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Q&A with US Gold's Rob McEwen

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Former Goldcorp CEO and founder Rob McEwen, who now heads up US Gold Corp. and Lexam Explorations Inc., has no shortage of mining ventures in the works.

Mr. McEwen, best known for transforming Goldcorp Inc. and helping it reap the benefits of the Red Lake mine in Northern Ontario (where he still has interests), also garnered plenty of attention for his attempt to force a shareholder vote on Goldcorp's takeover of Glamis Gold Ltd.

He continues to search for and find gold projects to invest in throughout North America, but has also dipped into oil and gas exploration and of course, uranium.

Financial Post: What is your most recent project?

Rob McEwen: Well, the most recent is the success of our takeover bids for White Knight, Nevada Pacific and Tone by US Gold. That's basically an assembly of a very large land package in Nevada, in the Cortez Trend, immediately to the south of what is now Barrick's Cortez joint venture. We're sort of squeezed between their Cortez joint venture and to the south of us, the Ruby Hill mine that Barrick is just re-opening. Newmont has property holdings through joint ventures immediately to the south of us and then a very large land package north of Barrick's properties.

FP: Tell us more about what are you doing there.

RM: When I stepped out of Goldcorp, I thought, well, I like the trend for gold, I think it's still going much higher. Where would I like to put some money? I thought, first off, I'm going to put a geopolitical screen on the world and say there are certain places I don't want to be because of the geopolitical risk. And then I felt that if you wanted to operate and gold continued to go higher, it would be going higher against the U.S. dollar, so that meant I should be in a U.S. dollar zone.

When I thought of that, I said, well where are the most prolific areas in the world in that U.S. dollar zone? Nevada is definitely high on the list because if you took that state and turned it into a country for a moment and compared its annual gold production to other places in the world, other countries, it would rank third in the world.

So it's a very prolific area with very large deposits. I want to be next door to some of those because often you find gold nearby. So I bought a third interest in US Gold in the summer of 2005 and then looked around and said, well, there are other properties nearby, and interestingly, the market's depressed but the majors are doing joint ventures with a number of these juniors and they're also acquiring and staking land on their own in a very aggressive manner, so this is their backyard – the backyard for the world's two largest producers, Newmont and Barrick – and they're out there acquiring as much land as they can. I guess there was also Placer Dome at the time.

But the market wasn't paying any attention to it and I thought, well, they've got the infrastructure, they've got the deposits, they have the knowledge and what are they doing? So I was going to follow their lead and buy some more land. So I bought interests in four more companies over and above White Knight, three of them had contiguous properties, so I thought, if you were an investor and you wanted to be in a geopolitically safe area in the United States, and you wanted to be in Nevada, how do you play it? Well today, Newmont and Barrick basically own the state. They are the biggest producers there and they are the biggest producers in the world. So if you by a share in a major, you really just have a warrant on the price of gold. A discovery for them would have to be monstrous to have any impact on their share price.

The next group down is the intermediates and are there any of them in Nevada? The answer is really no. Meridian has a joint venture with Barrick and Goldcorp, now that they bought Glamis has an interest in the Marigold mine, but it doesn't much airtime and it isn't a huge generator for them.

Then you fall into the ranks of the juniors and back in 2005 and part of 2006, the juniors didn't have any money in their treasuries, their exploration programs tended to be limited to about a year. In Nevada, you need to be there for a while and you have to have money to run a couple of years exploration program and run aggressively. So I thought, if you could create a company that had a large land position – something like a major would have – a treasury approaching an intermediate, but have the upside of a junior, that would make for an interesting company.

And that's what I set out to build. US Gold was an over-the-counter stock, an American company that didn't have a big following, had a lot of ups and downs. It had an old high of US\$38 a share, so I thought that was interesting. And it had a key position that really hadn't been explored using the new models such as Cortez Hills, which was a deeper discovery than most. Well, typical land play with a gold showing, next to a big deposit, it's prospective. These other properties are all on the same trend. If we put them all together, we'd have that land package. I just thought everything is falling in place, so we'll drill and see what happens.

FP: Where do you see gold prices heading?

RM: I've been saying for a number of years now I thought it would go through US\$850 an ounce before the end of 2008 and I thought it would be significantly higher by the end of 2010, north of US\$2000 an ounce. I see no reason to believe we've altered course. The world is awash with liquidity. You just look for how many dollars you need today to buy a house, food costs are going up, there's tightening all over the place. The net effect is that the dollar in your wallet buys less today than it did last year and much than ten years ago. Our governments are printing lots of money, they've encouraged a lot of debt and incurred a lot of debt on their own behalf, flooding the system. But one day, you have to pay it back. Gold is money and a lot of people don't really think about it, but it's an asset that can be converted into cash, if you want paper currency, in two days. You can't convert a house into cash in two days, you can't convert some stocks into cash in two days. But gold is accepted around the world and it has a two day settlement period if you're going through the banks. If you're doing it on the street, you can probably do it immediately. And that's the one really big thing. In the 1930s, it was all about liquidity. In the 1970s, when you had inflation, it was all about the purchasing power moving up as inflation eroded the value of our currency. That's what we're going to see again. I just think there is too much money floating around right now that was created by cheap borrowing costs and an appetite for yield.

FP: What is going on at Red Lake and with the merger with Rubicon?

RM: We got bogged down with securities regulators. US Gold being a U.S. company taking over three Canadian companies, created its own set of questions that hadn't been addressed. I think it was the first time they'd seen anyone make a simultaneous bid for three companies. So while that was going on, I was just looking around – and I'm a bull on gold – I thought I didn't want investments in the majors because I thought they were only going to move with gold. The intermediates, I thought I had a great investment in Goldcorp. When I bought Wheaton River I thought I'd see a double or a triple in a year or so, and we got a double and then we got a triple, but the triple only lasted for about two days in May and went back to a double. And the purchase of Glamis and that, I just thought that's making the story more complicated. – it's bigger, it's increasing the costs. So, I don't want to have my money there, I think there are places where it can grow faster.

In the case of Rubicon, a couple of things we happening there. I had started assembling a package of land in Alaska and had joint ventured a little over 500,000 acres up there surrounding the Pogo Mine owned by Teck Cominco and Sumitomo. It's a very exciting project that's just coming into production. They have about five million ounces showing, but it looks like they have closer to ten. But they didn't acquire any land around there.

They put in the infrastructure, so that's lowering the cost of operating in the area. We'd gone out and done some preliminary work on the property and we got some encouragement on a couple of outcrops and I was thinking I wanted to take that company public. So that was one thought.

I had another company called Lexam, it's primary focus is an oil and gas property in Colorado and it had gone into uranium in northern Quebec with a very large property that we joint ventured with Golden Valley – a small company. It had some property in Nevada, but that wasn't liquid. So I thought I'd like to get some money for the wells we hope to drill later this year in Lexam and I'd like to take the properties I have in Alaska public, and in walks Rubicon and they say their looking for money to go in and step up their exploration in Red Lake. I was listening to that and I thought hmm, this would be a really good story. If you could take – in this world that is very sensitive to geopolitical events – if you could combine Alaska, which is almost as prolific as Nevada, with a large property in Red Lake with good grades, and property in Nevada, thenfill the treasury up so they could run for a couple of years, I thought you'd have a pretty interesting story. That's what I proposed and they said yes. I think there is more to be found in Red Lake.

FP: What about the uranium?

RM: For uranium, we've seen this incredible run in it, but I don't think it's over. When you consider that there are about 120 new uranium plants coming on stream, nuclear power plants, and to operate those, when you start them up you need five years inventory on site. So there's going to be a big demand there. In northern Quebec it attracted me because a lot of the big uranium producers who were up there exploring in the 1960s, found uranium, but then dropped the properties when the uranium price fell out of the sky.

FP: Do you still have any Goldcorp holdings?

RM: Very small, shares I forgot to sell.

FP: How does what you're doing now compare to your past work, such as helping build Goldcorp?

RM: These are probably earlier than Goldcorp. Goldcorp at least, when I put it together, we had a positive cash flow, not big, but positive, and you had operations. It's like starting again, but it's an exciting area to be in. It's riskier, but the opportunity to build value is still there.