

Seabridge: Building Out An Optionality Company

By Sprott US Media

In the lead up to the [Sprott Vancouver Natural Resource Symposium](#) on July 26th-29th, Sprott's Thoughts is excited to present to its subscribers exclusive interviews with the conference's Platinum Sponsors. The Platinum Sponsors represent the premier companies in the resource space, and Sprott has invested meaningfully in all of them. We are proud to be able to connect our clients with our portfolio companies directly, and hope these interviews will help both to pave the way for a successful conference experience for all of our clients joining us in Vancouver, and to best inform all of our Sprott's Thoughts subscribers on some world-class resource companies.

Our first interview is with Seabridge Gold's own Rudi Fronk, the Chairman and CEO. Sprott has been following Seabridge and KSM, the company's flagship project, since its initial discovery, and in the following interview hosted by Sprott Global's [Mishka vom Dorp](#), Mr. Fronk provides a fresh look at not only KSM, but Seabridge's other projects, including Courageous Lake. KSM and Courageous Lake combined represent 45 million ounces of probable gold reserves, which provide Seabridge's shareholders with optionality in a rising gold price environment.

Mr. Fronk also discussed the company's recent acquisition, and efforts toward updating the pre-feasibility study, an important step en route to ultimate financing and construction of a mine.

To read the full transcript, see below. For more information on the Sprott Vancouver Natural Resource Symposium, please click [here](#) or contact your Sprott broker.

Mishka vom Dorp: Rudi, for the person joining us for the first time, can you tell us a little bit about yourself, your background and your role at Seabridge Gold?

Rudi Fronk: Happy to do so. I am a mining engineer. I was educated at Columbia University. I also have graduate degrees in economics and finance. I've been in the mining business now for 36 years, most of that time running publicly-traded gold companies. I've built mines in jurisdictions including Nicaragua, Honduras and Panama and have been involved with project development pretty much around the world.

I co-founded Seabridge in 1999 when gold was trading well below \$300 an ounce. We had a contrarian view on gold at the time, thinking that gold would go substantially higher over the ensuing years. I currently serve as the company's Chairman and CEO. Our goal at Seabridge was to build what we thought would be the best leverage play to a rising gold price and I think if you look at what we've accomplished over the past 16 years now, we've been somewhat successful with that.

Mishka vom Dorp: On Seabridge, we at Sprott see this company as what we call an optionality style gold deposit. Can you maybe explain to our listeners what that is, why that is and what it means going forward?

Rudi Fronk: Sure. I think we take the view that investors tend to buy gold stocks because they're looking for optionality to gold. What we mean by that is they're hoping that their investments in gold equities will outperform the price of gold as the price of gold goes higher.

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For the most part in my 36 years in the business, that has been the case for gold stocks, that they outperform the price of gold. However if you look at the past 10 years when gold has gone essentially from below \$400 an ounce to a high of \$1900, and now back at \$1200—gold companies have actually destroyed the shareholder's optionality and leverage to the gold price.

During that time period, net debt has gone from under a billion dollars to over \$40 billion in the ten largest gold mining companies in the world. Shares outstanding have more than doubled, meaning that per share metrics, if you look at reserves per share, production per share, and cash flow per share, they have actually gone down as the price of gold has more than tripled.

Our industry seems hell-bent on turning gold into cash and generally losing money at that. Thereby they're destroying their shareholder's leverage and optionality to the gold price.

Our view at Seabridge is just the opposite. What we try to do as a company is turn cash into gold and thereby improve our shareholder's leverage and optionality to the gold price. We do this by going out and raising dollars mostly through equity issuances but also from selling non-core assets from time to time. We then take those dollars, invest via acquisitions of other gold projects or invest them directly in projects we own, and look to increase our gold resources and reserves and offset the equity dilution that we suffered.

What we're looking to do is continue to increase our gold ownership on a per share basis. If you look at over the past 16 years, our gold reserves and gold resources have dramatically increased faster than our shares outstanding.

By the end of 2015, we had 52 million shares outstanding. At Courageous Lake and KSM combined, we have 45 million ounces of probable gold reserves, thereby meaning we had almost nine-tenths of an ounce of gold reserve per common share. On top of that, we have another 48 million ounces of mostly inferred gold resources, which would take the gold ownership up to almost 1.8 ounces of gold per common share. That is ten to thirty times more gold ownership per share than any other company on the planet and that's what gives our shareholders optionality in a rising gold market.

Mishka vom Dorp: Outside of a rising gold price, what tools does Seabridge have at its disposal to add value to shareholders? Maybe you can elaborate on the summer's drill program at Deep Kerr and what you hope will come out of it.

Rudi Fronk: Sure. As I said, our goal is to continue to grow ounces per share. This year now, we're fully funded for a \$10 million exploration program. Seven million of that will be spent at KSM on the Deep Kerr deposit. Since we finished the pre-feasibility study in 2012, Deep Kerr now has grown to be one of the largest undeveloped gold-copper projects in the world today. It's over a billion tons of resources, containing over 11 million ounces of gold and 11 billion ounces of copper.

This year's program at Deep Kerr, we believe can add another 600 to 800 meters of strike length and may add another three to four million ounces of gold resources through those strike extensions.

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In addition to the seven million at Deep Kerr, we've also recently announced the acquisition of a public gold company called SnipGold that has the Iskut project which is only about 30 kilometers from KSM. It's a very large land package. It's more than four times the size of KSM but it has similar geology to KSM with a lot of high grade potential.

This season, we will be spending about \$3 million once the acquisition closes, to go and look for higher grade intercepts and deposits nearby the surface at the Iskut property. Our intention is through the drilling both at Iskut and Deep Kerr, to offset the dilution we suffered to raise the dollars for those programs, through the discovery of more ounces.

As a comparison, let's say you purchase a share of PHYS, and you own a share of gold in a vault. What makes that price of PHYS go up is only the gold price. With Seabridge, you can buy a share of Seabridge today, and get 1.8 ounces of gold resources in the ground. A higher gold price should cause Seabridge shares to go up as they have in the past. But on top of that, we aim to continue to grow ounces on a per share basis so you will have accretion of value not just from the gold price.

Some of the other factors going forward to help us, will be the process of updating our 2012 preliminary feasibility study at KSM. The 2012 study was used to advance a complete environmental assessment whereby we now have a fully approved project from both the federal and the provincial side with the first 2.5 years of construction permits now in hand.

Since the 2012 study was done, a lot has changed from the economic perspective. Both gold and copper prices are below what they were in 2012. Offsetting that however are better exchange rates. The Canadian dollar has weakened considerably against the US dollar which is helpful in the Canadian project and the labor costs have gone down at KSM as well.

Back then we were competing with the oil sands industry and that seems to have alleviated itself a bit and labor rates were a lot lower. In addition, the 2012 studies did not yet look at—what could the project look like with the addition of not only Deep Kerr but Lower Iron Cap? Since 2012, we added over a billion tons between Deep Kerr and Lower Iron Cap, containing over 14 million ounces of gold and over 12 billion pounds of copper at grades that are 50 to 100 percent higher than our reserve grades.

The updated study will show not only an update on the reserves from the historic perspective but also what these newer higher grade deposits will mean to the overall project economics. As a result of the higher grades, we expect a much improved project from these new discoveries. That study will be completed in August.

Last but not least, we've been very clear all along that KSM is a project that's well beyond our capabilities to build and operate. This is a project that quite honestly there's probably less than 10 companies in the world that have both the technical and the financial wherewithal to build and operate a mine the scale of KSM.

Our stated objective for some time now has been to bring in a large mining company as a joint venture partner, as operator and builder of the KSM project. The last five years have clearly been challenging to

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the big gold companies and the big base metal companies. They're more inward-looking right now than outward-looking. But our dialogue continues to improve with the 11 plus companies we have under confidentiality agreements, looking at KSM as a joint venture. Higher metal prices will help in those discussions.

But just as important, the ability to show what Deep Kerr and Lower Iron Cap can do to the project economics will also be helpful in finally achieving that joint venture goal we've stated for a number of years now.

Mishka vom Dorp: As a final question, what do you think I've missed that people should know about Seabridge?

Rudi Fronk: Well, I think if you look at Seabridge, we're 'all-in' as insiders. Insiders own over 30% of the company and I think you would be hard-pressed to find another gold company of our scale, where insider ownership is at that level. Sprott has also been an investor in Seabridge for some time. VanEck is a large shareholder and Century Management as well. We have another 20% of our shares held by institutions.

I think what's also interesting going forward, especially if we're in an upward trending gold market, is we now have the largest short position we've ever seen in our stock. Between the New York Stock Exchange and the Toronto Stock Exchange, there are over 10 million shares short that represent 1/3 of our float. That is built-in future buying.

Also, as an investor, you should also be concerned about liquidity. We have excellent liquidity in Seabridge. We trade over a million shares a day on the New York Stock Exchange and a couple of hundred thousand shares a day on average on the Toronto Stock Exchange.

Mishka vom Dorp: Thank you Rudi for joining us and giving us that overview. I look forward to seeing you at the conference in Vancouver next month.

Rudi Fronk: My pleasure. We had a great time there last year. I'm looking forward to doing it again.



About the **2016 Sprott Natural Resource Symposium in Vancouver:**

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How can you maximize your profits from the long awaited precious metals and natural resources bull market? One time tested way is by listening to respected experts in the industry at the **2016 Sprott Natural Resource Symposium in Vancouver, Canada, July 26-29**. Our clients have consistently rated this conference as the finest investment conference they attend.

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