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North Bay wants the nuggets!

Jan Kneist: Hello Mr. Leopold. It is my pleasure to talk to you today. North Bay is a quite unique company, the reader will find out soon. But let us start with yourself and your background.

Perry Leopold: Thank you, Jan. It's a pleasure to visit with you as well.

It may surprise you to learn that I actually started out as a songwriter. After a degree of success as a concert performer for a number of years, and during a break from touring, I quite by accident became involved with computers, which in the early 1980's was just beginning to emerge from the laboratory and made available to the general public. One thing led to another, as they usually do, and I began writing software, which I found to be quite similar to songwriting, in that both are as much an art as it is a science. It was also during this period in 1981 that I founded The PAN Network, which became the first online service for the worldwide music industry, and one of the first "B2B" networks in the world. Years before the World Wide Web ever existed, PAN evolved as the online center of the digital audio universe for over a decade, and was where downloadable digital audio was invented in 1984, along with a number of other innovations commonly used on the internet today. It was also a very profitable business, and is where I learned how to build and manage a successful enterprise. By the 1990's I was bitten by the stock bug, and was particularly focused on gold stocks, and later, I began trading gold futures. By 2005, while I was starting a hedge fund that traded gold, bonds and index futures, I sold PAN to a company called NetMusic Entertainment Corporation, and became its largest shareholder. One year later, in 2006, NetMusic was failing, and the Board of Directors asked me to come in as CEO to turn the company around. At the same time, an opportunity to option a gold property in British Columbia presented itself, and the Board of Directors agreed with my view that we should exit the entertainment industry and begin operations as a mining company. After all, the profit margin on mining and selling an ounce of gold is a lot more attractive than trying to sell songs on the internet for 99 cents. After spending over 10 years analyzing the balance sheets of mining companies as well as the global macroeconomic dynamics that drive gold price movements, I was quite comfortable with the transition, and believe our success to this point speaks well for the decision.

JK: So you came to North Bay in early 2006 and totally changed the company to a resource company. What kind of business plan do you have to create value for the shareholders?

PL: The challenge in the early days was how a small company with very little money and virtually no access to the capital markets can acquire properties and start mining. I discovered that British Columbia had just digitized the resource map of the entire Province and made it available as an online application. Given my background in technology, I immediately recognized that this was the

advent of what I call desktop prospecting. I then immersed myself in learning the intricacies of the software, and discovered that I could interface the digital maps online with geological databases of previous assessment work on each property based on the GPS coordinates, and could even zoom in via satellite with tools like Google Earth to view the topography. It worked superbly, and in just a few months I was able to assemble an inventory of many excellent properties that would have otherwise taken years in the field locating boundaries and pounding stake posts. The business plan that evolved was to identify promising mineral deposits using the digital tools available, and whenever they were still available for staking, acquire the properties directly by registering our claims with the government by paying a very nominal claim registration fee. Our task at that point was to assemble all available information about the resources we acquired and market them to larger well-funded companies as joint-ventures. By doing this, we are able to generate revenue from our properties even while they are in their earliest stages of development, and well before any of them actually become commercial mining operations. We call this the Generative Business Model, and it has been very successful.

JK: Very interesting, and you assembled a large number of properties in BC. Some of them are subject to joint ventures and already bring money for North Bay. We will talk about this after you told us the story behind the Ruby Gold Mine which is the main focus right now.

PL: After a few years of building up our Canadian assets, it became clear to me that it would be years before any of our projects would actually become producing mines, and until that happened, we would be an exploration company, not a mining company. Since mining was our goal, I decided to begin looking for properties in the US that were either already in operation, or close to it. It was during this time I came across the Ruby, and after doing some research, I saw that the Ruby fit the profile of the type of property we were looking for.

The Ruby has a mining history going back to the 1850's with the discovery of the Mother Lode and the famous California Gold Rush. The gold at the Ruby comes from what is known as a tertiary placer deposit, which is essentially an ancient river buried underground and within the mountains. When the Sierra-Nevada Mountains of California were formed millions of years ago by volcanic eruptions and massive upheavals of earth, tremendous rivers of lava were trapped under the newly-formed mountains, and when the earth cooled and the mountains were fully formed, the gold that had collected on the bottom of these buried ancient river channels formed the large deposits of gold this region is known for. The Ruby in particular is renowned for its huge gold nuggets formed from these lava flows, the largest of which to date weighs in at 201 ounces.

Mining in this area started out by mining the placer deposits on the surface, along the rivers and streams, and in later years the ancient river channels that are now the Ruby Mine were discovered underground. Since then, over 250,000 ounces of gold has been produced at the Ruby, but we believe most of the deposit remains waiting to be mined. All mining activity was stopped in 1942 after the start of the Second World War, as all gold mines in the US were ordered shut by the government to redirect resources towards the war effort. After the war, mining was not resumed, as the high cost of labor and the government-controlled gold price made gold mining unprofitable. After price controls were lifted in the 1970's and the price of gold was allowed to rise, gold mining resumed for brief periods of time when the price of gold spiked over \$400 an ounce, but it was not until recently that the price of gold has risen and, more importantly, remained above key price levels where it is now economical to begin opening the Mother Lode gold mines once again.

JK: That seems to be a great asset in fact, and it produced large nuggets in the past. How much gold is still there in the workings and how do you estimate the exploration potential?

PL: Historically speaking, the ancient river channels of the region have produced an average of 100,000 ounces of gold for every mile of channel mined. The Ruby has approximately 4 miles of

known channel left unmined, and we expect to discover at least another mile of additional channels once mining operations resume, so we estimate there is up to 500,000 ounces contained in the Ruby deposits. This does not include several quartz veins that have been discovered on the property, and which are still unexplored, so we are very excited about the Ruby's ultimate potential resource.

JK: A question that would surely occur is: Why was the mine finally closed in 1998?

PL: Very simply, it was the price of gold. In 1998, it cost approximately \$400 US to produce an ounce of gold. When gold fell below \$300 an ounce and remained there, the previous operator went bankrupt, and the mine was closed. The mine was then returned to the original owners, who kept the property well-maintained, and as result, even though there has been no mining at the Ruby for the past 13 years, the mill, the underground workings, and the equipment are in remarkably good condition. When I visited the mine last September, it looked as if they had stopped mining yesterday, and with just a few minor upgrades, we will be able to resume mining very quickly.

JK: Right, we remember the big bear market with its double bottoms. Now at \$1,500 an ounce the whole picture looks different. There is already a rough plan in existence with a production of 1,000 ounces per month. When do you expect to achieve that and which cash costs do you assume?

PL: Our target output is to be producing 1,000 ounces of gold per month by the end of the first year, and double that by the end of year 2. We have estimated that our mining costs will be between \$500 and \$550 per ounce, but as the price of oil rises, our costs will undoubtedly also rise. As you know, mining is energy intensive, and while we have electric lines running on the property, underground operations will rely on diesel-powered generators, so it would not surprise me to see our costs reach \$650 or \$700 an ounce by the end of the first year if the price of fuel continues to rise. But I fully expect the price of gold to also rise further, and it is entirely possible that over time our profit margin will continue to expand, even with higher fuel costs.

JK: Well, once in operation this mine should give North Bay and the foreign investors a healthy profit. But first you have to buy the mine. How does that work? North Bay is still a small company.

PL: We currently have two primary sources of funding. We have a \$5 million equity credit line with Tangiers Investors, which we are drawing upon now to make our Ruby mortgage payments, and which alone can accommodate the entire cost of the acquisition. The second source of capital, which is what we will be using to fund the start of mining operations, is a US government program called EB-5. EB-5 is intended to stimulate the US economy by creating new jobs in areas of high unemployment. To do this, the US government makes up to 10,000 visas available each year to foreign nationals who want to immigrate to the United States by agreeing to invest a minimum of \$500,000 each in a US business that will create new jobs. The Ruby fits perfectly in this program, as unemployment in this area of California is quite high, and we expect to receive up to \$7.5 million in this way.

JK: Sounds "innovative" to me. You had to convince Tangiers investors to put money into North Bay. They would not have given you convertible debentures for the option payments if they would not have done their own due diligence, right? Not to forget that the replacement value of the mine is higher than your purchasing price!

PL: Yes, Tangiers has been quite supportive. They recognized instantly that we had negotiated a great deal in which we are acquiring an asset that would immediately become accretive to our balance sheet. The Ruby has \$3.5 million in infrastructure in place, including buildings, an operating mill, 6,000 feet of tracked haulage underground, and all the support equipment necessary to begin mining. We believe the replacement value of the infrastructure is now several times higher than the appraised liquidation value. Considering that the entire acquisition is costing us \$2.5 million, we look

at the transaction as the purchase of the equipment at a discount, and we are getting all of the gold in the ground for free.

JK: But that's not all that is unusual for European investors. You want to start the Ruby mine with money from foreign investors who want to become US Citizens. How does this work and what part of the profits would they get?

PL: Essentially, we have formed a series of joint-ventures, each of which will receive a portion of equity in the project. First, we have a JV with ACG Consulting, which is an expert in EB-5 financing, and has offices throughout the world to bring in the foreign investors. For this JV, we have formed an entity called Ruby Gold, LLC, and which will be the actual owner/operator of the Ruby Mine once the EB-5 funds have been received. Second, we have a joint-venture with the Northern California Regional Center ("NCRC"), which is the designated EB-5 Regional Center under which the Ruby Mine will be assigned. Third, NCRC and ACG have formed an entity called Ruby Gold Foreign Investors, LP, which is structured as a limited partnership, and which is the legal vehicle into which the foreign investors invest their money. The LP then loans the funds to Ruby Gold LLC to create the jobs at the Ruby Mine and begin operations, and NCRC monitors the project to make sure we create the required number of jobs and pay back the investors from mining revenue within 5 years. It is all rather complicated, but at the end of the day, North Bay will be the majority owner, with no less than 58.65% equity, and all of the other participants combined, including ACG, NCRC, Tangiers, and the foreign investors' partnership, will be apportioned a certain amount of project equity, that is to say, a share of the net profits, from the remaining 40%.

JK: So the government can stimulate the economy without using own money. Interesting. And North Bay would end up with 58.65 % of the profits after loan repayment of the Ruby mine but you don't have a further dilution of stock with that kind of financing.

PL: Exactly. And you raise a good point in noting that the funding is non-dilutive. That is the key aspect of this type of funding vehicle for us. We are not financing it on the backs of our shareholders, which leaves the company in a strong position to enter into any number of similar deals without diluting our shares.

JK: This might be a model to be applied for more mines than just the Ruby. I can imagine that many historic mines become at the current gold price economic again.

PL: Yes, precisely. Our plan is to acquire additional projects using the same formula, though depending on the nature of the transaction, they may each have a different structure. If, for example, we can acquire 5 mines in this way, each one capable of producing a minimum of 2,000 ounces of gold per month within the first 2 years, in a short period of time we will be producing a minimum of 120,000 ounces of gold per year. Each project, through a separate joint-venture LLC, will have its own infrastructure and team in place that focuses on that specific project and that project only, leaving us, the parent company, with the resources and capability to continue acquiring new projects, building reserves, and increasing shareholder value.

JK: There might be more than one "Ruby" in the foreseeable future. But let's come to the projects in BC that we mentioned at the beginning. Which of them are currently under JV's?

PL: We currently have two JV's in place in Canada. Our Coronation Gold project is under contract with Lincoln Resources Inc, a private US-based company, and our Fawn-Buck JV property is under contract with Silver Quest Resources Ltd, a Canadian company listed on the TSX Venture exchange under the symbol SQI. The JV with Silver Quest is particularly exciting, as the Fawn-Buck property is adjacent to Silver Quest's Capoose project. The Capoose project is exceptionally well-funded, and

has grown in size to now virtually surround Fawn-Buck, so both companies now consider Fawn-Buck to be part of the overall Capoose project.

JK: If we go through the list of your BC projects, we find some with amazing historic grades. Tell us a bit more about Zeballos Gold on Vancouver Island please.

PL: Zeballos is a very intriguing area. It is well-known as a producer of very high-grade gold, and is where several mines in the area produced over 300,000 ounces in a relatively short amount of time before World War II. But for some unknown reason, most of the area remains unexplored. A team we sent up there recently to assess our claim group has just returned, and we expect to have a 43-101 technical report completed shortly. Historical assays on our claims have run as high as 10 ounces per tonne gold, and we believe we have an asset with a tremendous resource there. But we must wait for the new assays come back to verify that the mineralization contains anywhere near that kind of high-grade gold. Hopefully we will have confirmation very soon.

JK: If this is confirmed a high grade underground mine could be established. But much work has to be done yet? Also a NI 43-101 resource estimate and probably the search for a partner?

PL: Yes, that is the plan. We have spoken to several companies who have expressed an interest, but we feel we will be in a stronger bargaining position by first having a 43-101 report completed. So we are getting it done now, and hope to have a commitment from a partner soon thereafter.

JK: Cherry and Bouleau Creek seem to be interesting gold projects as well.

PL: Cherry Gold, Bouleau Creek Gold, and a number of our other projects we think very highly of are in the same situation as Zeballos. They all have excellent historical assays from previous work, and we plan to have 43-101 technical reports completed on them this year to hopefully have more joint-ventures to announce as a result before the end of the year.

JK: To me your Monte Cristo project sounds also very promising. There are gold and PGM-bearing sands of around 22,7 million tons with grades of up to 2,47 g/t Gold, 4,8 g/t Silber, 2,77 g/t Platinum and 2,71 g/t Palladium. The in-situ value here is immense. Your statement here? What about the permitting in this area in BC?

PL: Yes, the resource estimate for Monte Cristo is huge. However, the property is next to several Indian reservations, and the government has recently put all of the placer claims in the area into a "no staking reserve", which means that no one can stake any new claims in the area. We have held our claims since 2006, and have retained "grandfathered" rights, but trying to get a permit to simply do exploration work let alone open a mine is difficult. But we have not yet given up, and hope to have a meeting with the First Nations tribes in the near future to get their approval to move forward on the project. It's worth pursuing, but we have to be realistic that the political realities in British Columbia might prevent this prospect from ever being developed.

JK: Because we can talk only about a view of your exploration projects, let's come to the Crescent REE project as last one.

PL: Crescent REE is extremely compelling. Besides the very high historical Niobium assays, analysis of surface chip and soil samples resulted in significant REE values for all 17 rare earth elements. Taken on its face, the TREO results are less than 1%, which is low for an economical REE deposit. But we believe that the surface samples and geochemical assays are useful indicators of what lies below the surface, and drilling to depth should be expected to intersect much higher grades. We hope to schedule an assessment program for Crescent REE later this year to confirm the REE assays and plan a Phase I drilling program.

JK: The potential in those projects is amazing and I can imagine that North Bay will use the profits from the Ruby to move these projects ahead, correct?

PL: Yes, absolutely. As we begin to generate revenue from mining operations in the US, we plan to allocate a portion of the profits towards further development of our projects in British Columbia.

JK: If this unfolds, investors can expect really huge profits which fits to my own calculations that I made recently. But one question also arises – why no TSX listing and only OTC ?

PL: As you know, we are a US-based company listed on the OTC Bulletin Board. Since we are not Canadian and can not take advantage of some of the tax benefits available to Canadian resource companies, we do not yet see an advantage in listing on the TSX. But like TSX companies, we are completely transparent. Our financials are audited, and we are a fully-reporting SEC company. In the US, there is no higher level of transparency than a fully-reporting SEC company. The same rules and regulations apply equally to us as they do to Apple, General Electric, and the largest multinationals. We may look at a dual listing on the TSX at some point in the future, and are also considering uplisting to the AMEX in the US once the Ruby is in operation, but no decisions have been made as of yet.

JK: Yes, I understand, and for me this is not an obstacle, but the perception for many investors of OTC stocks is not good, although most of this perception is prejudice. Perry, we are close to the end now. Which steps can we expect from North Bay in the coming 6 months and also more long term?

PL: Over the next 6 months, our highest priority is getting the Ruby Mine into operation and successfully completing the transition from being an exploration company to becoming a gold producer. Following that, the acquisition of additional operating mines in the US and the consummation of more joint-venture agreements in Canada are our next highest priorities. My goal is to end 2012 with at least 5 mines in the US in operation, and 5 joint ventures in Canada under contract. And I believe that is an entirely realistic objective, and well within our capabilities.

JK: You will have plenty to do and I wish you all the best with building North Bay to a successful producer and explorer!

PL: Thank you! We appreciate your interest in North Bay, and hope to visit with you again in the near future to update you on our progress.