

The mining sector continues to explore, develop and operate projects in the face of challenging and uncertain times

Dentons, in association with the *Mining and Investment in Latin America 2015* conference, is pleased to report the results of a recent survey of mining companies and financiers active in Latin America. The survey reveals a number of insights into the current state of the mining sector, as well as expectations on future trends and developments.

For some reason optimism abounds

Perhaps one of the most endearing qualities of people in the mining sector, especially on the exploration side, is their undying optimism. Every drill hole or magnetic anomaly represents a

step along the path to a discovery, no matter what the odds. In the face of one of the harshest downturns in a generation, which shows no

signs of abating soon, a remarkable 66 percent of respondents were either somewhat or very optimistic that there will be increased investment in the mining sector over the next 12 months. This may be driven by the sentiment that investment levels

66%
Optimistic

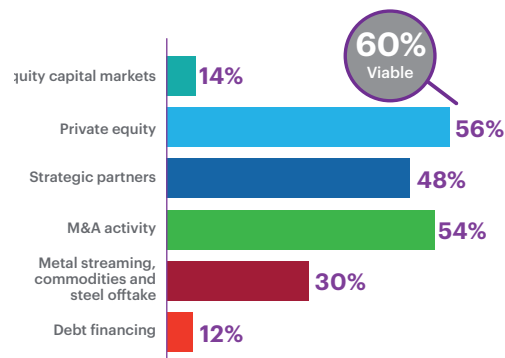
have nowhere to go but up, but it also demonstrates the resilience of the mining and junior exploration sectors in particular. While most junior exploration companies are struggling, they have continued to defy predictions from a couple of years ago, suggesting that hundreds would cease to exist.

Traditional financing is unavailable

It is clear from the survey that respondents consider traditional financing sources to be unavailable to mining companies at the moment. The majority of respondents said that private equity would be the main source of investment in the mining sector, the highest of any source of capital, with only very few saying that it was not a viable source of financing.

This offers considerable hope for private equity investment within the mining sector. However, we should be cautious with our optimism since the private equity model does not have an extensive track record in mining.

Respondents were also confident that consolidation would be a main source of funding for mining companies, with



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just over half pointing to M&A activity and slightly fewer pointing to strategic investments.

Although deal counts have risen modestly over the past 12 months, the value of those transactions has decreased. Furthermore, despite the attention on joint ventures and strategic investments, the number of announced transactions does not appear to have increased year over year from 2014. In saying that, it's important to keep in mind that those transactions tend to involve long-term discussions and relationship building, so we may yet see an increase. Certainly the responses to the survey suggest that mining companies are devoting resources to pursuing M&A transactions and strategic investments.

"Metal streaming and offtake transactions" (including royalties) was also seen as a viable financing alternative by almost a third of respondents.

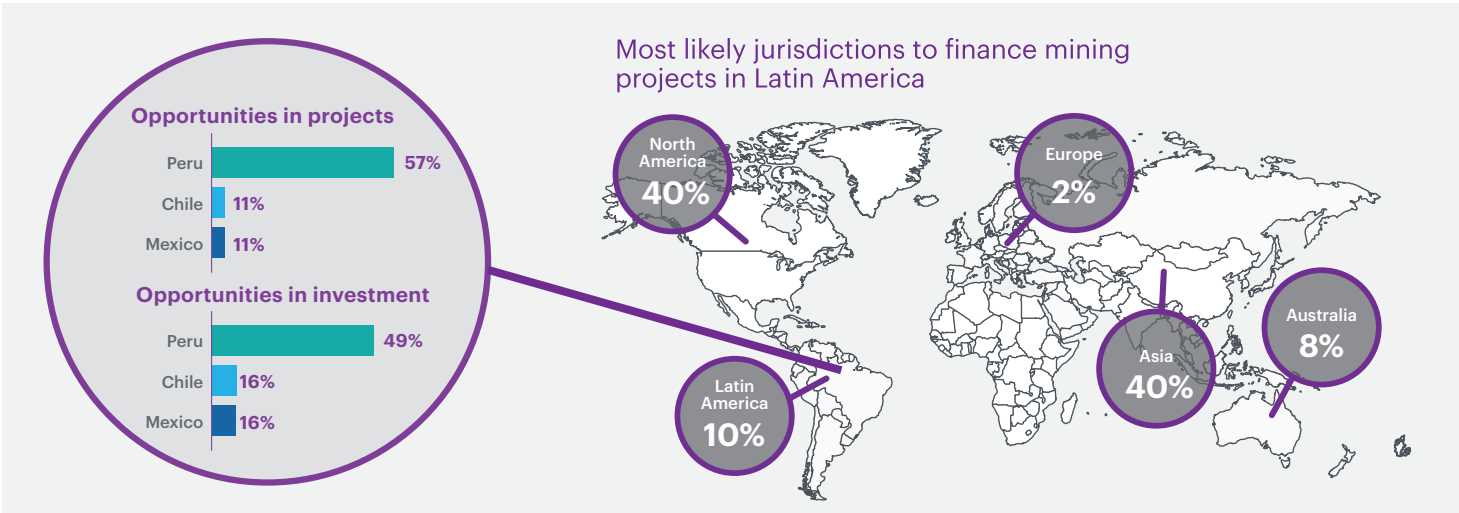
Peru in the spotlight

The survey results showed us that respondents believe North America and Asia will be most likely jurisdictions to finance Latin American mining projects. Surprisingly, very few respondents feel that Latin America will be a source of financing, despite the appearance of significant pools of capital from the region over the past 10 years and recent integration initiatives such as the TSX Venture Exchange with the Santiago Stock Exchange, and others within Latin American capital markets themselves.

When looking more closely at Latin America, Peru continues to be the current hot spot for mining. Roughly half of respondents thought Peru offered the most investment opportunities while slightly more than half thought Peru had the most project opportunities.

Interestingly, nearly a third of respondents expected Chile to attract the most mining investment over the next 12-18 months, even though only a few thought it offered the most investment or project opportunities in mining. That may be a product of Chile's longstanding position as one of, if not the most, highly regarded jurisdictions within Latin America for mining investment. As investors seek to mitigate risk in an uncertain market, it makes sense that sentiment would gravitate towards traditional leading jurisdictions.

Mexico is in a similar situation, with very few respondents expecting to see much investment or project opportunity from the region. Other



jurisdictions like Argentina, Brazil, Colombia and Ecuador continue to languish in terms of investor sentiment, despite having mineral endowments within their borders.

Challenges

When asked what the main challenge is in the mining sector at the moment, it was no surprise to see that respondents chose metal prices over all others. It is, however, a bit surprising that corporate social responsibility (CSR) issues did not rank higher, especially given the emphasis on Peru in the results of the survey. A number of projects in Peru have been impacted by CSR issues recently, and project proponents are increasingly focused on these issues due to their impact on the cost and timeline for projects.

20%
Total Access to capital

44%
Metal prices

24%
Regulatory and permitting obligations

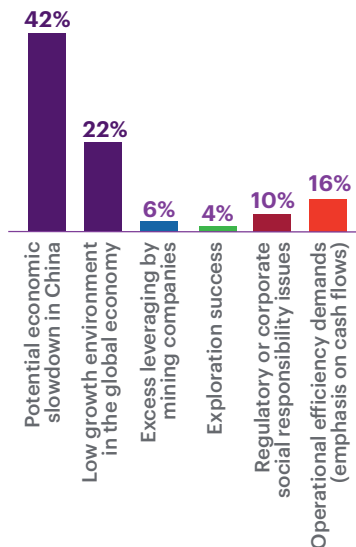
12%
Corporate social responsibility issues

The path forward

Survey respondents believe that the current economic climate will have the biggest influence on the mining industry over the next 12 months. Few respondents believed demand on operational efficiency would have a large impact on the industry, which suggests that the focus on innovation

and efficiency is not expected to yield significant results as long as metal prices remain low and access to capital stays scarce.

Even fewer respondents thought that exploration success would influence the industry, so notwithstanding the

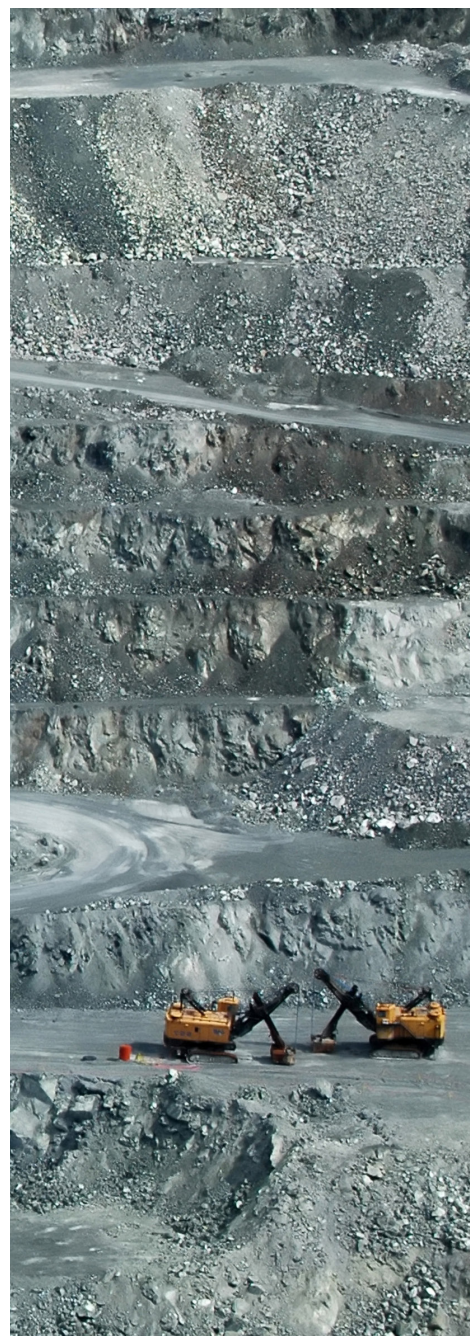


degree of optimism noted above, it does not appear that the mining industry believes new discoveries will be the key to a turnaround.

Conclusion

Much attention has been placed on the difficulties facing the mining industry and the uncertain outlook for a turnaround in the near-term. However, this survey indicates that the mining sector continues to explore, develop and operate projects in the face of these difficulties. While extra fortitude and creativity is required in the current environment, there appears to be an underlying belief in the mining industry that market

conditions will turn, even if no one knows when. Hopefully the Mining and Investment in Latin America 2015 conference can help answer that question.



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