



What drives value creation in the mining industry?...with a specific focus on gold

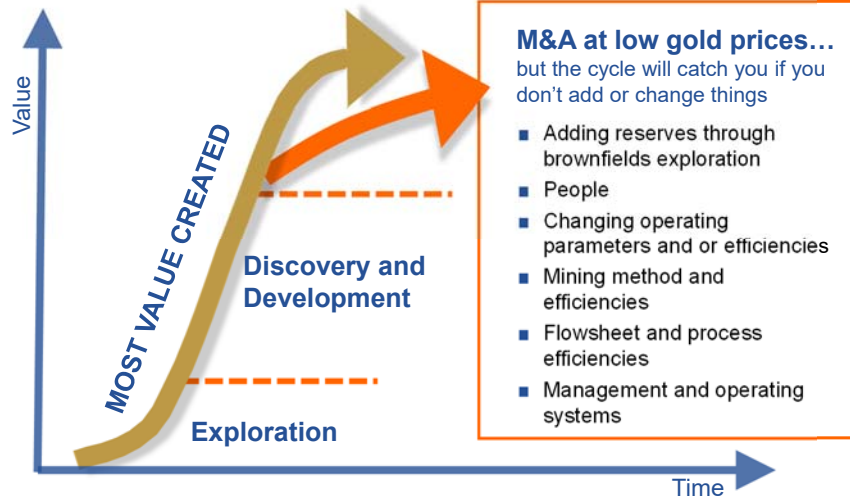
PDAC March 2017

What is needed to create value in gold mining?..



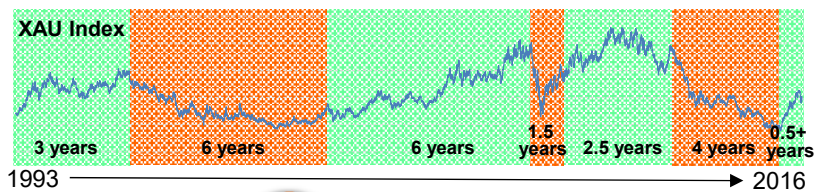
- Start with a **strategy** that has as an **objective...Value Creation**
- Decide how **value is to be measured**
 - IRR at a project level?
 - ROIC
 - Share price
 - Relative to Dow FTSE and others?
- Think about how you maintain the strategy **in a cyclical gold price scenario**
- **Understand the playground** you are planning to play in?
 - Are you going to follow the pack?
 - Or be different?
- Have to have a **team which can deliver** in the playing field you choose!

How is value created in gold mining?...



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The mining industry is cyclical over time... historically its about shifting between growth and survival rather than profiting and investing



Bear Market = Survival Focus

- Cost-cutting → employees, exploration budgets, G&A, dividends cut
- Asset portfolio review → impairments/write-downs, development projects shelved, non-core/lower quality assets put up for sale
- Financing is very expensive and very selective
- High quality names first in queue upon turnaround

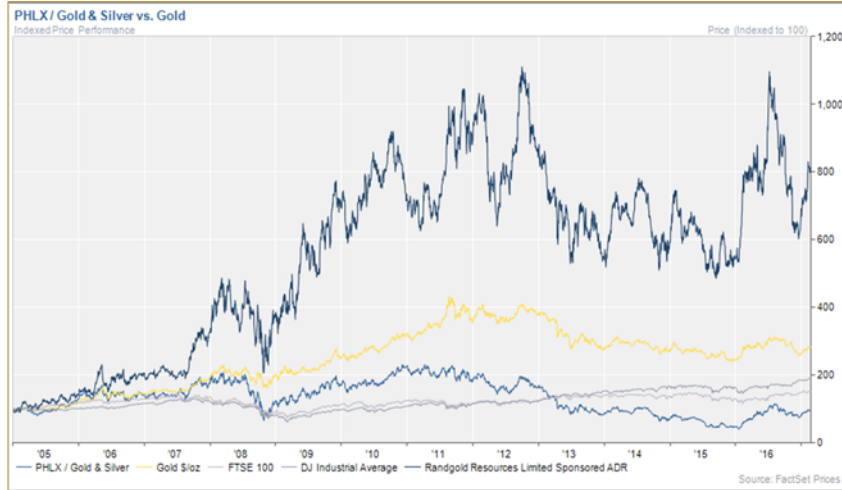
Bull Market = Growth Focus

- Production growth is the focus, mostly via acquisitions
- Little or no capital return to shareholders
- Financing is abundant with low discount pricing
- Market funds growth
- "Loose" money for higher risk opportunities

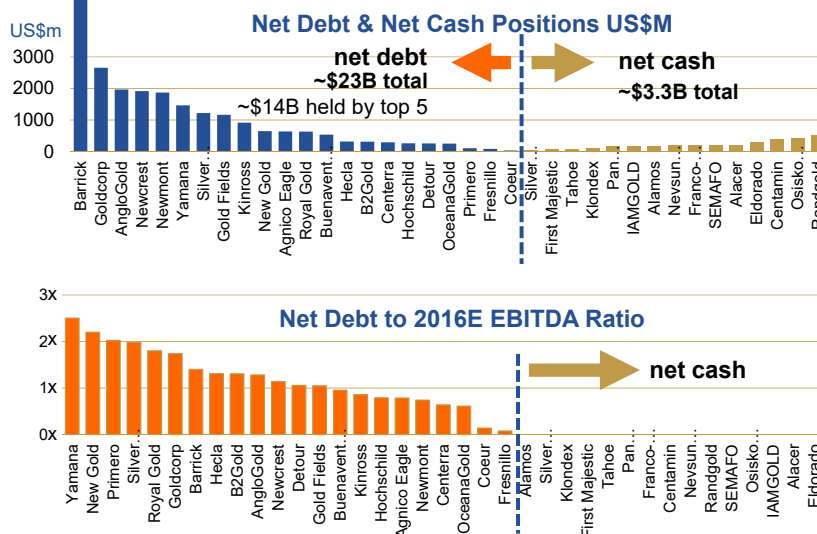
Source: Scotiabank - CapitalIQ

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Value creation is relative to many things...
 US\$?; Dow?; FTSE?; other Currencies etc



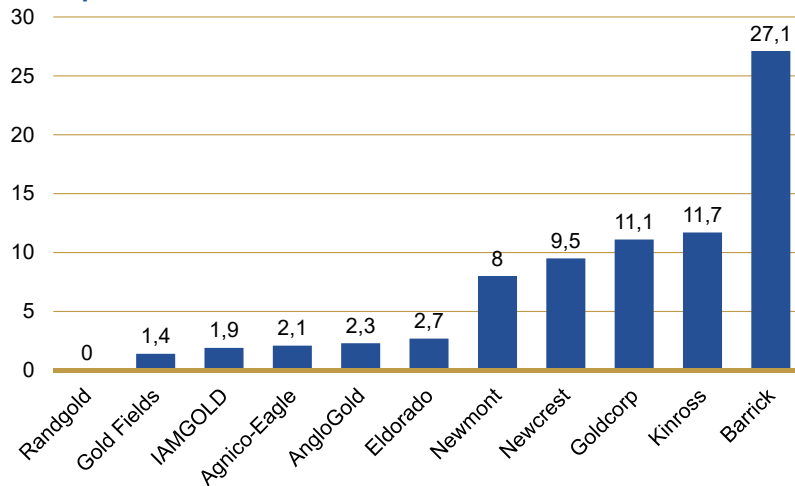
Gold producers debt still high with poor
 debt to EBITDA ratios...



A substantial percentage of the gold investments made in the supercycle has been written off...



Impairments US\$ billion – 2009 to 2016



Source: BMO Equity Research



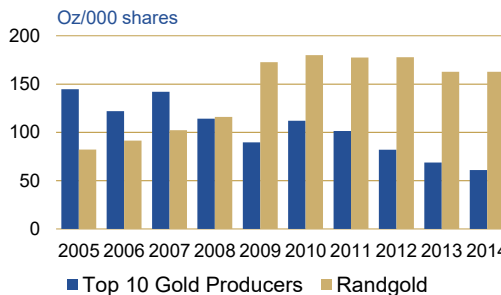
Share value and shareholder equity is precious...



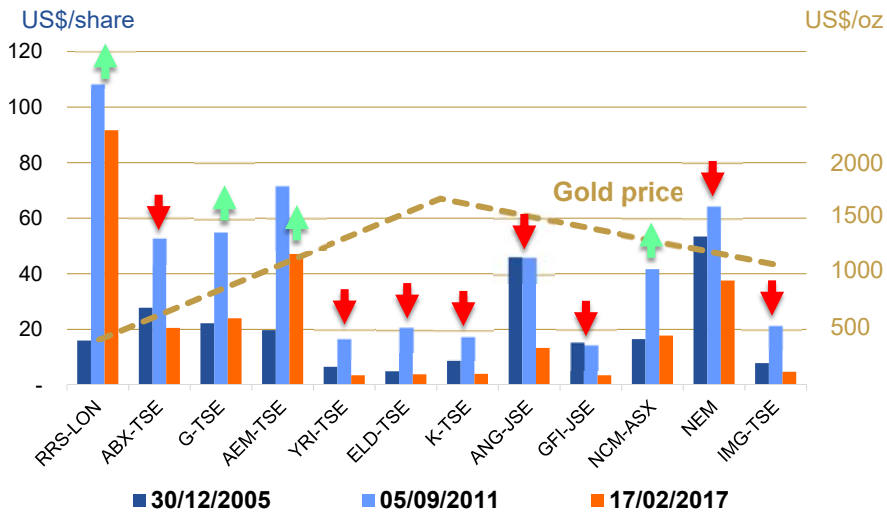
■ **Decide who your stakeholders are...**

- Issuing equity at a stage in the cycle when resource funds are stressed is value destructive
- Gearing when premium's and stock prices are low is value creative
- Doing cash M&A in an Industry where everyone trades at premium does not create value

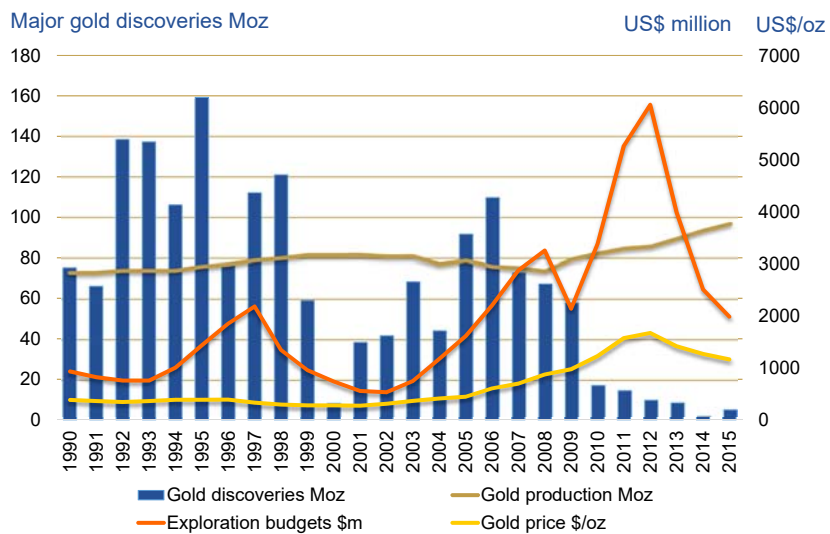
Reserves per share slowly decreasing



Despite the super cycle share prices of majority of the majors are still below 2005...



Exploration is not replacing the gold produced...



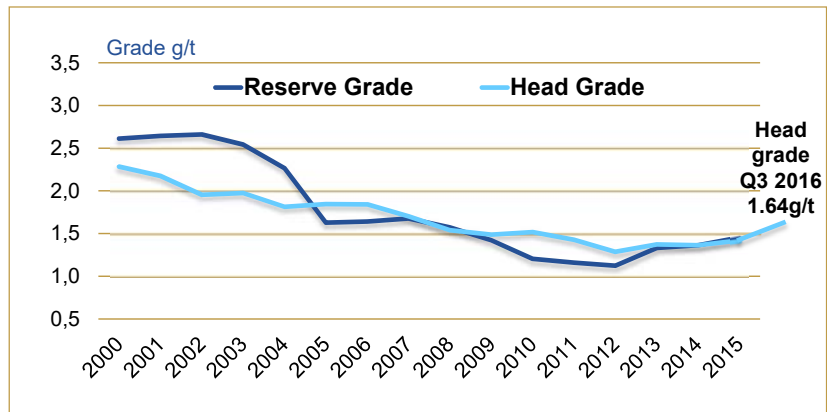
Source: SNL Metals & Mining



The industry reserve is declining in value..



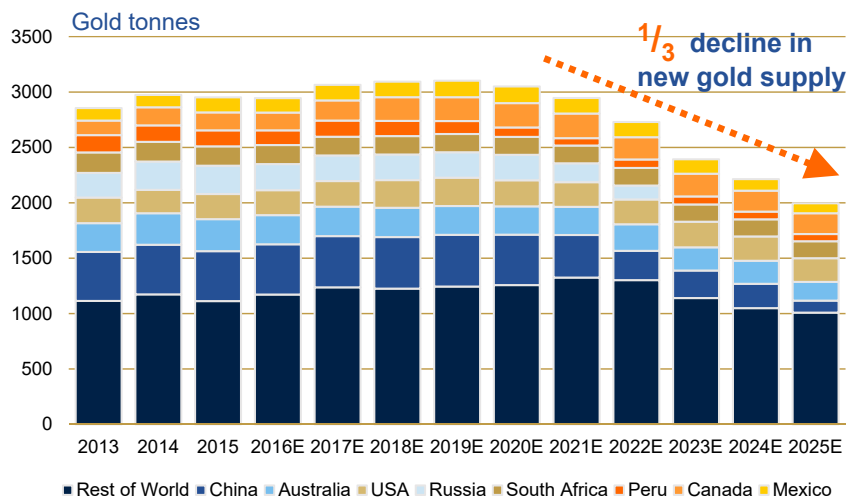
Reserve grade vs mining head grade



Source: SNL Metals and Mining



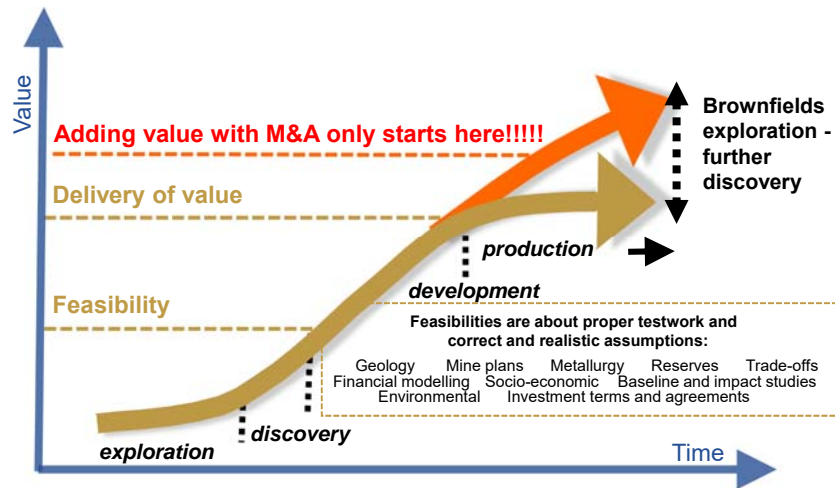
Gold Supply...the production cliff



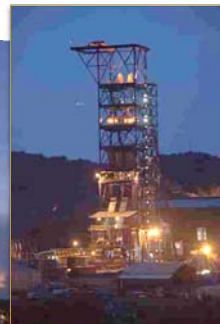
Source: BMO Capital Markets



Exploration and development is what drives long term value creation for investors and host countries alike...

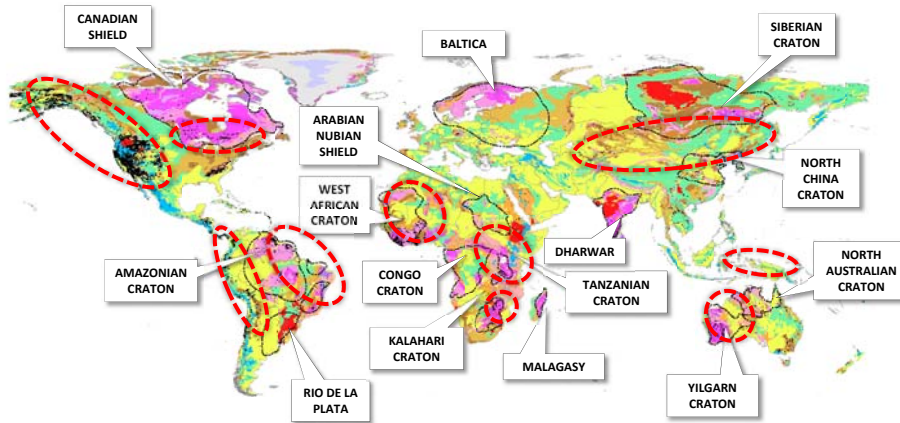


What makes a World Class Gold Deposit?...



- +3 million minable ounces
- 20% IRR at \$1000/oz using spot in-put costs

Where to go to find world class gold deposits...



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Disclaimer...



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