

LOWERING THE BOOM

by Michelle Boulton

Despite global economic crisis, 'Saskaboom' still poised for bright financial future

For much of last year, the entire country has been talking about the 'Saskaboom.' Our sizzling economy was riding high on the back of soaring commodity prices, driving real estate prices through the roof, and drawing expatriates back from the mecca of Alberta's oil and gas industry. Amid this hubbub, we almost missed the economic crisis that was upsetting the rest of the world. Almost.

Until last summer, the commodities boom, which began in 2002, was a driving force in Canada's economy. This changed when the United States credit crunch grew into a global economic phenomenon. Last fall, central banks and governments around the world poured trillions of dollars into struggling financial services companies. The resulting credit crunch and global economic slowdown forced commodity prices and share prices into the basement.

According to Tom MacNeill, president, CEO, and director of 49 North Resource Fund and managing director of the fund's portfolio manager, TMM Portfolio Management Inc., most elements worldwide, with the exception of potash and a few other specialty items, are trading at prices lower than the cost of production.

"Even well-established companies are having trouble accessing credit, so they're having to operate off the cash flow from their producing mines, which are typically producing at a loss right now because of the downturn in the economy," he explains. As a result, they are temporarily pulling in their reins.

Alan Cruickshank, president of First Avenue Partners, a company with a focus on Saskatchewan resource opportunities, agrees. "The world constantly consumes resources, yet we have the major potash companies announcing not only layoffs, but cutbacks in their production," he says. "There's less money available to buy commodities, so production is reduced, but the need remains. This creates all kinds of opportunities for those who can look beyond the current crisis."

Anyone investing for the long term is going to experience a few downturns in the market. It's normal to experience a drop, or correction, following a really prosperous period in the market, but the market always goes back up. When the 'tech bubble' burst in 2003, the market indices plummeted over 40 per cent. However, the five years since then have brought a steady increase of 140 per cent.

"Once the credit markets ease up and companies are able to go out and raise money for development, we are going to have some significant boom times in Saskatchewan," says MacNeill. "There's going to be such a tremendous shortfall of just about every mineral worldwide and there's going to be a tremendous demand for just about everything the province of Saskatchewan has to offer."



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MacNeill predicts that commodity prices will rebound, that development will happen very quickly, and that economic recovery in Saskatchewan will likely happen earlier than in any other jurisdiction in North America.

He expects another equity market downturn in the spring, when people discover that they that have large tax bills to pay. He says there is going to be a lot of pressure to sell assets to pay off Revenue Canada and the Internal Revenue Services in the United States. Equity markets will stabilize late in 2009 or early in 2010 and then we can look for signs of recovery.

“This is a once-in-a-lifetime opportunity for people to take advantage of incredibly low pricing,” he says. “This is a tremendous environment for people who have not had exposure to our resource economy in the past to get their feet wet and accrue some wealth.”

Convincing Saskatchewan residents to invest in such a volatile market isn't easy. “Investors in Saskatchewan are feeling the same as everybody else across the country. There's a certain level of fear, but I think they're cautiously optimistic,” says Darrell Nordstrom, vice-president and senior financial advisor, Assante Financial Management Ltd.

He says the downturn in the economy has been particularly hard on retired people and those who are nearing retirement. A lot of people who were planning to retire this year have decided to work for another year, or even more, until the markets have rebounded a little.

Tracy Duff, senior financial advisor with Skye Planning Group Inc., says her baby boomer clients may need to delay their retirement for a year or two, but most are in good financial shape. “We are entering a period where billions of dollars are going to be transferred to Saskatchewan residents from pensions and inheritances. They are going to inherit a lot of wealth and they're going to start spending a lot of money.”

Perhaps as a consequence of the financial security they grew up with, the children raised by baby boomers are a 'buy now' generation. They buy everything on credit and they are not thinking about retirement. Duff says many of the 'buy now' generation are one payment away from losing their homes; she predicts many of them will really start to feel the downturn in the economy in a few months.



Randy Beattie,
President and CEO,
PFM Capital Inc.

Photo by Stuart Kasdorf Photographics.

“They haven't been saving and they spend more than they earn,” says Duff. “They really need to start making some investments. If they don't start planning for the future now, they'll be working until they're 75.”

The 'buy now' generation may be spending money like there's no tomorrow, but that is not typical of Saskatchewan people. Nordstrom says people in Saskatchewan are cautious by nature.

“Until recently, we haven't experienced the highs that other economies have and I don't know if we've embraced the growth the way the Albertans did,” he says. “Albertans are more used to it, so they take more risks. If they make a ton of money in oil and gas, they spend it all, whereas we are more likely to hide and save a little.”

MacNeill is frustrated by the reluctance of Saskatchewan people to take a chance and invest some of their hard-earned money in Saskatchewan ventures. He says, “Wealth is being accrued on the back of our resource base, but it's accruing to people in other jurisdictions and not to those of us who stand on top of this wonderful resource base.” He blames much of this reluctance on the historically leftist political leanings of the province.

In the late '60s and early '70s, he says the NDP government of the day decided it would be in the best interests of Saskatchewan citizens to form Crown corporations and to have those corporations

act as proxies for Saskatchewan investors. In other words, “The government went into the resource development business and let the revenue they generated in their Crown corporations accrue to Saskatchewan citizens through building hospitals and roads and all of that,” he says.

While MacNeill conceded that it was “a nice idea on paper,” he says, “the rest of the world looked at Saskatchewan and understood that there was real sovereign risk and the threat of expropriation. That caused (companies) to pull their oars out of the water and leave the province.”

The other side of that coin, says MacNeill, is that the average Saskatchewan citizen was encouraged to believe that he or she shouldn't worry about investing in companies that are developing resources here because the government was going to do that for them. “That's a message that hit home and stuck pretty hard here in Saskatchewan. To this day we still have an investor climate (where most people don't) think about taking a hard-earned dollar out of their pockets and investing it in a company that's developing resources locally. We've been missing the boat.”

Cruickshank says that when the mines were nationalized in the 1970s, it chased away capital investment for a very long time. But that all began to change in 2003–04. “The money came back when there was confidence that it would be treated well,” he says.

49 North Resource Fund Inc.



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Left to right: Brenda Strelloff, Financial Advisor; Dale Berg, Senior Financial Advisor; Darwin Forbes, Executive Benefits Advisor; Darrell Nordstrom, Senior Financial Advisor; Jos Herman, Financial Advisor; Steven Krueger, Financial Advisor; Jim Nellis, Financial Advisor

Today, Saskatchewan is forecasted to have one of the best performing economies in Canada in the coming years. "There's an energy here that we haven't seen for decades," says Todd Degelman of Wellington West Capital. "Call it the 'Saskaboom,' or whatever you want to call it, but there is a confidence, not only among the people of Saskatchewan, but with everyone in North America and especially in Canada, about the opportunities in this province."

Some of it is hype, he concedes, but "Premier Brad Wall has done a fabulous job of grabbing this 'Saskaboom' hype and marketing it. He's showing the world that we're the next big economy."

It is generally agreed that the rich resources in Saskatchewan will fuel a vigorous economy in the province, but Cruickshank warns that if Saskatchewan people want to participate in the wealth, they have to invest in resource development projects. In 2003, roughly \$30 million was spent on resource exploration. In 2008, that number grew to an estimated \$360 million. He calls that "a tremendous confidence" in the development to come.

"Investors, particularly in the cyclical area of the commodities market, are extremely shortsighted and look for opportunities to get in and get out in very short periods of time," Cruickshank says. With the exception of oil and gas, which can be developed very quickly, resource development projects can take up to 20 years.

For Saskatchewan investors looking to support burgeoning Saskatchewan companies, a Saskatchewan Labour Sponsored Investment Fund (SLSIF) might be the perfect opportunity. An SLSIF is essentially a mutual fund, with the added incentive of a 35 per cent tax credit and full RSP benefits, explains Degelman. His company, Wellington West Capital, acts as the principle agent for Golden Opportunities Fund, Saskatchewan's first and largest provincial labour sponsored investment fund.

"Venture capital investment is vital to stimulate economic growth," Degelman says. "Provincial and federal governments have a vested interest in seeing Saskatchewan's economy grow, so they provide tax credits as an added incentive for Saskatchewan people to keep their money at work here in the province."

Investors receive 20 per cent of their investment in tax credits from the

Todd Degelman,
Senior Investment Advisor,
Wellington West Capital Inc.



Photo by Stuart Kasdorf Photographics.

Saskatchewan government, and 15 per cent in tax credits from the federal government. So, if you invested the maximum of \$5,000, you would receive \$1,000 in provincial tax credits and \$750 in federal tax credits. "That's \$1,750 applied directly against your income tax owing," says Randy Beattie, president and CEO of PFM Capital Inc., the manager of the SaskWorks LSIF.

Another difference between SLSIFs and other mutual funds is that they are available only to Saskatchewan residents and all the money invested stays here in the province. According to Beattie, these funds were created to stimulate a cycle of wealth creation in Saskatchewan.

"There are so many good things going on in the province today and Saskatchewan labour sponsored investment funds are giving residents an opportunity to get involved in what's going on," says Beattie. "On the flipside, Saskatchewan companies are seeing lots of growth potential and are able to get the capital they need."

Without SLSIF investment like Golden Opportunities and SaskWorks, many small and medium-sized companies would not stay in Saskatchewan. "They simply would not have access to the capital required to grow their businesses," says Degelman. "Keeping these businesses here translates to jobs for Saskatchewan people, wealth creation within our communities, and a stronger economy."

Golden Opportunities Fund has over 17,000 shareholders who have invested more than \$130 million in this province. Although it's smaller, SaskWorks still has over 10,000 shareholders who have invested more than \$70 million. "That's a lot of people investing their future in Saskatchewan businesses," says Beattie.

Although labour sponsored funds are not unique to this province – British Columbia, Manitoba, Ontario, Quebec, and the Atlantic provinces also have LSIFs – Saskatchewan is by far the most active market in terms of capitalization and dollars invested. "When small to medium-sized companies in other provinces are struggling to get capital, companies in Saskatchewan have one more source that understands investing in Saskatchewan," says Degelman.

If you want to get involved, MacNeill recommends investing in oil and gas development companies, thermal coal development companies, and the burgeoning junior potash companies. "We could go through an entire list of economic minerals in the province and I would be hard-pressed not to name a couple of companies that are doing a good job of developing them," he says. No matter what you invest in, "You're going to be very hard-pressed to do anything wrong. There is going to be tremendous wealth created once we are through this (downturn in the economy)." ■