Financing conditions for bankable projects

- Within a project finance framework, debt and equity providers will have a number of requirements to make a project bankable.

- Equity investors will choose how to allocate capital based on expected returns, adjusted for various risks, price, exchange, political and so on.
  - this constitutes certain thresholds or “hurdle rates”.

- Commercial lenders focus on analyzing the cash flows which would be the main source for debt repayment. As well, they ensure that risks are appropriately allocated to the various project finance parties through contractual arrangements.
  - In addition, they require a security package and set certain financial covenants as protective measures against the project they will be financing.
Types of Project Finance in the Mining Industry

**Senior debt:**

- A class of debt that has priority with respect to the payment of interest and principal over subordinated debt and over all classes of equity.
- Senior debt can be secured or unsecured.
Types of Project Finance in the Mining Industry (Cont’d.)

Mezzanine debt:

- These are secured or unsecured high yield subordinated debt that represents a claim over a company’s assets.
- They typically may have priority with respect to the payment of interest and principal over all classes of equity. are subordinate to senior debt.
- Because the mezzanine debt is subordinated to the senior debt and possibly unsecured, it commands a higher interest rate than senior debt.
Types of Project Finance in the Mining Industry (Cont’d.)

Second lien debt:

- These are debts that are subordinate to the rights of other more senior debt with the same collateral.

- If a borrower defaults, second lien debt stands behind higher lien debt in terms of rights to collect proceeds from the collateral.
Types of Project Finance in the Mining Industry (Cont’d.)

**Convertible debt:**

- Convertible debt is usually unsecured and senior lenders regard it as near-equity.

- It is a debt that can be exchanged for a specified number of common shares at a predetermined price, at the option of the holder.

- The investor usually wants to achieve a minimum assured rate of return with an “equity kicker”.

- From the issuer's perspective the attractiveness of issuing convertible debt is that it results in greater marketability and a lower interest rate.
Types of Project Finance in the Mining Industry (Cont’d.)

Non Convertible debt:

- The issuance of units comprising non-convertible unsecured notes by mining companies is increasing but not yet common.
- These debt securities are issued by way of private placement or public offerings.
- Although there is no requirement to include common shares or warrants as part of issuing the notes, investors often request such “sweeteners”.
Bridge financing:

- The bridge financing is used as a temporary method of financing before longer term arrangements are being made.

- Bridge financing may require various levels of security and may also require a commitment from a long term senior lender to repay the bridge financing or a “firm” underwriting commitment for an equity issue.

Line of credit/standby credit facilities:

- Such facilities may be obtained and repaid on a regular basis during the life of the project.
Commodity loan

- A reduction in the amount of funding available to finance mining activity has persuaded a number of mine developers and producers to look for other ways of obtaining finance.
- An increasingly common approach is to enter into a commodity loan.
- Commodity loan is a loan in which a lender advances funds which, instead of being repaid in cash, may be repaid by the delivery of a quantity of a commodity during a specific period.
A commodity loan contract specifies exactly:
- the type or grade of the commodity,
- the amount, and
- the future delivery or settlement dates.

In these transactions, the interest, principal, or both, or the payment streams in the case of swaps, is linked to a price of a commodity or related index.
Characteristics and Features

- The commodity loan contracts are settled for cash, since banks, without special permission, are not allowed to trade in a physical commodity other than gold.

- These contracts are subject to commodity prices and all other risks including:
  - Macroeconomic conditions,
  - local disturbances,
  - weather,
  - supply and demand imbalances, and
  - labor strikes
Gold Loan

- A gold loan is defined as a form of debt financing whereby a potential gold producer borrows gold from a lending institution, sells the gold on the open market, uses the cash for mine development, then pays back the gold from actual mine production.

- Within the boundaries of a gold loan – finance is advanced to build the mine with the loan to be repaid over a set timeframe usually at a specified interest rate.

- Financing in this way is a complex process and – before undertaking – gold loan projects must still comply with strict risk assessment, pre-feasibility assessments, and due diligence.
Global Gold Markets

- The global gold industry is characterised by production which is more widely distributed geographically than is the case for most other mineral commodities.

- No single country accounts for more than 15% of the world’s annual gold production.

- At the same time, increased production from emerging gold producers in Asia, Latin America and West Africa is steadily reshaping gold production patterns, with producers such as Australia, South Africa, Canada and the United States coming under increased competitive pressure.

- The combined market share of these four 'mature' producers has fallen from around 48% of global production in 2000 to 28% in 2012.
Who owns Pretivm and why? Discuss

### Top Shareholders at November 17, 2014

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silver Standard Resources Inc.</td>
<td>14.82%</td>
</tr>
<tr>
<td>Liberty Metals &amp; Mining Holdings</td>
<td>6.29%</td>
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<tr>
<td>Aristeia Capital, LLC</td>
<td>6.01%</td>
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<tr>
<td>Royce &amp; Associates</td>
<td>3.66%</td>
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<tr>
<td>Sprott Asset Management</td>
<td>2.29%</td>
</tr>
<tr>
<td>Mackenzie Financial</td>
<td>2.25%</td>
</tr>
<tr>
<td>Franklin Advisors, Inc.</td>
<td>2.12%</td>
</tr>
<tr>
<td>Norges Bank Investment</td>
<td>2.10%</td>
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</tbody>
</table>

### Top Shareholders at January 21, 2015 (Source: IPREO, SEDI)

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Silver Standard Resources Inc.</td>
<td>13.07%</td>
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<tr>
<td>Zijin Mining</td>
<td>9.68%</td>
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<tr>
<td>Liberty Metals &amp; Mining Holdings</td>
<td>6.29%</td>
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<tr>
<td>Aristeia Capital, LLC</td>
<td>5.30%</td>
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<tr>
<td>Royce &amp; Associates</td>
<td>3.22%</td>
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<tr>
<td>Sun Valley Gold, LLC</td>
<td>2.60%</td>
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<tr>
<td>Robert Quartermain</td>
<td>2.06%</td>
</tr>
<tr>
<td>Sprott Asset Management</td>
<td>2.02%</td>
</tr>
<tr>
<td>Mackenzie Financial</td>
<td>1.98%</td>
</tr>
<tr>
<td>Franklin Advisors, Inc.</td>
<td>1.87%</td>
</tr>
</tbody>
</table>

Source: 2014 Pretium Resources Inc.
Pretivm: Direct or Indirect Finance?

- Silver Standard Resources Inc. is a Vancouver-based mining company, with a gold mine in Nevada, U.S and it is wholly-owned Pirquitas mine in Argentina.

- Liberty Metals & Mining Holdings, LLC is based in Boston, Massachusetts and operates as a subsidiary of Liberty Mutual Holding Company Inc., which through its subsidiaries, provides various insurance products and services in the United States and internationally.

- Aristeia Capital, LLC is a privately owned US hedge fund sponsor. The firm primarily provides its services to pooled investment vehicle. It invests in the public equity markets of the United States.

- Royce & Associates, LLC is a New York based US company that primarily provides its services to investment companies. It operates as a subsidiary of Legg Mason Inc. a holding company, a global asset management firm that acting through its subsidiaries provides investment management and related services to institutional and individual clients.

- Sprott Asset Management is a Toronto-based alternative asset manager that offers a wide variety of investment solutions to Canadian and international investors.

- Mackenzie Investments is an investment management firm providing investment advisory and related services to retail and institutional clients. A subsidiary of the Power Financial Group of Companies, it is the largest independent asset manager in Canada.

- Franklin Advisers, Inc. is a privately owned US investment manager, that primarily provides its services to investment companies.

- Norges Bank Investment Management manages the Norwegian Government Pension Fund Global
Appendix
Money Market Instruments

- Government of Canada Treasury Bills
- Certificates of Deposit
- Commercial Paper
- Repurchase Agreements
- Overnight Funds
Capital Market Instruments

- Stocks
- Mortgages and mortgage-backed securities
- Corporate bonds
- Government of Canada bonds
- Canada Savings bonds
- Provincial and municipal government bonds
- Government agency securities
- Consumer and bank commercial loans
Function of Financial Intermediaries: Indirect Finance

I. Reduce transaction costs (time and money spent in carrying out financial transactions)
   - economies of scale
   - liquidity services

II. Reduce the exposure of investors to risk
    - risk Sharing (asset transformation)
    - diversification
III. Deal with asymmetric information problems
   a. Adverse Selection
      • before the transaction
      • avoid selecting the risky borrower
      • gather information about potential borrower
   b. Moral Hazard
      • after the transaction
      • ensure borrower will not engage in activities that will prevent him/her to repay the loan
      • sign a contract with restrictive covenants