

ISSUES FACING THE JUNIOR MINER & INTRODUCING THE PRODUCTION LINKED DIVIDEND MODEL

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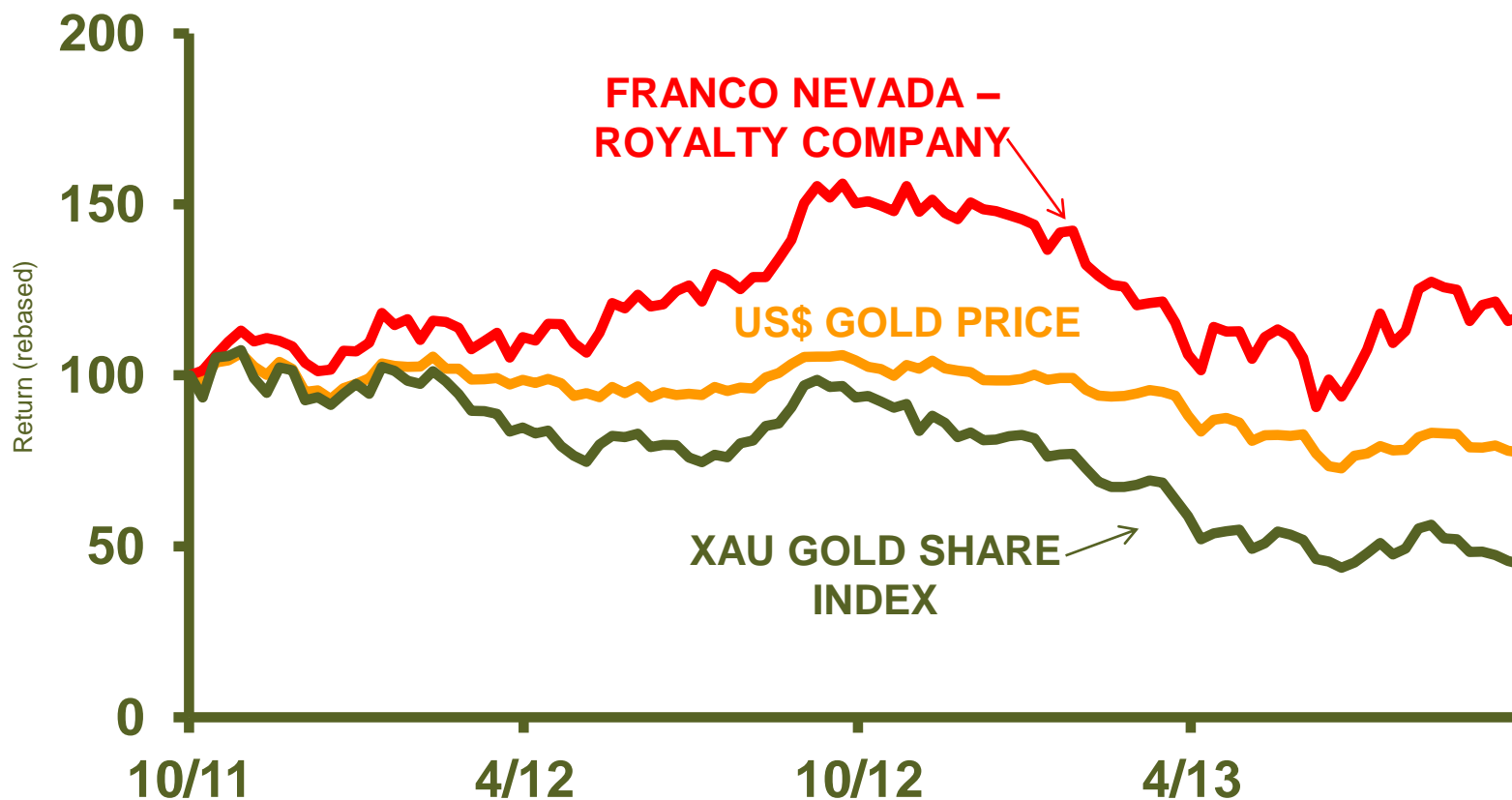
Baker Steel Capital Managers LLP



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November 2013

MARKET'S PREFERENCE FOR ROYALTY COMPANIES



Source: Bloomberg

IT'S ALL ABOUT THE RATING THE MARKET PAYS

CHALLENGES FACING THE JUNIOR MINER

- Developers and producers are very poorly rated by the market currently
- The current business model for developing a new project is, in our view broken

Issues –

- Shareholders feel very disgruntled; investing in many development assets has proved detrimental!
- Many mining companies are too focused on dilution and not on shareholder returns
- Does avoiding dilution actually increase risks to shareholders?
- What are the hidden costs of bank financing?

**MINING COMPANIES NEED TO BE BETTER CUSODIANS
OF SHAREHOLDERS' GOLD/SILVER**

ISSUES: BANK FINANCE CAN ADD SIGNIFICANT RISK

- Avoiding shareholder dilution often results in junior mining companies taking on debt – underwritten rights offerings preferred

Bank Finance

- Set-up fees and arrangement fees – typically 3% of the loan
- Projects are structured to repay the banks with the cream of the project
- Hedging
 - Hidden fees – this is an opaque market
 - \$ Hedged is often multiples of the debt – typical 5:1
 - How many times are hedge books restructured – more fees and generally underwritten by shareholders
- Equity buffer
 - Recent case where the equity buffer was equal to the debt facility – better to finance with equity and have an overrun facility with the bank

**THE BANKS OFTEN GET ALL THE
RETURN AND SHAREHOLDERS
BEAR ALL THE RISKS**

ISSUES: CASE STUDY ASANKO

- Recent \$150m financing with Red Kite
- Terms
 - \$130m project facility - \$20m cost overrun facility
 - No hedging
 - LIBOR 6% with a 1% LIBOR minimum
 - 1.5% arrangement fee and 1.5% commitment fee on drawdown
 - **OFFTAKE AGREEMENT**
 - 100% of Esaase's gold production over the life of the mine
 - Gold price received - Red Kite select the price during a 9 day quotational period following shipment
 - Refining fees?

BMO CALCULATE THAT THIS OFFTAKE IS THE EQUIVALENT OF A 2% NET SMELTER ROYALTY – OR 6.4% OF THE FREE CASHFLOW FOR LIFE

ISSUES: ROYALTY DEALS

- Management view - a way to avoid dilution of the shares
- Shareholder view - another group having a prior call on our gold - SHAREHOLDER GOLD IS DILUTED - shareholder returns are pushed out further

Case Study KIRKLAND LAKE

- Sold a 2.5% Net Smelter Return (“NSR”) to Franco Nevada for \$50m
- Positives – resolved some short-term financing issues
- Negatives - Shareholders suffered dilution – a 2.5% NSR is equivalent to 10% of profits
- We have even seen cases of companies offering royalties for short-term financing facilities
- MINERA IRL – 0.5% NSR with Macquarie if they draw down a \$10m facility

**MANAGEMENT AVOIDS SHARE DILUTION BUT
SHAREHOLDERS SUFFER DILUTION OF THEIR GOLD**

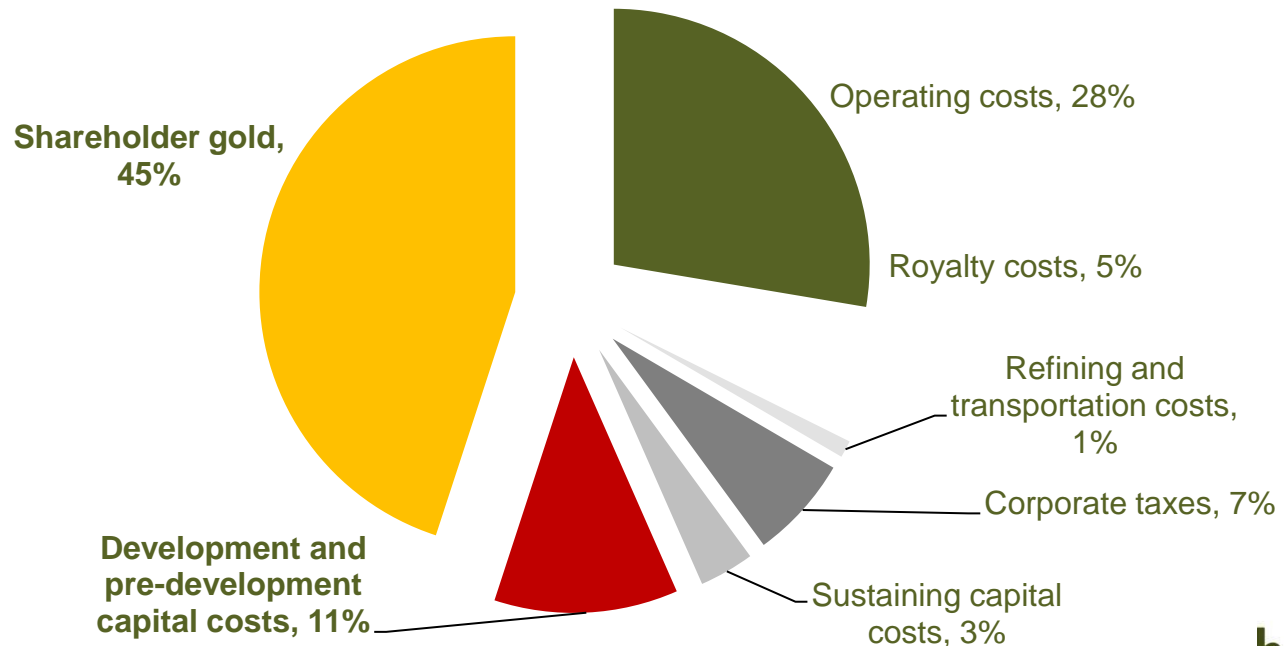
CASE STUDY

Who gets our gold? Chesser Resources

@ US\$1500/oz

Operating costs	139,509	28%
Royalty costs	23,670	5%
Refining and transportation costs	5,447	1%
Corporate taxes	32,915	7%
Sustaining capital costs	17,472	3%
Development and pre-development capital costs	58,623	11%
Shareholder gold	226,961	45%
Total mined gold	504,597	

Source: Company presentation



CASE STUDY

Leverage to gold? Chesser Resources

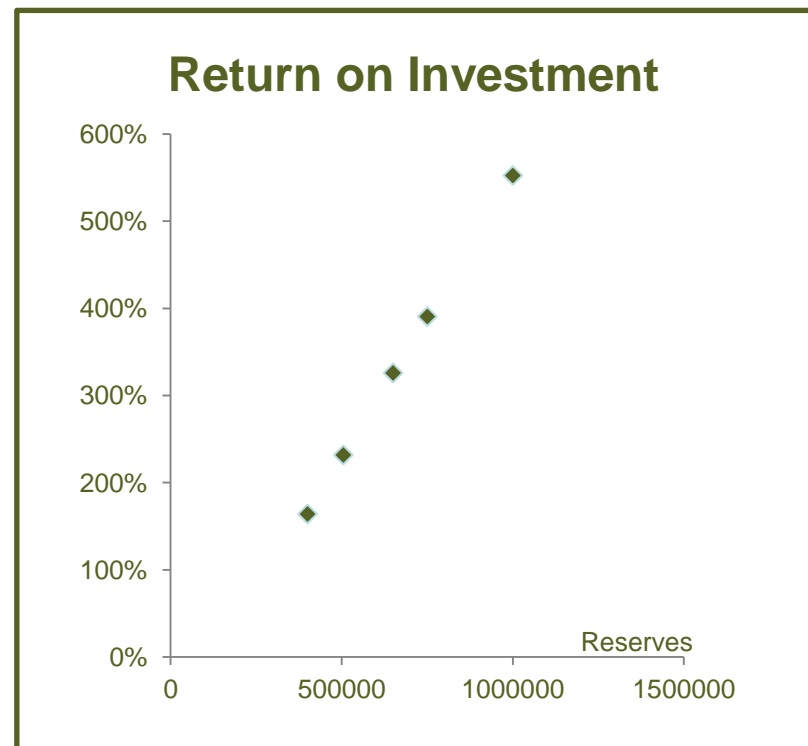
Kestanelik Project

Reserves	Ounces to shareholder	Return
400,000	228,387	164%
504,597	286,961	232%
650,000	368,387	326%
750,000	424,387	391%
1,000,000	564,387	552%

Assumptions

Market cap	16,500oz
Initial Capital	60,000oz
Other	10,000oz
Total	86,500oz

Source: Baker Steel Capital Managers



**COMPANIES NEED TO ASK –
WHAT CAN THEY DO FOR
SHAREHOLDERS?**

INTRODUCING THE PRODUCTION LINKED DIVIDEND MODEL FOR PRECIOUS METAL COMPANIES

THE PRODUCTION LINKED DIVIDEND MODEL

**THE DIVIDEND PAID TO
SHAREHOLDERS IS
DEFINED AS A FIXED
PERCENT OF THE
COMPANIES' ANNUAL
PRODUCTION OR REVENUE**

THE PRODUCTION LINKED DIVIDEND MODEL

**BEST ENDEAVOURS
NOT LEGALLY BINDING**

**IDEALLY PAID IN PRECIOUS
METAL BUT REALISTICALLY IN \$
EQUIVALENT**

**SIMILARITIES TO THE GOLD
ROYALTY BUSINESS MODEL**

THE PRODUCTION LINKED DIVIDEND MODEL

**PRODUCTION
LINKED
DIVIDEND
MODEL**

**IS EASY TO
UNDERSTAND &
COMMUNICATE**

***RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS***

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

MORE CLOSELY
ALIGNS
MANAGEMENT &
SHAREHOLDERS

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

DISCIPLINE &
ACCOUNTABILITY
IS RESTORED TO
MANAGEMENT

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

LINKS GOLD IN THE
GROUND TO
SHAREHOLDER
RETURNS –
EXPLORATION IS
REWARDED

***RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS***

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

LINKS RETURNS TO
THE GOLD PRICE
NO 'CLIPPING'
SHAREHOLDER
RETURNS

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

PROVIDES
SHAREHOLDERS WITH
AN INCREASING
COUPON AS GOLD
PRICES RISE – REAL
YIELD PROTECTION

***RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS***

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

LINKS RETURNS TO
PRODUCTION

***RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS***

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

COMPANIES FOCUS
ON RETURNS NOT
OUNCES

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

POTENTIALLY RAISES
THE CUT-OFF GRADE
ON MINES, THIS MAY
LIMIT THE
DEVELOPMENT OF
MARGINAL MINES

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

HELPS INVESTORS
TO EFFICIENTLY
ALLOCATE CAPITAL
TO THE HIGHEST
RETURN ASSETS

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

PROVIDES BETTER
DISCIPLINE WHEN
COMPANIES EMBARK
ON M&A

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

SENDS A STRONG
MESSAGE TO
SHAREHOLDERS
THAT THEY DO
MATTER

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

PRODUCTION LINKED DIVIDEND MODEL

A STEP TOWARDS
RE-RATING THE
SECTOR AS TRUST IS
RESTORED

*RETURNING A FIXED% OF
REVENUE /PRODUCTION TO SHAREHOLDERS*

THE PRODUCTION LINKED DIVIDEND MODEL

DISCIPLINE
ACCOUNTABILITY
RETURNS
TRUST

DART

THE PRODUCTION LINKED DIVIDEND MODEL

**EVOLUTION 2% GOLD EQUIVALENT
PRODUCTION DIVIDEND**

**MANDALAY RESOURCES 6%
REVENUE DIVIDEND**

Conclusions

- Managements need to regain the trust of investors
- Does avoiding dilution actually increase shareholder risks?
- Shareholders are disgruntled with taking all the risks and not getting an adequate return
- Review your project in ounces - who gets the gold?
- Consider the PRODUCTION LINKED DIVIDEND MODEL to enhance shareholder returns
 - Discipline
 - Accountability
 - Returns
 - Trust
- DART

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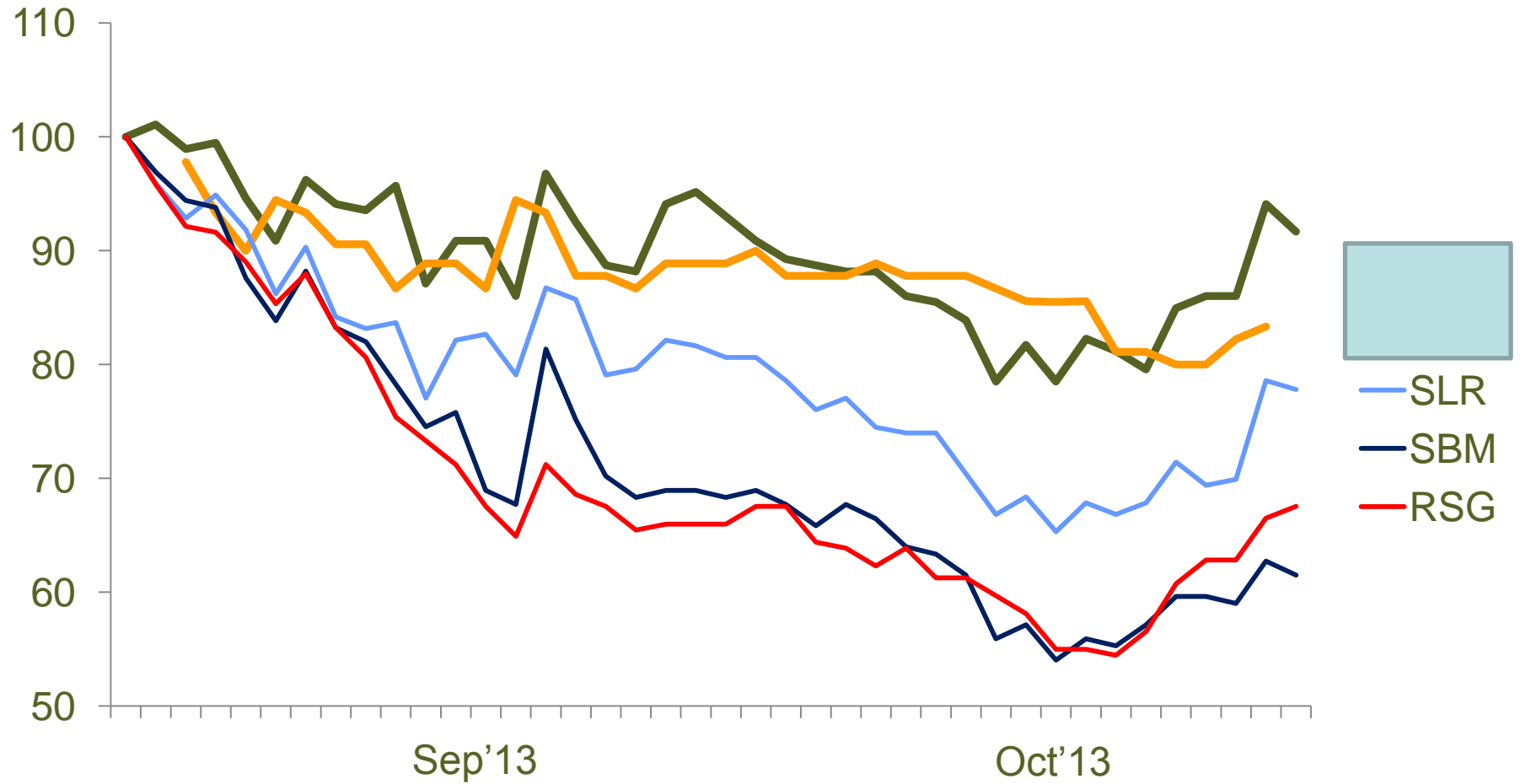
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Case Study

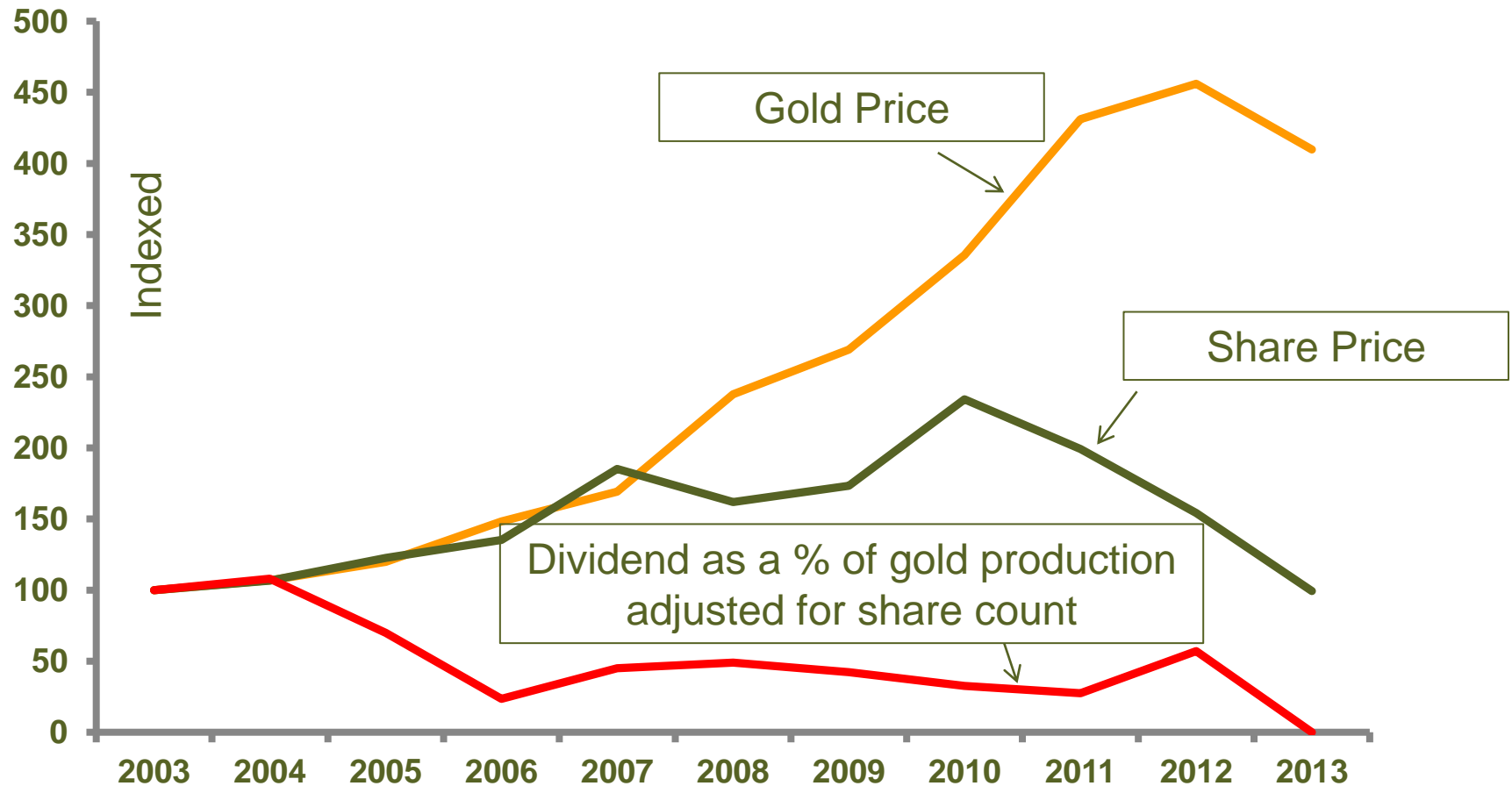
Selected share price performance



Data source: Bloomberg

Case Study

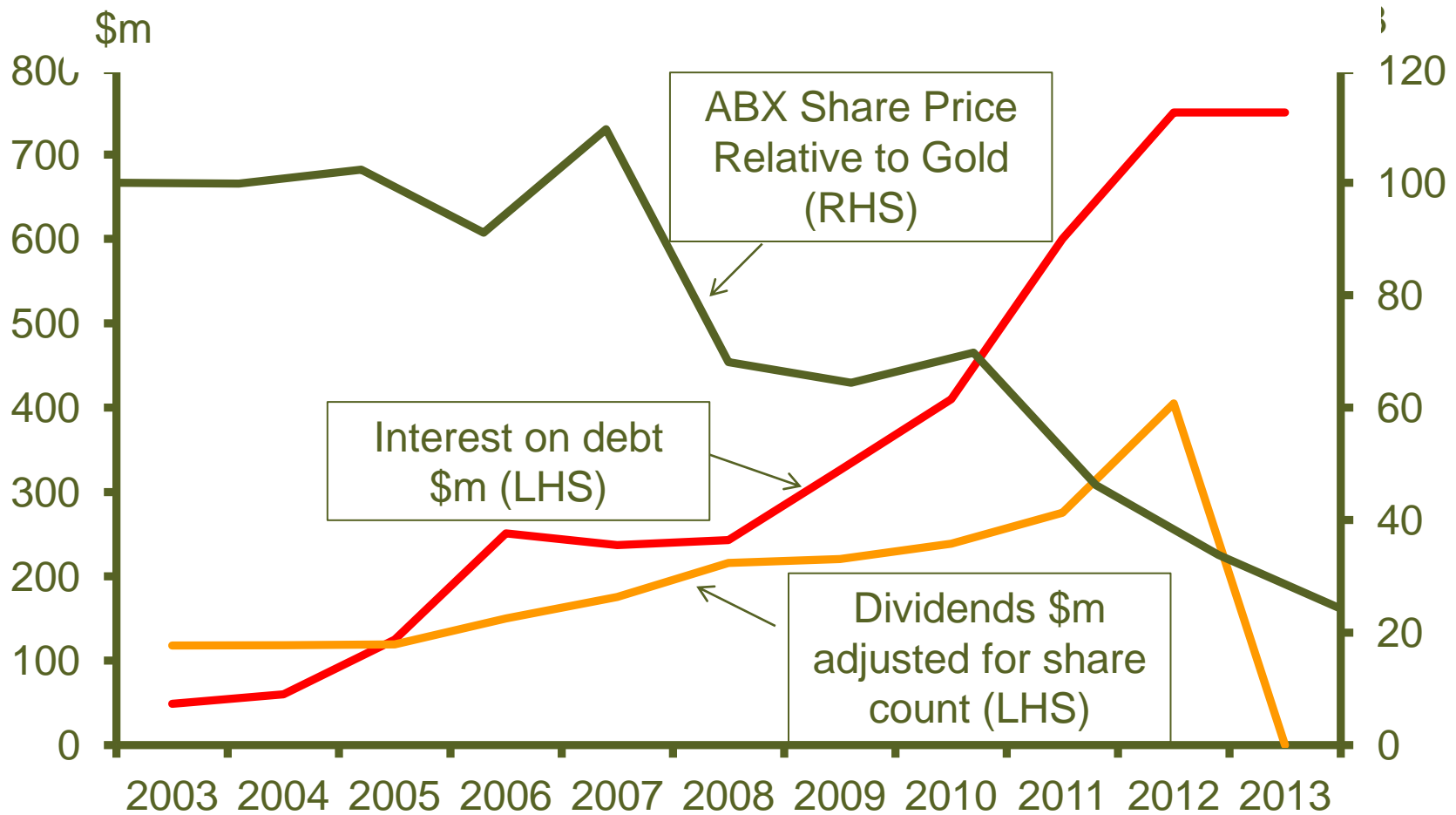
Barrick – Share price relative to gold & dividends - Indexed



Data source: Company reports, Bloomberg

Case Study

Barrick – Share price relative to gold & interest vs dividends



Data source: Company reports

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