



Transcript of initial interview with Mr. Douglas D. Dobbs



Vice President of Corporate Finance and Development at  
Mines Management, Inc.



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**Mr. Douglas D. Dobbs - Vice President of Corporate Finance and Development at Mines Management, Inc.** Douglas Dobbs joined Mines Management in October, 2002, after 13 years in investments, corporate planning and marketing. Prior to joining Mines Management, Mr. Dobbs served as senior business and marketing analyst with Avista Labs, a wholly owned subsidiary of Avista Corp. (NYSE: AVA), involved in the development of energy technology. While at Avista, Mr. Dobbs was responsible for strategic planning, as well as market and corporate development activities.

Prior to joining Avista, Mr. Dobbs spent 13 years in the investment industry with companies including Piper Jaffray Co., and National Securities Corp., ultimately founding and operating Dobbs Financial Services, an investment management firm involved with investment and market analysis and portfolio management. Mr. Dobbs holds a Bachelor of Arts degree in Economics from Hillsdale College in Michigan, and was formerly a licensed investment manager and registered investment advisor

**Smallcaps.us: Hi everyone and welcome to a new Smallcaps.us interview. With us today is Mr. Douglas Dobbs, who is the Vice-President of Corporate Finance and Development at Mines Management, Inc. This U.S.-based mining Company owns the very attractive Montanore Silver-Copper project in northwestern Montana. So we're excited to have Mr. Dobbs here with us to learn more about the Company and its flagship property. Mines Management is listed on the Toronto Stock Exchange with ticker symbol MGT, and is also listed on the New York Stock Exchange AMEX market with ticker symbol MGN. Douglas, thanks for joining us.**

**Douglas Dobbs:** Well thank you very much for inviting us to be a part of your program. It's a pleasure to be here today.

**Smallcaps.us: Okay. Now, there's little question that the 100%-owned silver-copper Montanore project is the Company's primary property at the moment. So can you give us a basic introduction of the property and tell us how Mines Management came to acquire the project?**

**Douglas Dobbs:** Absolutely. The Montanore project is a very large disseminated silver-copper deposit located in the northwest USA. Mines Management has been involved with this project since 1983. We came to be involved with the project by controlling exploration claims that overlapped a portion of the larger deposit and so we partnered with the larger companies to advance the project.

It was originally discovered in 1983 by a large U.S. company known as U.S. Borax who explored the property through surface drilling in the middle 1980s, and then they sold their interest in the project to the large Canadian consortium known as Noranda Minerals. Noranda advanced the project from 1988 through 2002 when they elected to withdraw from the project at a time of very low mineral prices. At that time, in accordance with our lease agreement with Noranda, they deeded title to the deposit to us at no cost in 2002.

You might be interested to note that silver prices at the time were approximately \$4.25 per ounce and copper prices were approximately \$0.65 per pound. So mineral prices were at extremely low level at the time. Little that we know that mineral prices would begin moving up in the most dramatic bull market that we've seen since the late 1970s. So this has been an exciting time. And we control 100% of the project and are advancing it toward production.

**Smallcaps.us: Thank you. Montanore is an advanced stage project. Can you share the most important aspects of the NI 43-101 compliant resource with us?**

**Douglas Dobbs:** Yes. The mineral resource, which is substantial, is based upon the exploration drilling that was done in the 1980s by U.S. Borax. It was comprised of approximately 31 drill holes, 27 of which intercepted mineralization, which identified a mineral resource of approximately 116 million tons of material with an average grade of 1.98 ounces per ton silver and 3/4 of one percent

copper. What that equates to is approximately 231 million ounces of silver in the measured indicated and inferred category and approximately 1.7 billion pounds of copper.

The deposit remains open in about three different directions for potential expansion. We hope to test one or more of those directions in an upcoming drilling program.

**Smallcaps.us: So it's obvious there's plenty of room for expanding the current resource estimate?**

**Douglas Dobbs:** Yes, there is. The deposit remains open to the northwest by virtue of the drilling program. The final holes in that direction ended in mineralization. And then also at depth, the previous drilling program did not test potential deeper zones. And then off to the northeast where the deposit goes off of our mineral rights and we will have an opportunity to negotiate with the U.S. government for potential access to that mineralization which is off of our current mineral rights. And so we would hope to do that in the future.

The nearest term opportunity would be through a potentially a new discovery at depth as we do delineation drilling for a feasibility study in the known mineralized zones. We'll also be drilling at depth into the zones that the previous company did not drill into. So this is an exciting time. Not only will we be doing the definition drilling needed for our detailed engineering but also testing previously unexplored zones.

**Smallcaps.us: Very interesting. Now based on the resource estimate, a Preliminary Economic Assessment, or PEA, was published for Montanore in February of 2011. Would you describe some of the highlights of the PEA for us?**

**Douglas Dobbs:** Yes. The Preliminary Economic Assessment was completed in February 2011. So it's a very recent study and it was based upon a resource as it was outlined in the previous 43-101 technical report. Essentially, the Preliminary Economic Assessment analyzes the proposed mine plan

and then attaches cost estimates that would be considered accurate within plus or minus 30%. You would then advance toward a feasibility study that would further refine the cost estimates of the project to something more on the order of +/- 10%, which would be more appropriate for raising capital to build the mines.

But the Preliminary Economic Assessment was appropriate for the level of exploration that had been done at the time. What we found was that the estimated cost of construction for the project would be in the range of US\$552 million, and then the estimated operating cost to extract the minerals would be in the range of about \$23 per ton. That would be considered to be a very low cost for an underground mining project.

One of the reasons that it would be considered to be low cost is that dimensionally, the deposit is very large and so we're able to utilize both mining methods and large-scale mining equipment, much of which you would typically see in an open-pit mine. There are other mines like this that are operating in other areas that have comparable operating cost of what we're seeing with the Montanore. So you would see that that would be an equivalent to approximately \$4.5 per silver equivalent to ounce. So again, very low cost for an underground mining project.

Typically, you would see open-pit mining costs noticeably lower than that, but much of today's underground mining operations in the silver space are in the range of \$10 to \$15 per ounce. So if these were in production today, it would potentially be generating significant cash flows with silver in the \$25 to \$30 per ounce range.

With the upfront capital cost of \$552 million and operating cost of approximately \$23 per ton, we were able to develop a discounted cash flow analysis that showed a net present value in the range of \$450 million using \$15 silver and \$3.10 copper. So the metal's price assumption that we used in the discounted cash flow analysis were significantly lower than the current metals prices. This gives us some room for volatility in metals prices and shows that the project would be economic even at lower metals prices.

**Smallcaps.us: And what does the future look like for the Montanore project?**

**Douglas Dobbs:** Well, the future is very bright as long as the metals market continues to hold up. We have some major activities remaining before the project comes into production. We do need to complete a permitting process and this is actually a re-permitting process. Under the operation of Noranda Minerals, they did complete full project permitting in 1993. But a significant period of time had gone by and Noranda had not developed the project, so the government has asked us to re-evaluate the environmental aspects of the project and go through a re-permitting process. We began that process in 2005 and we are approximately six years into that process and we believe that we may have the permitting process complete within the next 12 months.

So this is a very exciting time to be on the cusp or on the threshold of completing the approval process. And then, the next step would be to move toward the drilling program that I mentioned earlier where we would be doing definition drilling for a feasibility study.

Once the feasibility study is complete, we would expect to raise project financing to build the project. All of the permitting and evaluation drilling and construction we believe would result in production sometime in the next five to six years.

**Smallcaps.us: Well, that's great. Now, in terms of moving the Montanore project towards production, how do you plan to handle financing?**

**Douglas Dobbs:** Well this is something that is always a significant activity for a junior company such as Mines Management. We don't have other mining projects as a track record or for security of any sort of project financing. So there are many ways to raise capital for projects such as this. It would typically involve some level of equity financing whereby you issue stock and some level of debt financing where you're borrowing capital from banks and other sorts of major institutions. Many times a

smelting company may get involved in helping with the construction financing in exchange for a long-term off-take agreement. And then also it's very common for junior companies to bring on a joint venture partner that is a major producing company to assist in the financing as well.

And so these are, you know, all of the different methods that could be employed and as we go through the remaining part of the permitting in the delineation drilling program, we'll be looking at all of those different alternatives.

**Smallcaps.us: Okay. That's good to know. And can you tell us a bit about the Company's shareholder structure and its financing activities?**

**Douglas Dobbs:** Yes. We have approximately \$20 million in the bank at the end of the third quarter of 2011. We do have a large retail investor component as well as a large institutional investor component. We completed a financing in March of 2011 for \$15 million and I think as a result or following that financing, we have institutional ownership in the range of 35 to 40%.

Though the largest shareholder in the company at this point is the silver streaming company known as Silver Wheaton Corporation. Typically, they would like to purchase a silver stream or be part of a forward sale of future silver production and we have not sold forward our silver stream to them at this point. We have given them a right of first refusal in the event that we consider that as a financing alternative. Then you also have other institutions such as U.S. Global, which is a large mutual fund organization in Texas in the United States, and then a number of institutions below that.

**Smallcaps.us: Great. Now, Douglas, what's your perspective on today's commodities markets, especially what copper and silver is concerned?**

**Douglas Dobbs:** Well, we believed that we are continuing to be in a long-term secular bull market for commodities and for metals specifically. There are a number of reasons for

that. One is that we do see robust demand for metals even in the face of a very, very weak global economic climate.

The supply of copper and other kind of metals is considered to be very thin. We've seen a supply deficit situation with regard to copper over the last several years. Also, with the steps that the governments of the United States and Europe are taking toward recovering their economies, we would expect to see a rising future demand for metals and that this would bode well for metals prices. This is a fundamental analysis that we think paints a very bullish picture for copper and silver.

Some of the steps that the governments are taking to stimulate their economies would tend to be devaluation of their currencies, that is toward printing more money. This would have a stimulative effect on the value of metals, specifically gold and silver. We think that the stimulative activities that the government's involved with will contribute to the bullish picture as well.

This looks fairly similar to the cycle that we saw in the 1970s where we saw approximately 18 years of a bull market. We may be eight to ten years into the current cycle and that this is, similar to previous cycles only halfway through. And so we have a positive outlook.

These are analyses that are shared by a number of analysts around the world. So we're basically drawing our information from other people's analysis as well as taking a look at the historical perspective as well.

**Smallcaps.us:** From an investor's standpoint, it's always interesting to know more about a Company's management team and its key people. So, can you provide us some more details about that?

**Douglas Dobbs:** Absolutely. The CEO of our company is Glenn Dobbs. He, and our family, make up the single largest shareholding in the company that's non-institutional. He comes with a business background and we both have been involved in mining finance in the past. He

specifically comes with a political background which was viewed as a positive skill set to have knowing that we would go through a political process for permitting the Montanore.

And then also on our Board of Directors, our Director of Engineering is Robert Russell. Bob had been the general manager of two world class copper mines. One is the Grasberg Project where he oversaw the expansion of the Grasberg from 25,000 tons per day of capacity to over 150,000 tone per day of operating capacity. The Grasberg is also one of the largest gold projects in the world.

And then we also have Russ Babcock, who is our director of geology. Russ spent 40 years in his career with Kennecott Copper which is a subsidiary of one of the largest copper-producing companies in the world. I would say that Russ is probably one of the foremost authorities on the kinds of copper-silver deposit that we have in the Montanore, and so he is very valuable to have on board.

And then on our management team, we have good operational experience in our Vice President of Operation, John Thompson. John has significant underground mining experience having participated in the construction and operation of the Stillwater platinum-palladium mine in Montana. And then working at a number of other underground mining projects around the world including the Manantial Espejo operated by Pan American Silver, the Julietta Gold Project operated by Bema Gold, now Kinross over in Russia, and then also at the Guanajuato Silver Mine on behalf of Endeavor Silver down in Mexico.

And then to round that out, our chief financial officer is James Moore and Jim had worked with American Barrick Gold and had been in charge of Barrick's South American financial activities as their CFO during the 1990s.

So we have I think an excellent team of individuals on our management as well as our board and it's really reflective of the quality of the project that we have and the needs that we'll have in advancing the project forward.

**Smallcaps.us: And before we close, why would you say that now is a good time for investors to take a serious look at Mines Management?**

**Douglas Dobbs:** Well, I think from a cyclical standpoint, mining companies go through a cycle as they advance projects. You typically will see a large amount of excitement and a high share price in the company when a discovery is made or, as in our case, an acquisition. We did see that speculative frenzy occur between 2003 and 2006 when our share price rose from \$1 per share to approximately \$10 per share.

But as we move forward and advance the project, the excitement paused as we got into the feasibility, engineering and permitting work and the news flow became less exciting.

So you typically see the speculators moving out of the stock and our share prices has come down significantly and we would expect to see the next leg up, from a cyclical standpoint, as we push through the permitting and remove that uncertainty and move in to the feasibility study and construction. This is typically where you see shares move up to some new high level that's more reflective of what the cash flows will look like.

I think that the shares are at a low level because of that and I think they exhibit excellent value compared to the low level of risk that you might see with producing companies versus exploration companies. So we think the timing on this is particularly good.

**Smallcaps.us: That sure sounds compelling, Douglas. Thanks for taking time out of your schedule to talk with us today and best of luck with Montanore and all the Company's goals in the new year. Of course, we'd be happy to have you back for an update interview in the future.**

**Douglas Dobbs:** Well, thank you again very much for the privilege of being a part of the interview and helping us to spread the word internationally to the investment markets. We should have significant milestones during 2012 that we would be happy to update you about. We're also looking around for other projects around the world, mainly in the Americas and we may see some acquisition of earlier stage projects coming in the foreseeable future. So happy to visit with you anytime, just give me a call.

**Smallcaps.us: Okay, terrific.**

## **Interview Feedback**

We welcome your questions and feedback regarding this interview at:

<http://www.smallcaps.us/introduction-of-mines-management-and-its-vast-montanore-silver-copper-project>

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