter company is also exploring the Cortez Trend, and its property adjoins USG's. Mr McEwen says the present WKR executive team is doing a good job and he sees no reason to become personally involved.

Mr McEwen remains non-executive chairman of Goldcorp, and is the third-biggest shareholder with about 2%. He says he will continue as Goldcorp chairman as long as there is no conflict of interest with USG, a company he expects to take up a great deal of his time from now on.

## A rarity passes

VERY few people have started a mining business from scratch and built it into one of the biggest in the industry. Andrónico Luksic was one of those people. Sadly, Mr Luksic died last Thursday (August 18) at the age of 78.

In November last year, when he retired as chairman of Antofagasta – the Chilean-based, London-listed copper producer – I described the sometimes amazing ways in which Mr Luksic amassed his fortune, building on the proceeds from the sale of a small copper mine to Japanese interests in the

early 1950s. And how *Forbes* magazine recently suggested he was the world's 140th richest man, with a wide variety of interests worth US\$3.4 billion (*MJ*, November 12, 2004, p18).

But mining was his first love. Antofagasta's three mines account for about 10% of Chile's copper output and 3% of the global total.

In 1980 he bought control of the Antofagasta company, which was operating the railway serving mines

near the eponymous Chilean town. He was sure there was a better way to run a railway, and he set out to prove it.

Today Antofagasta is among the top 100 London-listed companies. It is valued at nearly £3 billion. And the Luksic family still owns 65%.

Mr Luksic was born in the town of Antofagasta. His father had emigrated to Chile in 1910 from Croatia and married a girl from a prominent Chilean family. After studying law in Santiago,

in 1948 Mr Luksic went to Paris to study at the Sorbonne before returning to Chile to start his business career.

He attributed much of his success to a combination of audacity, hard work and luck. And those who have been involved say he is extremely canny when negotiating deals.

He once told me he was lucky enough to have sons more than able to run the companies he had built. Jean-Paul Luksic is Antofagasta's executive chairman, while Guillermo Luksic is also on the board.