

# BD

## BEHRE DOLBEAR

MINERALS INDUSTRY ADVISORS



# Where to Invest

October 28, 2015



# Where to Invest?

- Macro View
  - ✓ State of the Industry
  - ✓ Pricing of Copper and Gold
- Transactional Market
  - ✓ Trends and activity
- Survey on “Where to Invest”
  - ✓ Importance of Understanding the impact of Political Risk in Mining

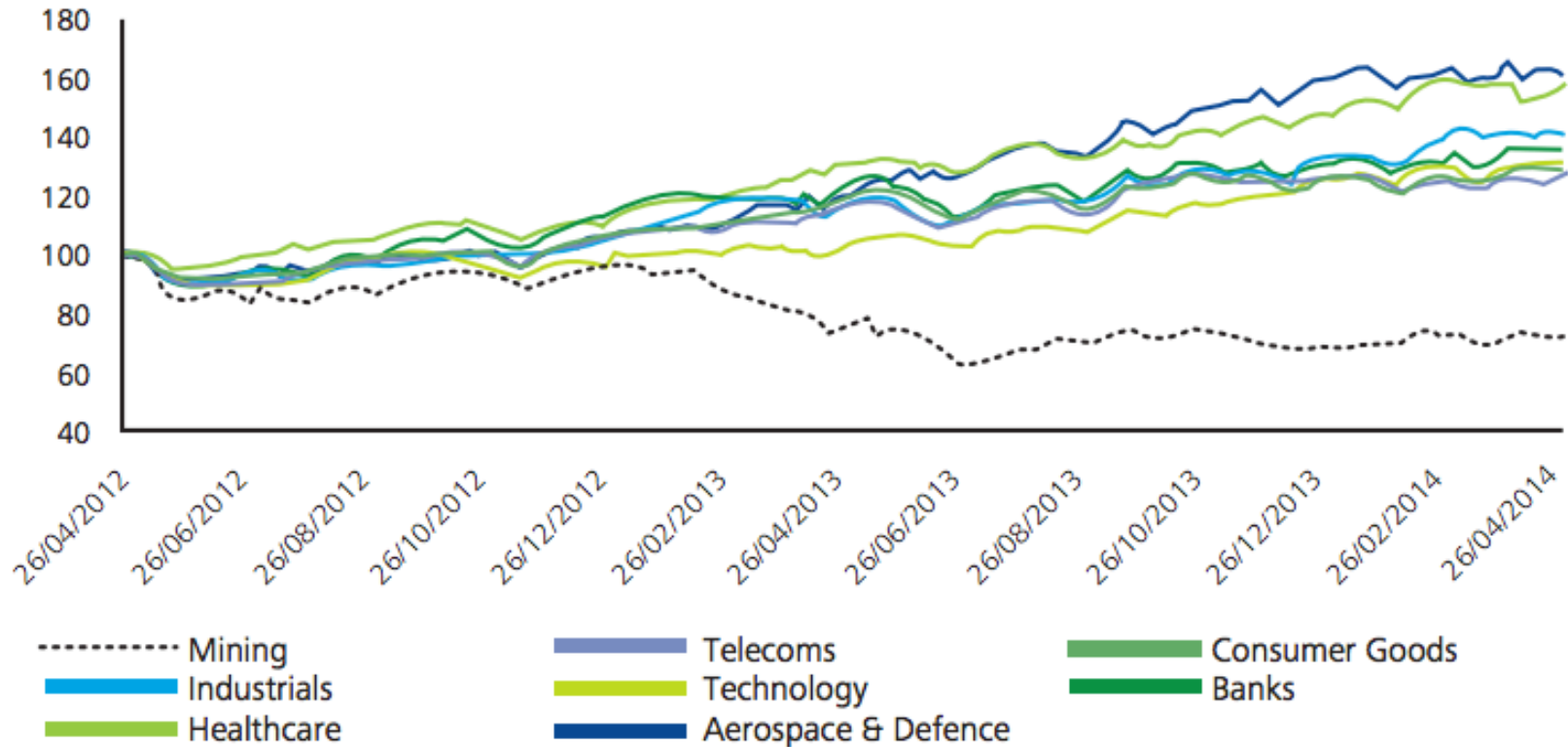
# Environment for Miners and Investors

- Commodity markets and economic data continues to disappoint
  - ✓ Commodities indices off by as much as 50% from highs to lows
- Global economies exhibiting sluggish growth with bellwether China GDP sub 7%, oil sub \$50/bl.
  - ✓ Chinese stimulus package - unrealistic growth targets.
  - ✓ China has a good balance sheet why erode for the sake of high GDP
  - ✓ China recently has moved from stability to volatility
  - ✓ Fed hike, watch inflation numbers - December rate hike?
- Investors want returns on investments.
  - ✓ Reserve replacement and production growth at any and all cost is off the table
  - ✓ Major, large and small mining companies are writing down assets
  - ✓ Expansion plans, new projects are being curtailed indefinitely
  - ✓ Many Junior miners lack adequate development and even sustainability capital

# Environment for Miners and Investors

- Margins are under pressure as are Boards and Executives
  - ✓ Costs are up, revenues down, project overruns have become common
  - ✓ Optimizing operating properties, conserving cash is the goal
- Cut operating costs, sell marginal and non core assets, and reduce capital expenditure commitments is the new norm
- Traditional access to capital at the moment is scarce
  - ✓ Non core funding from private equity, trade houses and consumers filling some gap
- Belated emergence of private capital attracted by depressed equity valuations
- Regulatory, political, and resource nationalism risks in

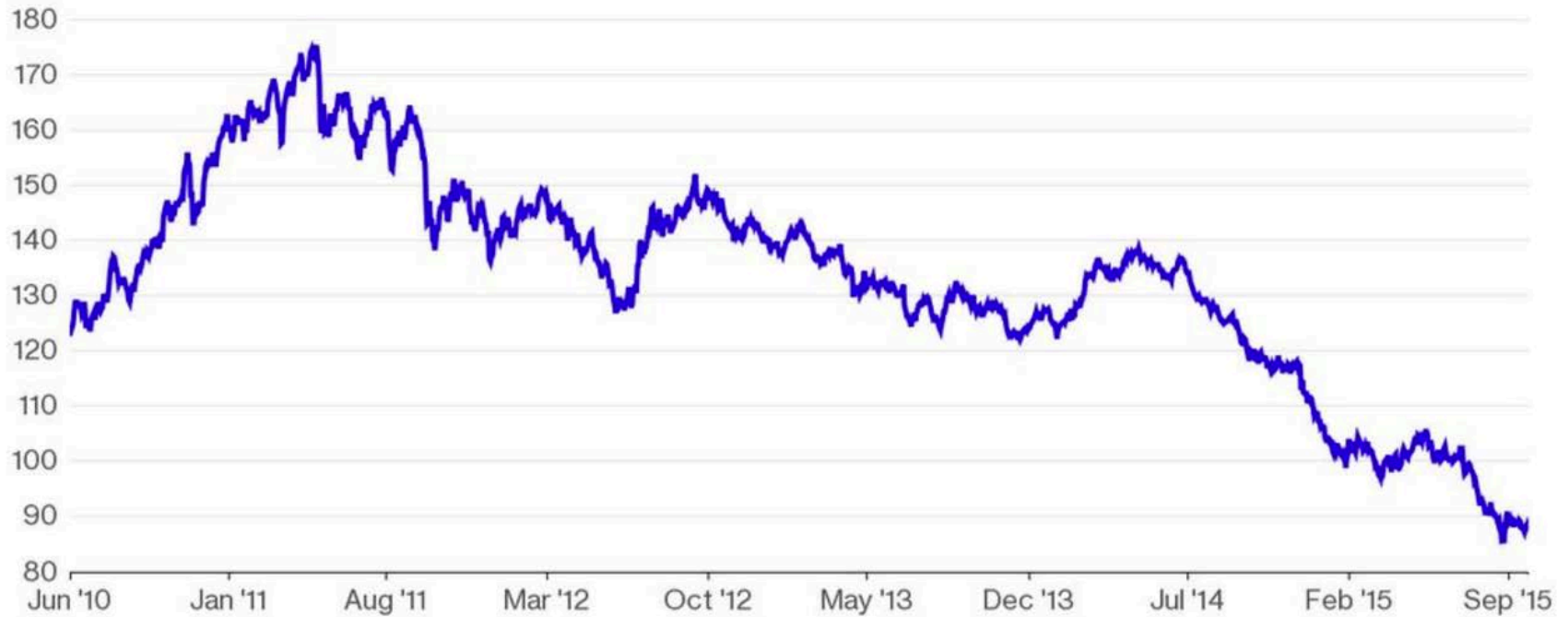
# Performance of Mining



Source: Datastream  
Deloitte

Investors show less interest in mining equities  
and favor broad general market indices

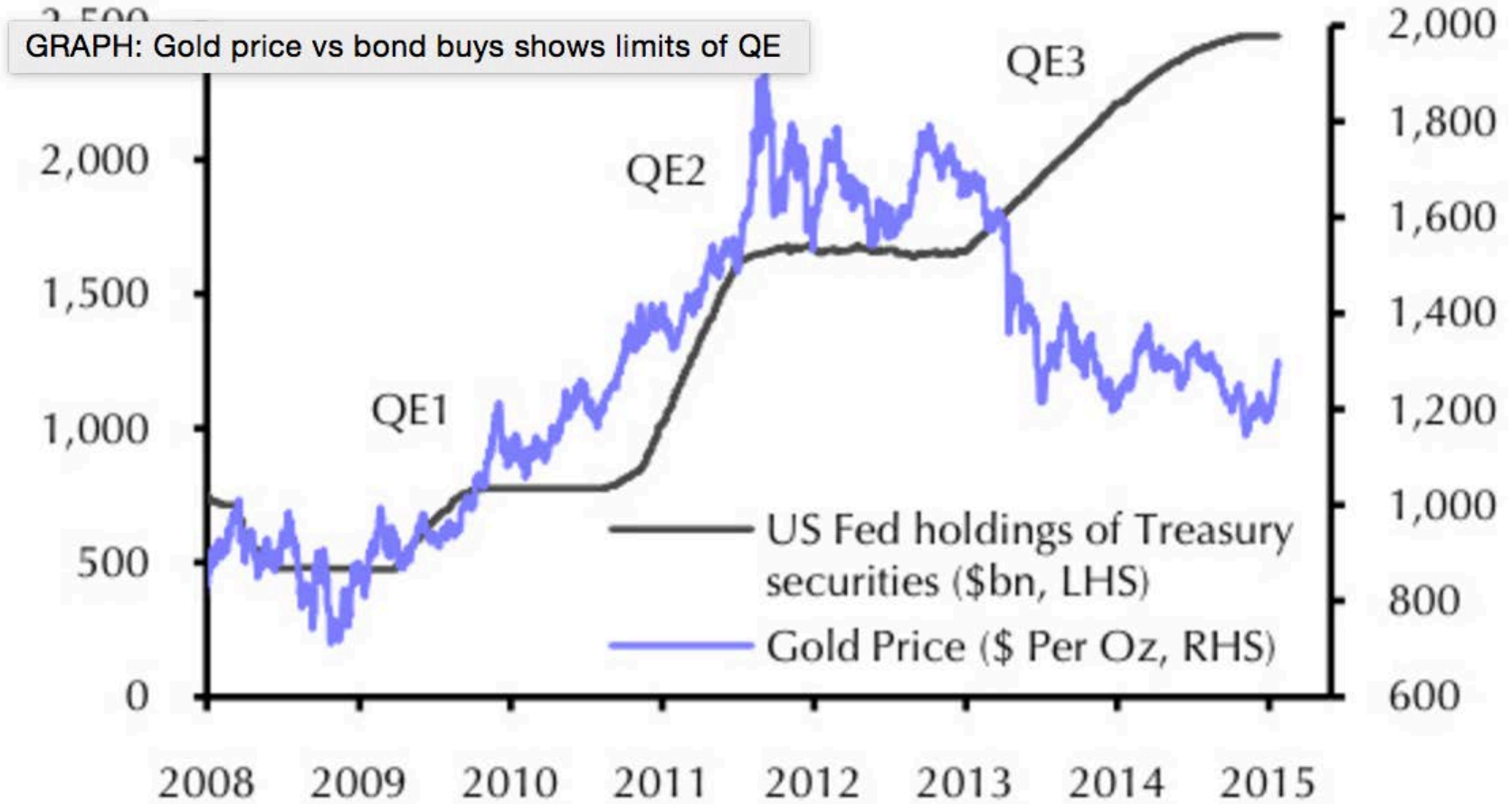
# Commodity Index



Source: Data compiled by Bloomberg

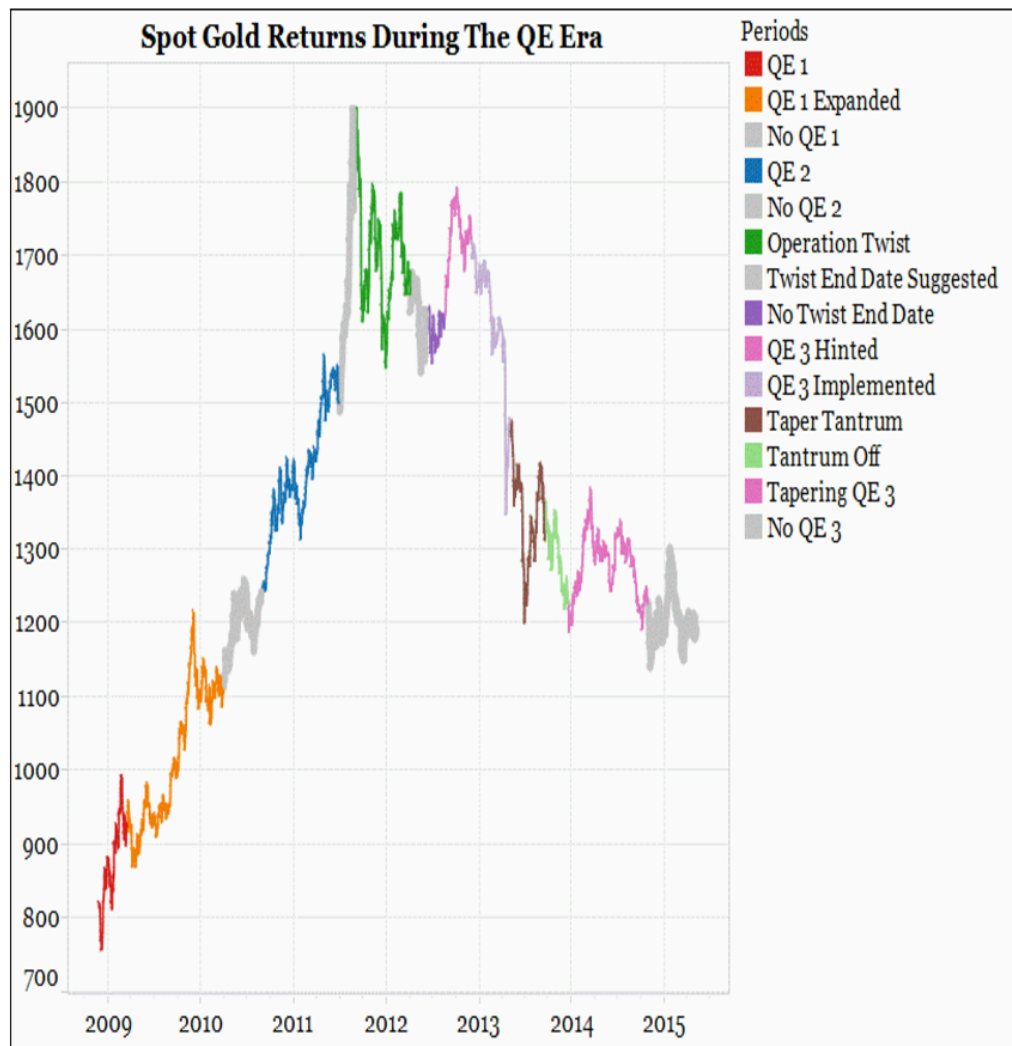
Bloomberg 

# Gold Price and US Treasury Holdings



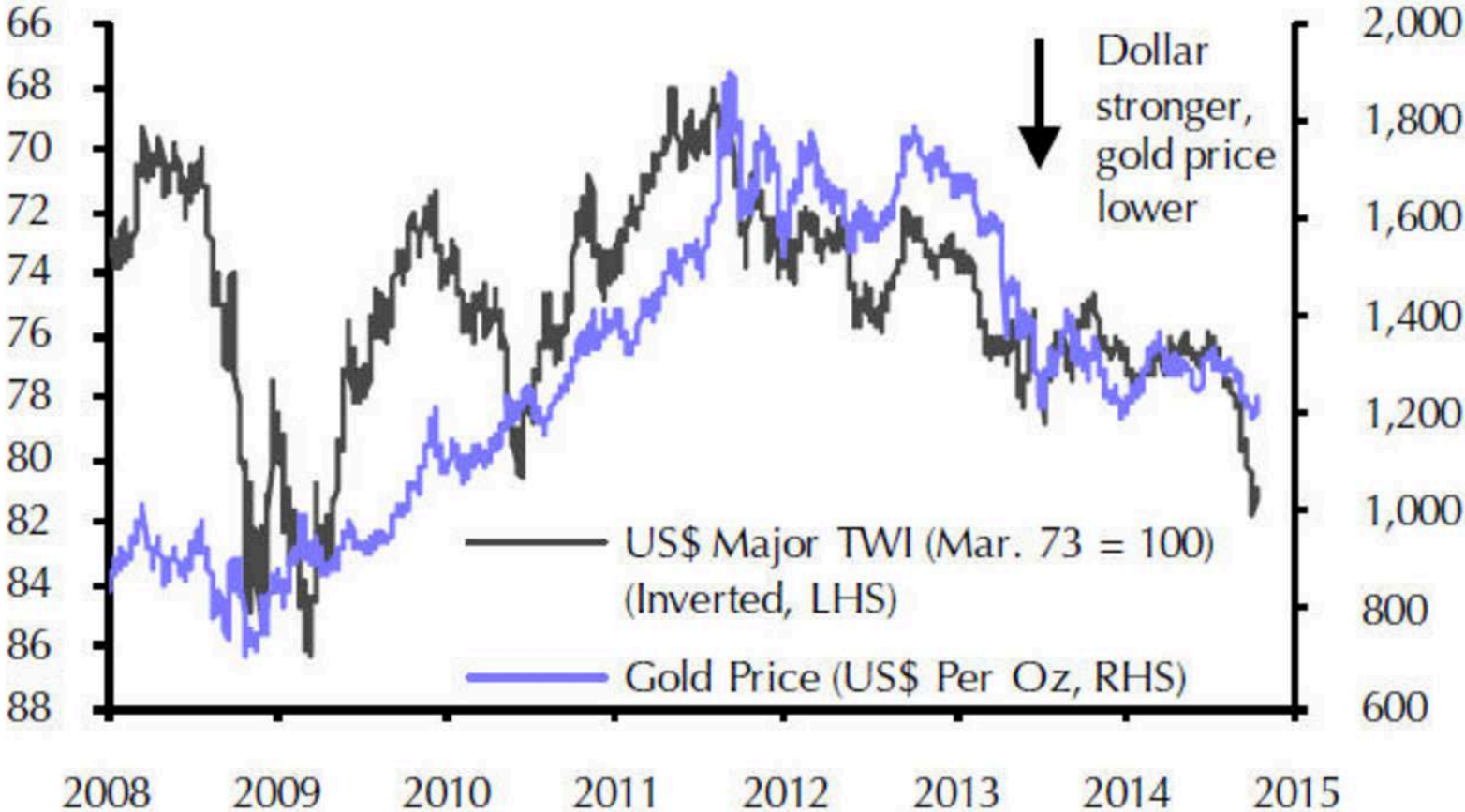
Source: Capital Economics

# QE and the Gold Price





# USD Trade Weighted Index and the Gold Price



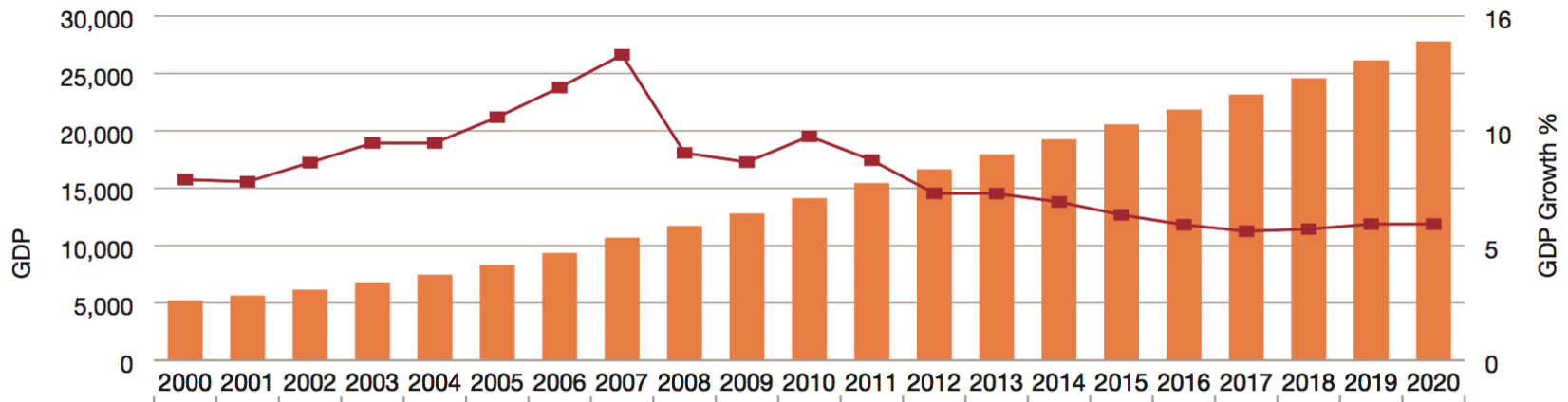
Capital Economics

# 5 Year Copper Price

2.40 USD/lb  
23 Oct '15



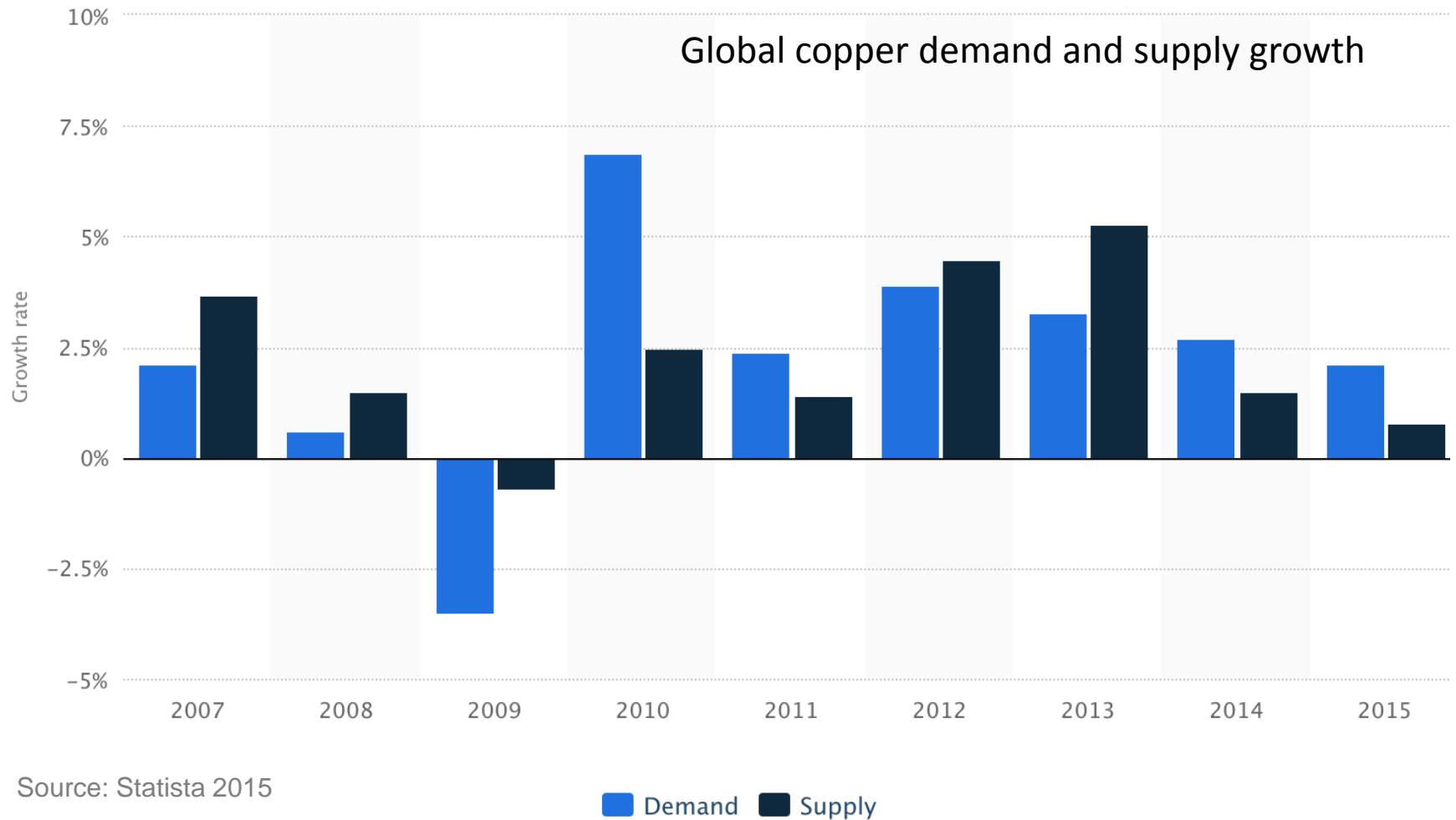
# China GDP



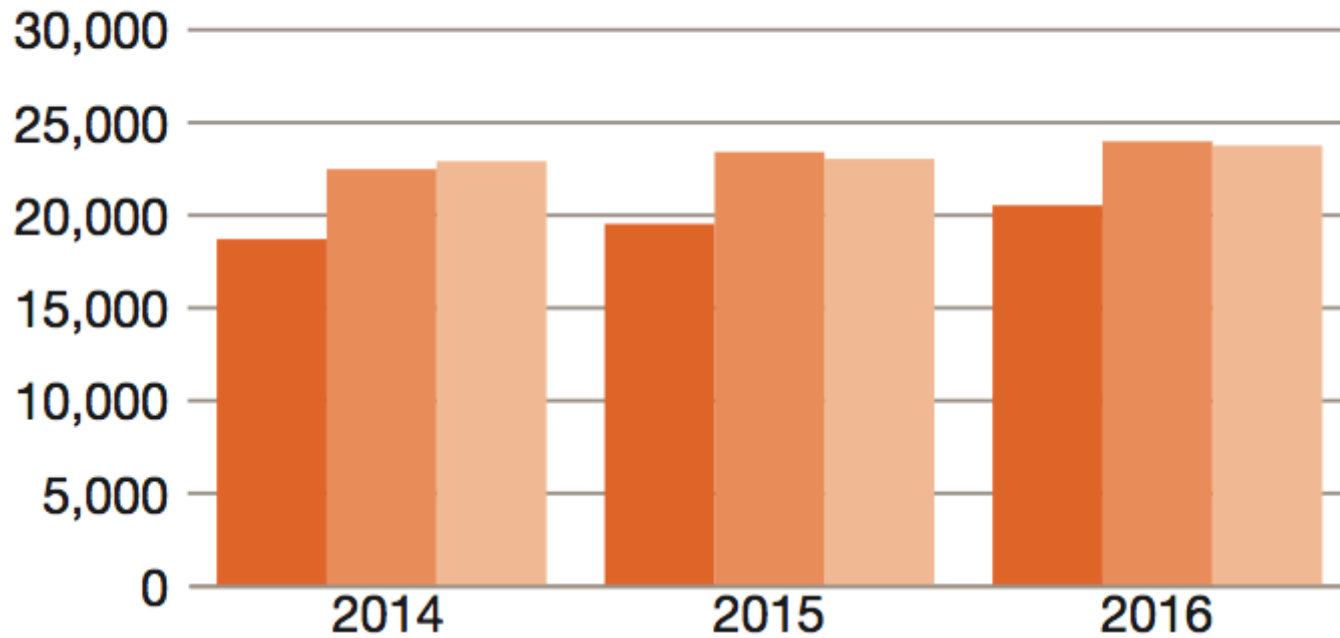
Source: The World Bank PWC

- Copper more sensitive to supply demand fundamentals of the metal
  - ✓ China consumes 23 million t/yr almost half of global production
- Gold sensitive to macro economic issues

# Copper Market Forecasts 2015-2016 ('000's t)



# Copper Market Forecasts 2015-2016 ('000's t)



Is demand consumption or financially driven?

**Mine Production**   **Refined Production**   **Refined Usage**

Source: International Copper Study Group PWC

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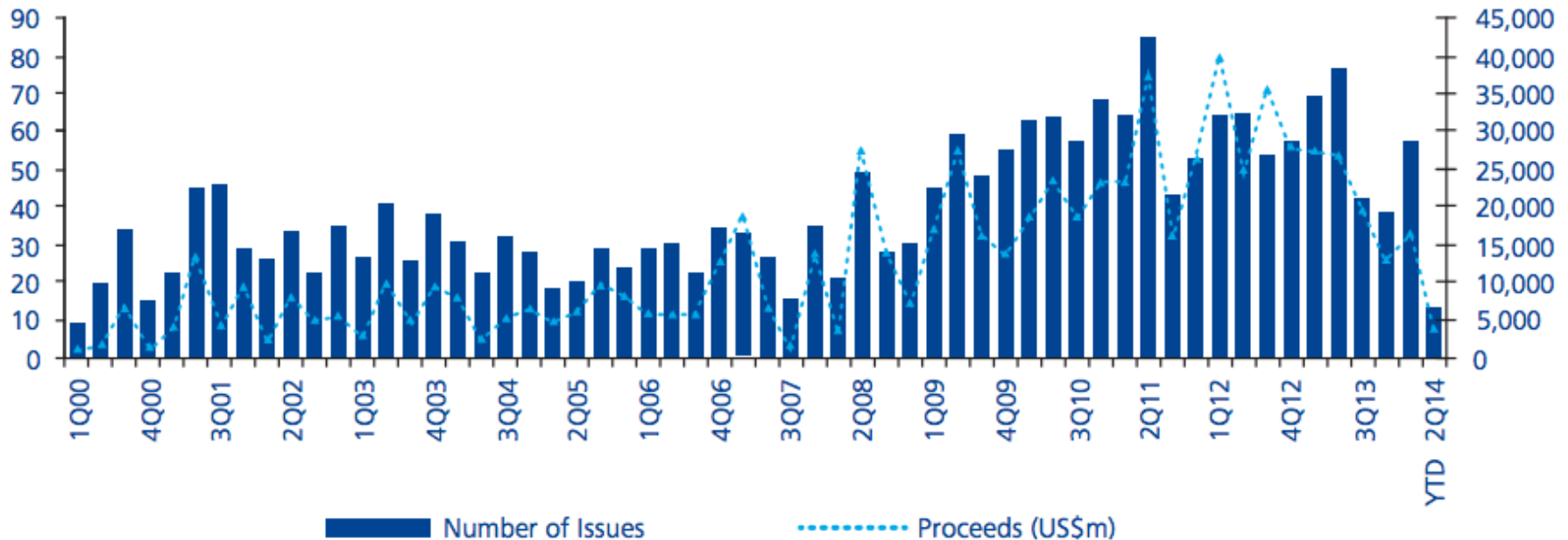
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# Sources of Mining Capital

Product	Notable Providers/Issuers	Comments
Public Equity	AIM/LSE, TSX-V/TSX, ASX	Currently depressed for mining equity
Farm-In	Mining Majors	Equity under joint venture agreements
Strategic Equity	SOEs, SWFs, Global & Local PE Funds, Mining Majors, Trading Companies	Through private placements
Convertible Bonds	Molycorp, China Daye, San Gold	Coupons currently average 9%
Streaming	Silver Wheaton, Royal Gold	Prepayment for Au/Ag by-products
Royalties	Franco Nevada, Anglo Pacific	Prepayment for NSR % royalty
Offtake/Pre-Export Finance	RK Mine Finance, Mitsubishi, Noble, Trafigura, Glencore, Shangong Iron	Prepayment for mine production with downstream processing and market terms
Development Finance	EBRD, IFC, China Development Bank	Usually in consort with commercial banks
Project Finance	BNP Paribas, SocGen, Standard Bank, Standard Chartered, Macquarie	Classic structured finance
Equipment & Services Finance	EX-IMs, GE Capital, Caterpillar	Sometimes includes contractor financing

# Current Status Capital Raisings

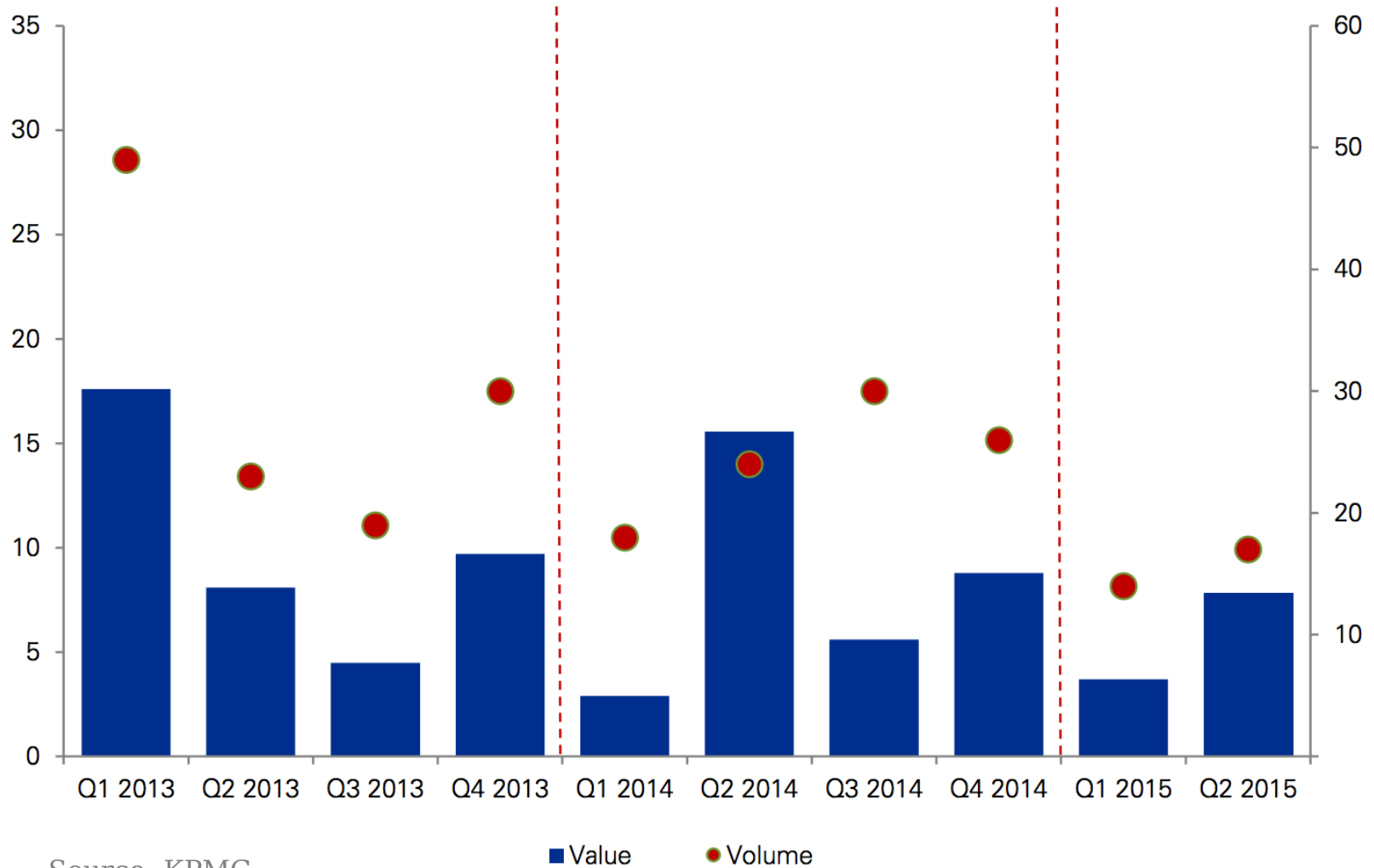
## Global Equity Issues



Source: Thomson Reuters Deloitte

At the end of 2014, half of the ~1,800 TSX Juniors – ¾ have insufficient or negative working capital

# Current Status M&A Activity

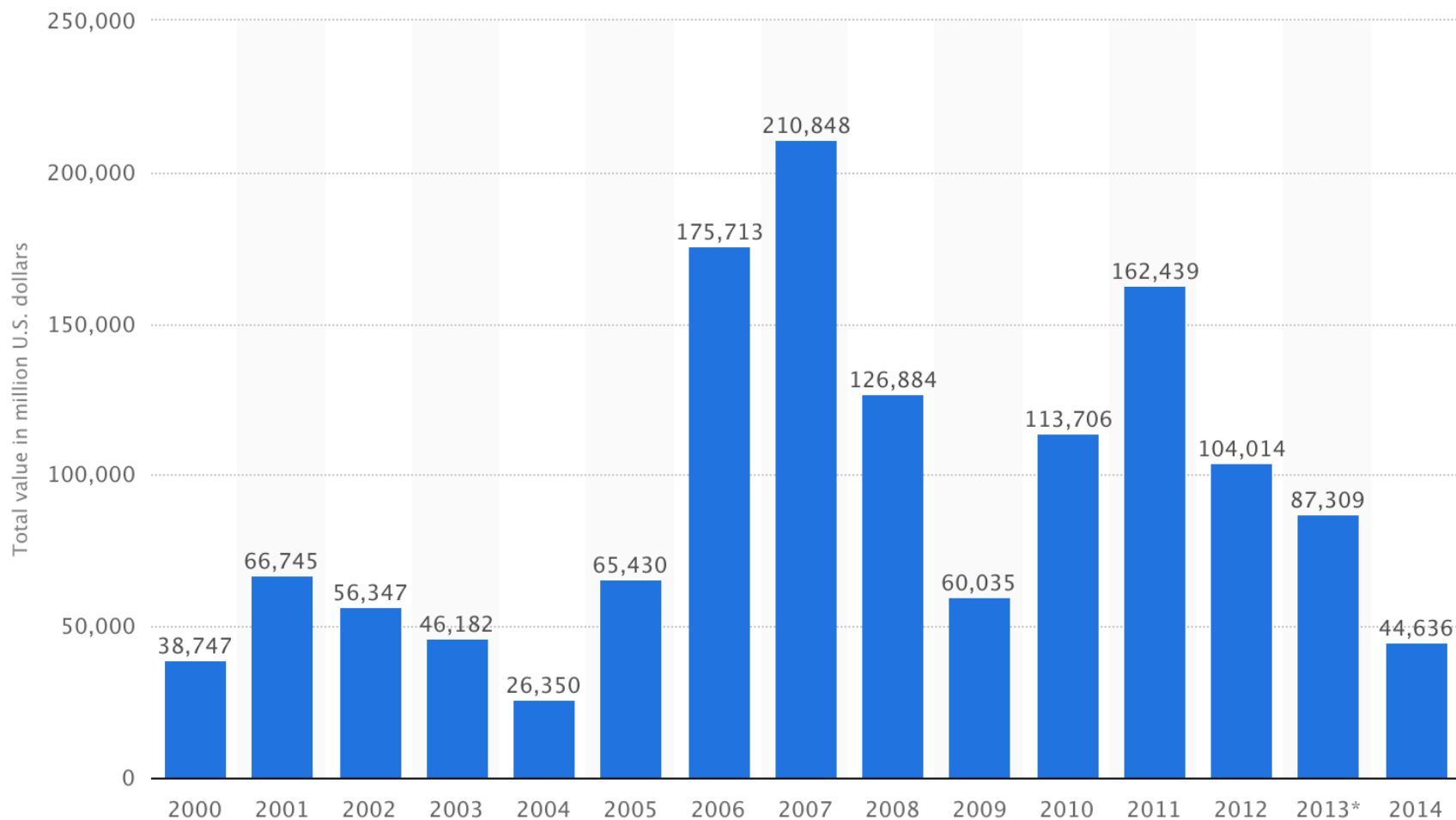


Source: KPMG

■ Value ● Volume

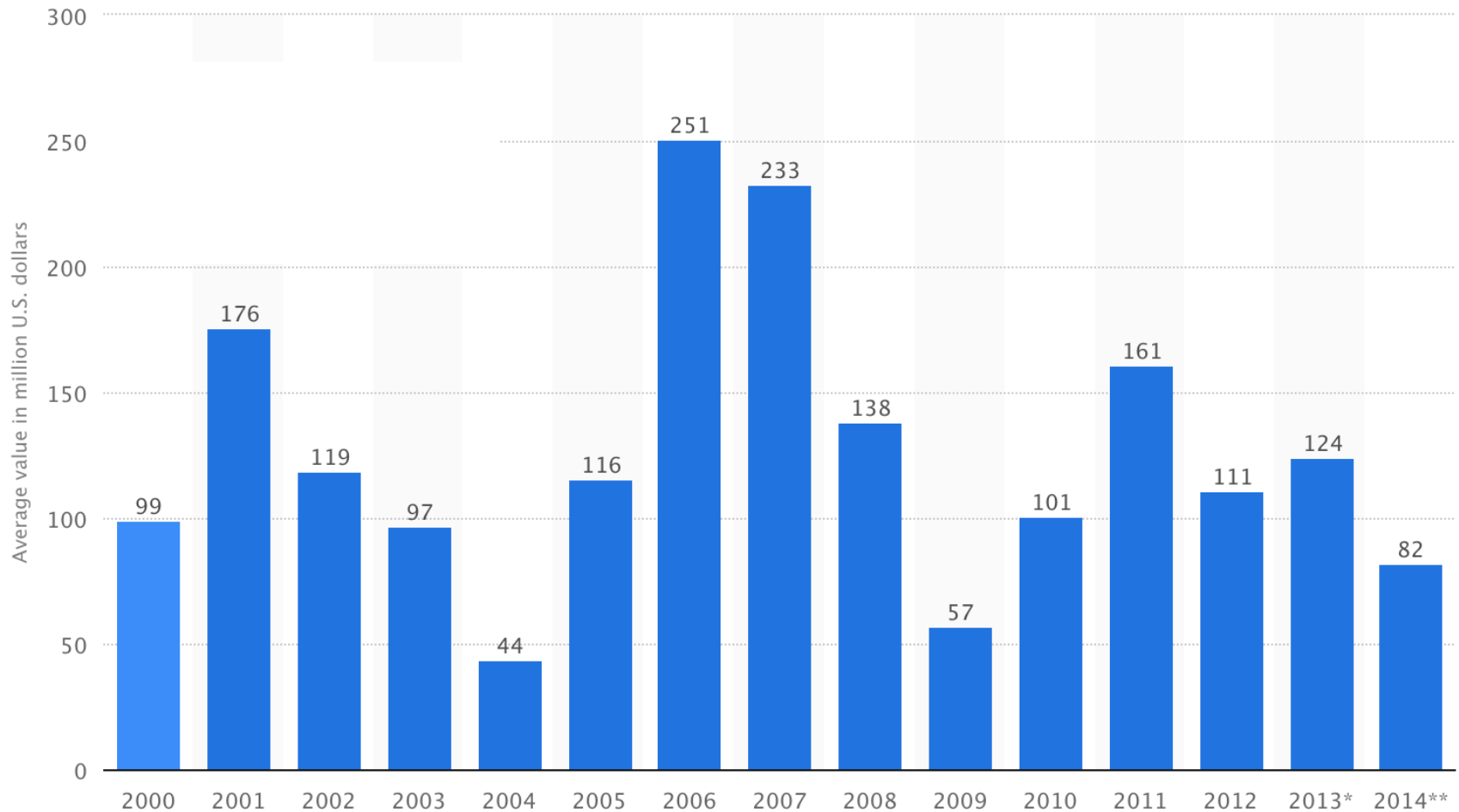


# Total Value of Mining and Metals Deals



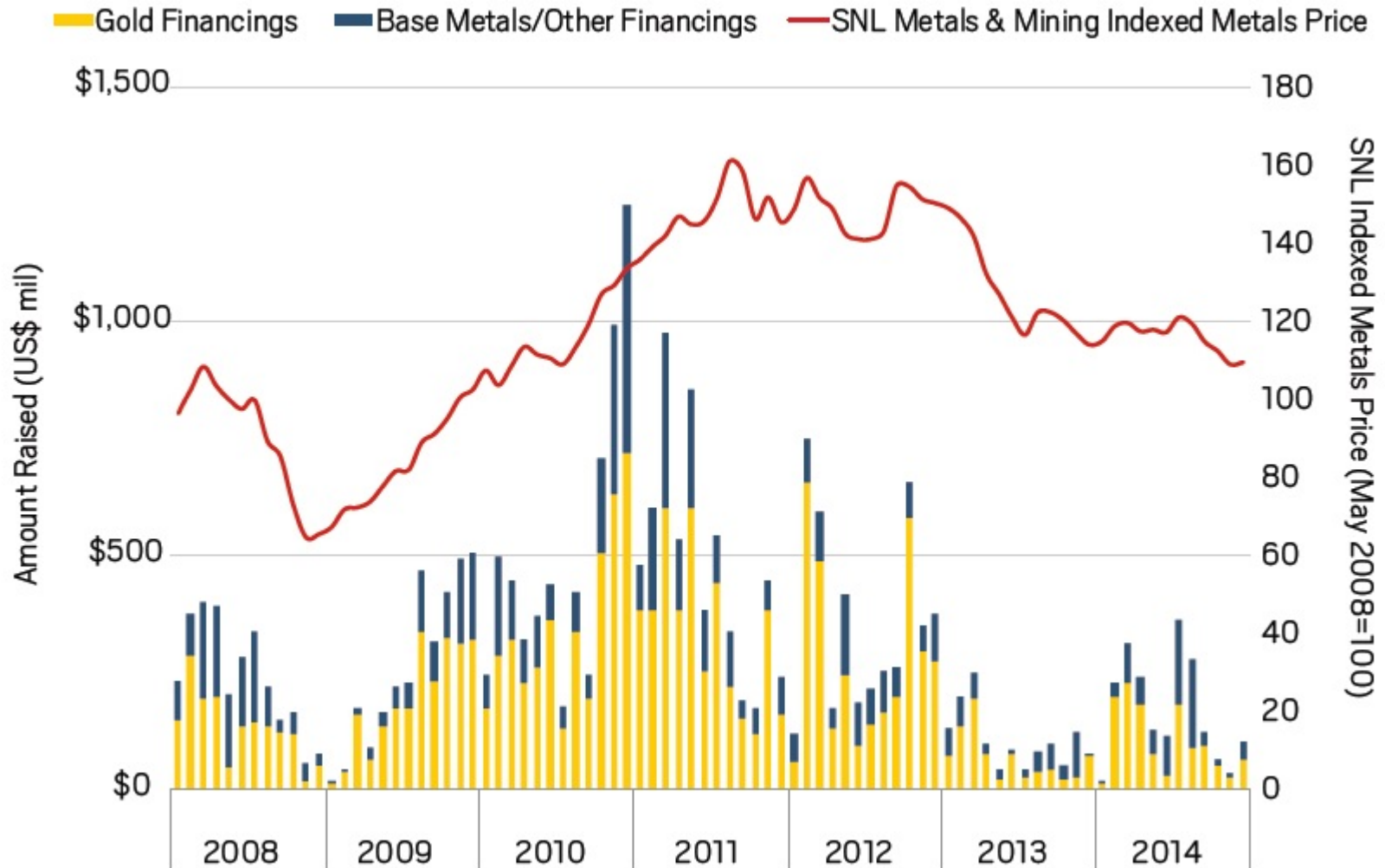
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# Average Value of Mining and Metals Deals



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# Financing by Juniors



SNL Metals & Mining - World Exploration Trends, 2015

# Estimated Global Nonferrous Exploration Budget Totals



**SNL Metals & Mining - World Exploration Trends, 2015**

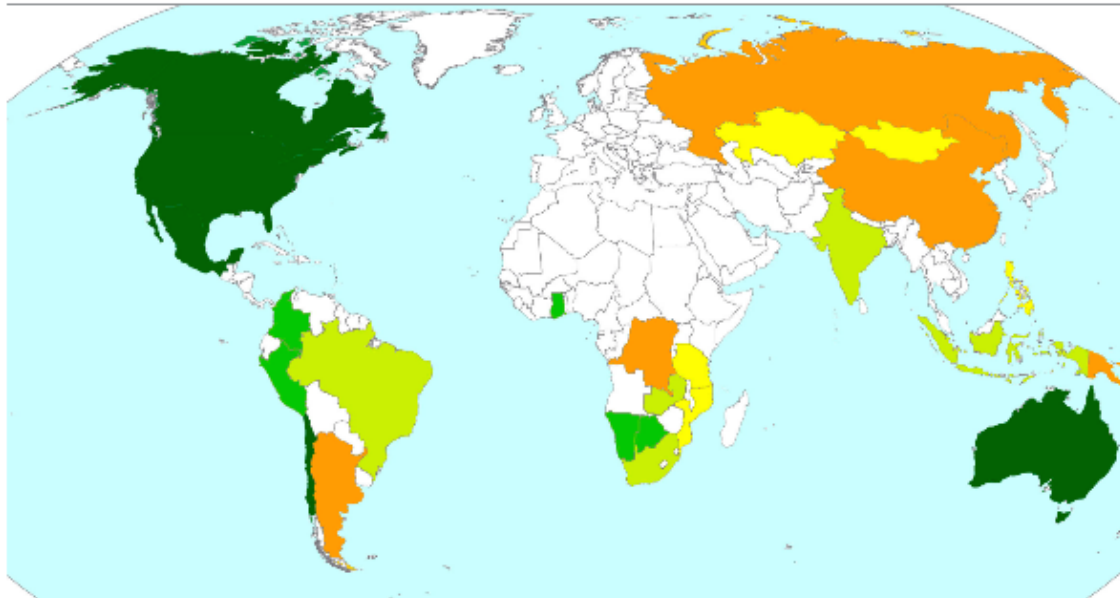
# Trends

- Sector Has Shifted From Growth Paradigm to Cost and Capex Control
- Executives are cutting capex, refocusing on higher quality assets, suspending projects, and partnering on certain projects
- Executives are focusing 60% of their time on cost management/productivity and only 20% on M&A and financing.
  - ✓ M&A driven by shedding non core assets to conserve cash
- Private equity may strategically capitalize on low valuations
- Rewards are seen in gold equities as lower oil reduces costs and non US producers benefit from weaker currency
- Re-emergence of mid tier?
- Conservative balance sheet provides companies with

# Behre Dolbear's Country Risk Survey

## WHERE TO INVEST 2015

RANKING OF COUNTRIES FOR MINING INVESTMENT



1	Canada	6	Peru	11	Brazil	16	Philippines	21	China
2	Australia	7	Namibia	12	Zambia	17	Mozambique	22	Argentina
3	United States	8	Botswana	13	South Africa	18	Kazakhstan	23	Russia
4	Chile	9	Colombia	14	India	19	Mongolia	24	Papua New Guinea
5	Mexico	10	Ghana	15	Indonesia	20	Tanzania	25	D.R. Congo

# Behre Dolbear's Country Risk Survey

- SINCE 1999, Behre Dolbear has annually compiled political-risk assessments in the global mining industry.
- Over time, our efforts have revealed a positive correlation between the growth of a nation's wealth and the prosperity of its mining industry.
- We have observed that when a country recognizes its critical need to adapt and restructure burdensome policy, it begins to optimize its economic potential
- Investment returns are heavily influenced by political risk. A lower risk profile invariably attracts preferential investment and is key to sustaining operations in this capital intensive sector.

# Behre Dolbear's Country Risk Survey

## RANKING CRITERIA



Political System



Currency Stability



Permitting



Economic System



Social License Issues



Competitive Taxation



Corruption

Views expressed of our survey reflect the collective opinions of more than 200 employees and associates of Behre Dolbear from key offices in Denver, NY, Toronto, London, Sydney Hong Kong and Beijing



# Behre Dolbear's Country Risk Survey

## THE ENDURABLE TOP FIVE



CANADA AUSTRALIA UNITED STATES CHILE MEXICO

# The Americas Rank High in Our Survey

- North America and certain countries of Latin America, Australia consistently rank high to operate in and for investment.
- Positive correlation between the growth of a nation's wealth and prosperity of its mining and minerals processing industry.
- Countries perceived to have the lowest political risk, are able to attract more of the global mineral investment and realize a premium for resources over countries where perceived instability exists.
  - ✓ Attracting capital investment is competitive
- Mining companies and investors, shareholders, and project stakeholders require confidence they are in stable agreements.
  - ✓ Governments need to accommodate variable market conditions over extended periods of time

# Behre Dolbear's Country Risk Survey

## CURRENT SITUATION



### TODAY

it takes **10 years** to discover, define, and determine the feasibility of a project and an additional **6 years** or more until investors can expect returns from a greenfield mining construction project.

Do investors have patience to wait for returns in risky locations? Astute Governments recognize they need to compete for mining capital. Super Cycle led some Gov't to believe they could renegotiate international led financings that backfired as valuations declined

# Behre Dolbear's Country Risk Survey - Bottom

- Countries with a high political risk regime will continue to rank low for attracting investment
- The length of time to develop a project from exploration to production commands commitment from governments to participate in a consistent manner
  - ✓ Inconsistency is costly
- Companies and investors often overlook these risks and incorrectly perceive opportunity without proper due diligence
- Global supply will depend on governments to take a more strategic view on resource ownership and not just regulation



**Accountability**



**Fiscal Governance**



**Transparency**



**Resource Nationalism**



**Social**

# Behre Dolbear's Country Risk Survey



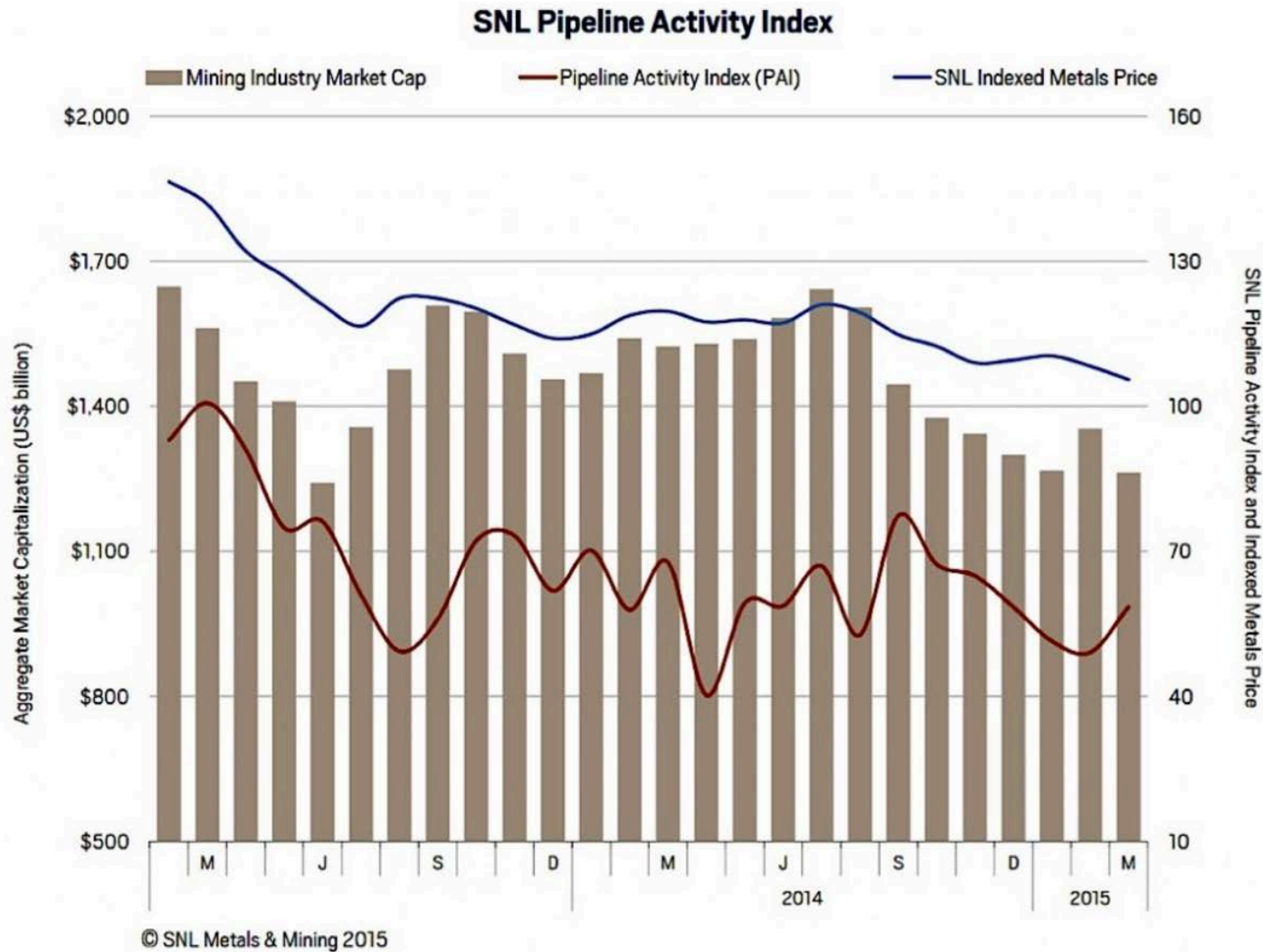
EVEN WITHOUT IMPROVING DEMAND,  
***SUPPLY CONSTRAINTS WILL MATERIALIZE***

due to the lack of new discovery and the declining quality of maturing mine operations.

# Reasons to be Optimistic - Longer Term

- Metals prices are cyclical and will improve over time
- Capital markets are telling the industry that supply is an issue and thus staving the industry until an equilibrium is reached.
- Urbanization and industrialization in China, Asia, India, South America, Middle East, Africa, etc. continues to drive industrial metals and energy demand
- Security and stability of supply are a concern in China, Korea, Japan, Middle East, etc. and of some industrial companies *e.g.*, energy fuels (coal, uranium), fertilizer minerals, technology/critical metals, etc will drive development and M/A.
- Constraining new supply are: Declining ore grades and spending; Higher costs; Fewer large deposits; Larger 'takes' by Governments;.
- Metals supply longer term may struggle to meet demand from the lack of investment and development
- Uptick in deals noted in Q2 - 35 \$(6.6B) from 23 (\$2.9B) and moderate increase in financings - \$11.2 B vs \$10B.

# Reasons to be Optimistic - Longer Term



Graph courtesy of SNL Metals & Mining.

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