

Saskatchewan - Resource Rich... Capital Market Poor

By: Tom MacNeill, President & CEO of 49 North Resource Fund Inc.

Saskatchewan, much like the Maritimes, has never truly embraced the modern capital market system which explains many of the social and economic similarities between the two areas. As a resource rich province, Saskatchewan's economic health relies heavily on exploration and development in the mining and oil and gas sectors which combined comprise the majority of the provinces economic activity. In 2008 nearly \$400 million has been expended on mining exploration and over \$1 billion has been spent on oil and gas land tenders which will ultimately result in new or expanded mineral finds and increased oil and gas production. This money is provided primarily by the shareholders of publicly traded companies whose shares increase or decrease in value based on the relative success of the resultant exploration programs. And therein lies the rub. Simply put, Saskatchewan people are typically not shareholders of the companies exploring for and producing resources in our back yard. This is a hangover from our lengthy, and in my view, severely detrimental experiment in socialized economic policy.

We were once taught that the best way for Saskatchewan citizens to benefit from the tremendous resources lying beneath our feet was to let government do the job of properly exploiting them for us. Within this leftwing dogmatic framework the 1970's saw the creation of Crown Corporations such as Saskatchewan Mining Development Corporation (now Cameco), Saskoil (now part of Nexen) and Potash Corp, all designed to act as the Saskatchewan citizens connection to our vast resource potential. Looked good on paper...didn't work in reality.

In a capital market sense, Potash Corporation of Saskatchewan was the icing on our new socialist baked resource flavored cake. It's creation in 1975, through the virtual expropriation of half the potash industry, had the predictable side effect of sterilizing Saskatchewan's capital market for outside participants. Capital flees from such jurisdictions (think Hugo Chavez in Venezuela today) due to the inherent sovereign risk. If you can't trust government you get out of town fast ...so the money left, taking our burgeoning capital market with it.

Today the privatization of these crowns and generally open resource investment policy of governments on both sides of the political spectrum has largely mitigated the damage done by this unfortunate ideological experiment. I think even some of the hard political left probably understand at least vaguely how harmful this period was to Saskatchewan's economic growth. The overall citizenry of Saskatchewan however, have remained well behind the curve. When you grow up in an environment that says "don't worry your pretty little head about such complicated concepts as investment, risk capital, wealth creation and such...hush honey, let uncle Allan take care of it" some of that sticks. In Saskatchewan it stuck like nowhere else, with the result that we have one of the most timid investment climates in the country.

If we want to experience the type of wealth creation evident in other resource rich jurisdictions we must start providing the capital locally so that when a dollar of resource

wealth is created it accrues to Saskatchewan stakeholders. As it stands today, that wealth is accruing to investors elsewhere. No better example of this can be found than that of Potash Corp since its privatization. In 1989, the year Potash Corp was de-crowned so that all investors could participate through share ownership, you could have purchased shares as low as \$2.00 in the open market. The problem is that very few Saskatchewan investors did! By 1995 over 90% of Potash Corp stock was held by investors outside Canada (80%US, 10%Overseas). Given Saskatchewan's terrible record of local participation (and it bears saying that the left wing encouraged this stance) the province retained very little exposure to this enormous resource as a result of individual investors timidity and lack of knowledge. So what happened to that \$2.00 share? If you had purchased \$10,000 worth in 1989 and held them today your investment would be worth nearly \$500,000. This past summer you would have had the opportunity to reap over \$1,200,000 at the companies all time high price. Nearly all of this enormous wealth accrued elsewhere than in the pockets of those standing and living on top of the resource that generated it. It's ironic that a social policy of nationalizing resources for the supposed benefit of Saskatchewan citizens has over time been the largest contributor to local investor apathy that let that objective slip away...this is what we must change.

Government has largely done its part, but perhaps not with enough fanfare to convince the average potential investor to jump from the sidelines into the game. Enhanced tax credits and a level capital market playing field have been a good start but if we truly want a higher standard of living through population growth, job creation and overall economic activity, individuals must take the leap to move us forward. Every jurisdiction in Canada learned early on how to raise capital locally for resource development, save Saskatchewan and the Maritimes. This oversight is part of why we have not experienced the type of economic development a resource rich province should have seen. When the value of a share in a company developing a Saskatchewan resource goes up in price and it's held by someone in Toronto, the profit on its sale gets spent in Toronto...not here. This is the key point to this article...we have been missing the spinoff economic benefits of wealth creation because the wealth created goes home to where the capital was raised, instead of being used to build a cabin or buy a car in Saskatchewan.

Our province is blessed with incredible untapped resource potential and Government has been very supportive in getting this message across. Now it's time for people to start paying attention to what's happening in our backyard and provide some of the early stage investment capital that can be so lucrative as projects come to fruition. In these current turbulent economic times, commodities, which are the backbone of Saskatchewan's economy are being priced at historic cyclical lows. This provides a once on a lifetime investment opportunity for the current generation of Saskatchewan citizenry...let's not miss out this time around.