EXCLUSIVE

U.S.-based investor proposes $700-million rescue plan for TMAC, urges Ottawa to reject sale to China

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At TMAC Resources, one of new CEO Jason Neal's biggest priorities will be making a long-term success of its Hope Bay gold project in Nunavut.

A U.S.-based activist investor is urging the Canadian government to reject the proposed acquisition of Arctic miner TMAC Resources Inc. by a Chinese state-owned gold company and is proposing an alternative capital infusion plan that would see TMAC remain as a standalone.

James Rasteh, head of New York City hedge fund Coast Capital Management, said in an interview he can raise $700 million from his investors that would negate the need for TMAC to be acquired by Shandong Gold Mining Co. Ltd.

"We can absolutely raise the capital," Mr. Rasteh said.

In May, Shandong proposed an all-cash acquisition of TMAC worth $207.4 million, a small premium to its then market share price. The announcement was the culmination of a five-month search by TMAC to find a buyer after years of operational problems at its Doris underground gold mine in western Nunavut. Even though TMAC was widely shopped to potential investors, there were no serious bidders, other than Shandong.

The emergence of a potential alternative path for TMAC comes as Ottawa weighs whether to approve the acquisition on national security grounds. Even though the mine has been a money pit, and in need of a multiyear turnaround effort, the asset is located in a strategically sensitive area of the country. Doris is situated in the Canadian Arctic, near tidewater in the Northwest Passage, a critical shipping route connecting the Atlantic Ocean to the Pacific.

In June, TMAC's shareholders approved the Shandong transaction, but the deal can't close until it receives the go-ahead from Navdeep Bains, federal Minister of Innovation, Science and Industry. In April, Ottawa said it would subject acquisitions by foreign state-owned firms to "enhanced scrutiny" in light of the COVID-19 pandemic.

Last week, Mr. Rasteh sent a letter to Mr. Bains, asking him to block the deal because of China's alleged poor environmental record, its history of human rights violations and concerns over the quality of its workmanship.

"I am concerned that the unknowable, Chinese government backed, would-be acquirer poses a greater environmental and construction quality risk than buyers from most any developed jurisdiction," he wrote in the letter.

"Furthermore, we Canadian investors are not allowed to acquire and control comparable assets in China – why would we grant our government-controlled Chinese peers this unreturned courtesy?"

Mr. Rasteh, who is Canadian, vowed that Coast Capital and its investors can "turn TMAC into a Canadian champion."

In an e-mail to The Globe and Mail, government spokesperson Hans Parmar said Mr. Bains could not comment on the letter sent by Mr. Rasteh, or the specifics of the TMAC review.

TMAC's chief executive officer, Jason Neal, also declined comment for this story.

Coast Capital, which did not approach TMAC during its strategic review earlier this year, only acquired shares in the company last week and currently owns a 1 per cent stake.

TMAC has long been one of the highest-cost gold miners in Canada, partly because of its underperforming mill. Approximately $680 million is needed to right size TMAC, including the construction of a brand-new mill.

The investment opportunity to turn around TMAC is much stronger now than earlier in the year, Mr. Rasteh said, because the underlying commodity has been on fire. In recent months, gold bullion has surged to historic highs in large part because of the tremendous volatility induced by the COVID-19 pandemic. On Monday, gold bullion surpassed US$2,000 for the first time. Against that backdrop, even the highest-cost gold miners in Canada are poised to produce free cash flow.

Shares in TMAC are trading about 14 per cent below Shandong's proposed takeover offer, indicating that there is a fair amount of uncertainty over whether the deal will be approved by the federal government. On Tuesday, shares in TMAC closed at $1.50 apiece on the Toronto Stock Exchange.

While the government has already approved the acquisition of a Canadian gold company to a foreign buyer this year – the sale of Montreal-based Semafo Inc. to London-based Endeavour Mining for $1 billion – that deal did not pose obvious national security concerns. Semafo's two gold mines are in West Africa.

Canada has rejected large corporate takeovers by Chinese buyers on security grounds in the past, including the proposed $1.5-billion acquisition of construction company Aecon Group by CCCC International Holding Ltd. in 2018.

Coast Capital was part of a group of U.S. activist funds that led a proxy battle at Toronto-based Detour Gold Corp. in 2018. That campaign saw the ouster of the company's chairman and CEO. Detour, like TMAC, had long been an underperformer. Late last year, Detour, under new management, agreed to a sale to Kirkland Lake Gold Ltd. for $4.9 billion.

Coast Capital is also one of the largest shareholders in Battle North Gold Corp. (formerly Rubicon Minerals Corp.), another Canadian gold company attempting a turnaround after its first attempt to build a gold mine in northern Ontario turned into a catastrophe.