RBC Capital Markets

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RBC 16th Annual Senior Gold Conference

Corporates and Investors focused on capital allocation

RBC CM hosted its 16th annual Senior Gold Conference in London with 14 of the industry's leading executives participating in our Fireside Chat format. Key gold industry themes are given below and highlights from our discussions are provided in the following pages.

Optimistic tone with a focus on improving shareholder returns

Discussions around returns to shareholders and creating shareholder value were part of every discussion and senior management are cognizant of the perception that the gold sector has not generated satisfactory long-term value for shareholders. Management focus remains on cost control and reserve & resource growth to create value; and rather than production growth, the emphasis remains on margin growth. When asked about cost pressures, most participants suggested that there are little or no inflation pressures on either operating or capital costs.

With respect to capital allocation, management priorities remain de-leveraging and strengthening balance sheets, then investing in brownfields projects at their own mines (AEM, ABX, KGC, AUY, BTO) and only a few investing in new greenfields mines (AEM, BTO, OGC, AUY, POLY, RRS). All executives expected to continue to invest in greenfields exploration, whether directly, or through equity stakes and joint ventures. In most cases, with the exception of FNV, WPM and RRS, we do not expect any significant dividend increases from the gold miners near-term.

M&A is not expected to be a big focus

Most of the participants played down M&A and we would be surprised to see any "unsolicited" M&A activity amongst the Senior gold producers. Both WPM and FNV spoke about precious metals streaming & royalty opportunities and FNV highlighted the deep pool of opportunities in US energy plays. Randgold also talked to the potential of looking at some of Acacia's Tanzanian assets, while ABX reiterated its positive view on joint ventures. All the miners were focused on reviewing their current portfolios and questioning "what assets were core and noncore". Both OGC and BTO would be well positioned to take on new mine developments with their projects teams finishing new mine construction.

Geopolitical risk expected to continue to provide support for gold

We head into 2018 with improving global economic growth forecasts, modest inflation expectations and expectations of tightening monetary policy by Central Banks; combined, these factors have historically provided a headwind for higher gold prices. However, political instability in the Middle East, North Korea tension, and unpredictable policy responses from President Trump and his Administration have resulted in an elevated level of geopolitical risk, which have been providing support for the gold price. Within this heated geopolitical environment, the gold price looks relatively well supported and we expect gold to trade in a tight range around $1,300/oz into year end and early 2018.

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Agnico Eagle

NYSE/TSX: AEM; Sector Perform; US$53.00 Price Target

Sean Boyd, CEO

- **Capital allocation:** Maintaining the dividend is important and over the next year or two capex should begin to trend lower as Amaruq and Meliadine are completed. As a result, Agnico expects to be in a position to pay more dividends, although this is dependent upon the gold price and what other projects the company looks to progress.
- **M&A and exploration investments:** In terms of M&A, if a major project is acquired Mr. Boyd suggested that it would be replacing an asset within the portfolio that would be making a less significant contribution and in effect balance the portfolio. The company continues to view its strategic investments in junior exploration companies as an opportunity to be an early entrant into new exploration discoveries or new regional area plays. The strategy remains to hold onto equity positions that demonstrate successful results.
- **Succession:** Mr. Boyd sees no shortage of talented individuals within the organization to fill key management and executive roles. At some point, he expects to be in a position to step up to be Chairman, which the board sees as being important from a strategic perspective and with the view of maintaining the existing culture.
- **Cost outlook at deeper underground mines:** The company would look to get to above the 2.1M oz level of production one day, but is comfortable with its current guidance levels. At La Ronde, the company expects to see better gold grades at greater depths, which should help keep costs under control. At Kittila, the new parallel Sisar zone provides a new source of ore and Agnico is seeing better thicknesses and grades which help the operating costs and productivity.
- **Meliadine development:** The start of construction has gone well, and the company has managed to get an extra barge in before winter set in. Agnico started to invest in late 2016 which has given the construction schedule a boost. The project is on track to do better than expectations; Agnico will look to give more clarity in February 2018. While the mine is in the caribou migration route, Agnico does not see any issues over that 2 to 3 week period. Exploration continues to indicate that reserves are expected to grow.
- **Amaruq development:** The project is going well and tracking on schedule in terms of budget and timing and NIRV have approved permits. Recent drilling has seen a continuation of the mineralized zones deeper and the company has traced the Whale Tail deposit down to 900m and the V Zone down to 700m. The company will look for additional open pit material long strike as well.

Barrick Gold

NYSE/TSX: ABX; Sector Perform; US$18.00 Price Target

Catherine Raw, Executive VP and CFO

- **Capital returns:** Barrick's strategy remains to grow free cash flow per share from their existing portfolio, while maintaining a disciplined capital allocation process. The company has increased its quarterly dividend from $0.02 to $0.03/share earlier this year and once the $5B targeted debt level has been achieved expects to be able to continue to allocate operating cash flow back into the business and begin to reward shareholders for their patience with a greater return of capital.
- **Joint ventures:** Joint ventures and partnerships are an important element of the strategy (e.g. Shandong Gold at Veladero, Zijin Mining at Porgera, Goldcorp at Cerro Casale/Caspiche, and NovaGold at Donlin. The initial purpose of JVs has in many cases been to generate capital to pay down debt. In the case of the Shandong JV this strategic relationship also allows Barrick to mitigate operating risk in Argentina and extract some value from Veladero.
- Management mentioned that production is a priority over free cash flow for their Chinese partners. If Barrick can get Shandong comfortable with the Lama project pre-feasibility study and Barrick can achieve a suitable return, then we expect there to be a good possibility for a development/operating JV. Barrick feels that JVs have worked well and offer strategic benefits alongside financial benefits, and in some cases complementary skill sets have been shared.
- **Digital initiative:** ABX launched the digital initiative in September 2016 with Nevada the pilot, given that the region was ready for it. An estimated $60M is being invested in the digital initiative in 2017. Barrick is expecting ~$21M of savings in Nevada by mid-2018 and is looking for ~$50M of annualized savings. The aim longer term is to roll these digital learnings out to the business as a whole.
- **Tanzania:** In the view of Barrick, the big step forward was for President Magufuli to state publicly that he saw a way forward for Acacia in Tanzania. Barrick now believes that it needs commitments from the government to allow the situation to evolve (i.e. allowing the export of concentrates) and is encouraged by the start of discussions.
- **Strategy:** The focus is on stabilising the business, and providing a high quality production profile and developing assets within its existing portfolio. For example Gold Rush is expected to deliver 450koz/yr for a 21 year mine life for ~$1B capex and management feel that this does not get the value it deserves as it is replacing existing production with high margin ounces. At Pueblo Viejo, Barrick is looking at improving the grade profile in the medium-term to improve production.

Kinross Gold

NYSE: KGC, TSX: K; Outperform; US$5.25 Price Target
Paul Rollinson, President and CEO

- **Vision for the company:** Paul highlighted that the key focus for Kinross has been building the depth of their technical team and strengthening their balance sheet, both of which allow Kinross to advance its various organic projects. He noted that the focus on cost saving measures has enabled Kinross to repay $1B of debt and increase cash by $1B despite the downward trend in gold prices from $1,600/oz to below $1,200/oz.
- **Returns to shareholders:** The company plans to reinvest heavily into the business over the next 2.5 to 3 years; with annual sustaining capital at ~$400M and growth capital at ~$500M. Once Tasiast Phase II is completed, Kinross will consider options to return excess capital to shareholders.
- **Production and asset sales:** Depending on new discoveries within the portfolio, Kinross expects to be able to sustain ~2.5 Moz of annual production, broadly in line with volumes achieved in previous years, for the next 4 to 5 years. Management noted the challenges in Chile, including long-term access to water and power supply, opposition from NGO's and labour inflation - which tends to be the highest within Kinross' portfolio. However, the company is not looking to divest their Chilean assets as there is no immediate need for the cash proceeds and management see Maricunga and Lobo-Marte as attractive at higher gold prices.
- **M&A:** Paul noted that while they do not feel compelled to engage in M&A transactions, they are open to pursuing divestitures and acquisitions if the right opportunities present themselves. Kinross has a good track record of replacing reserves and sustaining production, and management are confident that they can continue this trend going forward and not rely on acquisitions.
- **Focus for project teams:** Kinross' project teams are primarily focused on supporting the operations and project execution. Individual teams get to work on projects across Americas, Russia and West Africa in order to expand their skill sets. Management are confident that the Tasiast expansion should be delivered on schedule and budget as they have substantial experience in delivering similar projects in the past.
- **Exploration priorities:** 90% of Kinross' exploration budget is for brownfield projects while the remaining 10% are greenfield projects including JV partnerships. Management highlighted the following:
  - **Tasiast Sud** – Exploration success has identified a new resource and the company is looking at developing new open pits, with high grade zones going to the plant and low grade to a new dump leach operation.
  - **Kupol** – Mine life has already been increased by an incremental 5 years to 2022 and there is further potential to increase underground reserves.
  - **Bald Mountain** – Reserves have been doubled, resources increased and the company is in the process of applying for permitting and expects further upside.
- **Partnering with junior greenfield companies:** While the company has greenfields exploration experience, management still see significant benefits in partnering with junior exploration companies particularly in leveraging their local geological expertise and infrastructure while also sharing the risks.
- **Supply chain strategy:** In order to minimize exposure to sector inflation cyclicality, Kinross has entered into various supply chain contracts to avoid spot market price escalation. In addition Kinross is benefiting from development of internal technical resources as consultants tend to be scarce and expensive in overheated markets.

Polymetal

LSE: POLY; Sector Perform; £8.60 Price Target

Vitaliy Nesis, CEO

- **Strategy:** The company continues to "pamper" its assets rather than "squeeze" them; it acts to undertake preventative maintenance and use more digital technologies e.g. in mine fleet management, which can give indications that equipment is about to fail – this helps it to improve operational management. In terms of the production profile, it does not want to put a number on longer-term targeted production, and would rather ensure profitable production which is able to reward shareholders. That said, there is potential to increase production beyond 1.8moz GE (e.g. Nezhda, Prognoz, Viksha).
- **Nezhda:** A final development decision for Nezhda will only be taken after the successful ramp up of Kyzyl and Amursk POX. The company prefers to take a slower route forward here to control execution risk and not stretch the balance sheet. Polymetal sees the open pit project as having substantial exploration potential; it already has ~9moz in resources in addition to reserves (2moz), and the asset already has some infrastructure put in place by previous owners. The company believes that it will likely proceed with the project given current project economics. There is a call option available to take ownership of Nezhda to 100% (from 24.7%); it looks likely that POLY will exercise this option. The current project envisages an annual throughput of 1.5mt; there is potential to increase this by 25-30%.
- **Second POX line:** Current Chinese demand for metallurgically challenging concentrate is strong, although the potential impact of changing environmental policies could impact the concentrate market economics. Therefore, value could be created by a second POX line at Amursk to treat high carbon, high sulphur, preg-robbing concentrates. Capex has been guided to US$400m.
- **Kyzyl:** The project is on schedule and budget to produce first concentrate in Q3/18 and there is some potential to bring it online sooner. Kyzyl has been Polymetal's first new open pit operation for more than decade, and estimates around equipment utilization were conservative; the Russian equipment used has proved to be operating well which has provided a cost tailwind. However this equipment could age faster so, while a pleasant surprise, management do not feel that these cost savings can currently be extrapolated.
- **Prognoz:** The asset has attractive, long term growth potential which fits well within the company's strategy, but is located in a challenging geographical location. Mr. Nesis noted that he believes that Prognoz could challenge Dukat in terms of resources but more drilling is needed; the company is likely to consolidate ownership in the next 12 months.
- **Capital allocation:** Polymetal is currently paying 50% of its net income as a dividend, and also pays a special dividend on occasion; paying substantial dividends is seen as one of the key pillars for POLY. Having increased the payout ratio for regular dividends from 30% to 50%, the company believes that the special dividend has been de-emphasized. Polymetal's capital allocation philosophy hasn't changed – regular dividends come first, then growth capital and then debt repayment. The company is comfortable with the current level of debt (~2x ND/adj EBITDA is seen as an acceptable level), and its maturity profile has been adjusted to be longer dated, so there are limited scheduled repayments for 2018/19. In terms of divestments, the company could look to divest some smaller assets; it is in no rush to do this, and generating value for the company is key. Selling assets to international buyers in Russia is seen as unlikely, so any divestments are likely to be to domestic buyers. The company continues to reiterate its strong corporate governance culture.

Randgold Resources

LSE: RRS, Underperform; £58.00 Price Target

Mark Bristow, CEO

- **Growth strategy:** Randgold remains comfortable with the company's ability to deliver strong returns to shareholders; the key focus remains on profits and disciplined allocation of capital, with the main opportunities for growth coming from the exploration portfolio, including Massawa (Senegal) and certain deposits in Cote d'Ivoire, including the JV with Endeavour. Randgold reiterated its strict investment criteria of a 3moz reserve, and a 20% IRR at gold price of US$1,000/oz, to ensure that only highly value accretive investments are pursued. Conservative balance sheet management continues, with no debt currently envisaged to be placed into the capital structure.
- **Country risk:** Mr. Bristow believes that while country risk across operations in Africa is high, so is the need for investment, which sets the boundaries for local governments when setting up business environments. Randgold sees the conditions in Cote d'Ivoire and Senegal as improving and would consider investing in Tanzania if (what it considers to be) a world-class mine would become available for sale. In reference to Acacia's assets, he noted that further investment could showcase the tangibility of returns that could in turn add value for Randgold.
- **DRC:** Randgold's management has been heavily engaged in the debate over potential changes to the current mining code which, according to Mr. Bristow, could make returns on investment very challenging. Randgold believes that the code will be changed with the aim to improve operating conditions within the country and he expects that Randgold will bring more projects into operation in the DRC over time.
- **Dividends:** Randgold's management aim to keep US$500m of cash on the balance sheet to limit exposure to the sector's cyclicality, with cash generated in excess of this level paid out in the form of dividends.
- **Succession planning:** Succession planning is under way at Randgold and candidates have been identified to the third level down across all divisions. Management is now working to close any skills and knowledge gaps and hope for a new energetic group to come out of the process with a new way to run the company.

Sibanye-Stillwater

JSE: SGL, NYSE: SBGL; Sector Perform; ZAR 16.00 Price Target

Neal Froneman, CEO

- **Strategy:** Management believe that a consistent strategy has been applied to the way the business has evolved, with a focus on superior value creation for stakeholders. Currently, the focus is on deleveraging the balance sheet to a ND/EBITDA ratio of 1x in two to four years. The company does not see itself as "asset huggers", but is not actively looking to sell its main assets (including the gold assets being placed on care and maintenance). That said, it believes that the Altar project in Argentina (acquired as part of the Stillwater deal) is non-core and is currently seeking to divest the asset.
- **Continental Africa:** Sibanye believes that South Africa is a challenging environment due to the political volatility, although the company believes that it is well positioned with its asset base. The company would ideally look to grow outside of South Africa, and notes that it has a substantial base in US, but believes that valuations are currently challenging. Sibanye would not be opposed to growing in Continental Africa, but any growth would depend on valuations and timing.
- **Operations:** The company continues to focus on ensuring that it has no breakeven/lossmaking business units as it sees no point in depleting the resource it has at a loss – this was the driver of the gold restructure in South Africa. It also will not cross-subsidise its business units. The recent weakening of the rand has helped margins in the SA gold and PGM businesses. Mr. Froneman also noted that it has a good track record of negotiations with limited industrial action and acceptable wage increases, and is confident that it can manage its operations /labour force in that environment. The company believes that it has the right to restructure its operations, and as long as it follows legal practice, it feels that it can act as it feels fit, and will continue to do so, albeit with some sensitivity given a challenging employment situation in South Africa.
- **Political changes:** Sibanye is undertaking a lot of scenario planning for the South African ANC elective conference outcomes (18-21 December). The company sees the current situation as very challenging, and is focusing on promoting a pro-business outcome. While in recent years it has seen a relatively challenging business environment, South Africa has a good legal system to support business and reach a fair solution to disputes. While there are hopes that pro-business Cyril Ramaphosa is elected ANC leader, there remain further political downside risks, under which scenario the company believes that it could see a further material weakening of the rand.
- **Mining Charter:** Sibanye believes that the current Charter is unconstitutional, that it has a strong legal position and will continue to fight it. With a court hearing due on 13-14 December for the Charter, Sibanye hopes that the current version will be forced to be redrafted. The Chamber of Mines has already done a lot of work on something that is new and broader based, which is hoped to offer a fairer Charter which Sibanye could be prepared to back. Mr. Froneman believes that this is not a short-term fix and is likely to take some time to reach an agreement as the legal process progresses.
- **Dividends:** The company is currently paying a capitalization issue instead of a cash dividend as it seeks to reduce leverage. This is expected to continue for the next year or so, and then a cash dividend is expected to be reinstated as deleveraging continues.

Acacia Mining

LSE: ACA; Sector Perform; £1.75 Price Target

Andrew Wray, CFO

- **Tanzania negotiations:** Acacia expects the day to day negotiations with the government to carry on the same way they have been for coming months while working groups are created around taxes, the concentrate ban, etc. Acacia's incoming CEO and CFO will form part of the working groups and Mr. Wray expects Acacia management to be involved at the right level when it comes to negotiating the details of the final agreement. Acacia accepts that the risk of the Tanzanian government claiming further economic interest in the future cannot be fully mitigated but welcomes the increased transparency in the agreements being negotiated when compared with development agreements published in the past.
- **Tanzanian involvement in operating the assets:** Mr. Wray suggested that a certain number of new oversight roles will most likely be created to enable the Tanzanian government to gain comfort that the operations are being run effectively and efficiently. The day-to-day operations however should not be affected and Acacia will continue to increase the involvement of the local workforce with the aim to extend this further into highly technical roles where possible.
- **Framework agreement:** Acacia sees the initial framework agreement as being a high level "agreement to agree", setting out the principles driving the negotiations with the main objective being a 50:50 split of economic value. The company believes that the Tanzanian government's 50% share will come, in different proportions, from taxes, royalties and a 16% free carry. Acacia believes that a partnership of this kind between a mining company and the government is not unusual and that it can provide a reasonable rate of return for all stakeholders. Acacia believes that Bulyanhulu will, in principle, be able to retain the tax losses accrued and reclaim input VAT.
- **US$300m goodwill charge:** The objective of the US$300m goodwill charge is seen by Acacia as a resolution to the historical tax issues and the US$193bn tax assessment claim. This amount is envisaged to be paid over a multi-year period to avoid putting pressure on the balance sheet. A block of this sum is expected to be paid out of the concentrate proceeds once sold and the remaining balance is expected to be paid from future cash generation.
- **Concentrate ban:** The key objective here is to agree a protocol for the processing, valuation and sale of concentrates produced in Tanzania and to do so as soon as possible as this is in the interest of all parties involved. Acacia's management expect that the agreed process will be similar to the one already in place with the main goal being that the government gains confidence in its robustness.
- **Bulyanhulu:** Under the base case scenario, operations at Bulyanhulu will remain at reduced levels until the end of 2018 with a re-start scheduled in Q1/19. Acacia still considers this to be a high quality deposit and it is currently running feasibility studies to determine the optimal production scale (currently seen as ~250-350koz/yr), mining method and level of investment into the mine's development in order to achieve maximum returns.
- **Diversification and ring-fencing of the Tanzanian assets:** Acacia believes that if a sensible and sustainable agreement with the Tanzanian government is reached, the underlying business will continue to generate attractive returns for shareholders. Mr. Wray believes that the preferred way to realise value from diversification into other geographies (e.g. advanced exploration projects in Kenya, Burkina Faso, Mali) would be by retaining these assets within Acacia instead of launching them into a separate vehicle.

B2Gold

TSX: BTO; Outperform; C$5.00 Price Target

Clive Johnson, President & CEO

- **Philippines situation:** B2Gold believes that the Masbate operations meet high standards in terms of environmental impact and safety. The company sees other large base metals operators as being more exposed to intervention from the Philippine Mining Industry Coordinating Council.
- **Otjikoto and Fekola:** B2 places importance on conducting very detailed due diligence when it comes to building mines and leveraging their experienced construction team that has built their 5th mine to date. Contractors have not been hired in order to avoid difficulties in holding them accountable. The expected start of commercial production at Fekola has been brought forward from Q1/18 to Q4/17 and management is comfortable with the progress of the ramp-up given no delays have been encountered so far.
- **M&A options:** Management indicated that the key focus remains on extracting value from the existing portfolio including the potential expansion of Fekola as well as positive exploration results given B2's track record of low cost discoveries. The company confirmed that they are not looking into any serious M&A activity and expect to generate significant cash flows from ongoing ramp ups that are currently ahead of schedule.
- **Debt reduction:** Based on projected cash flows, management believes it will have significant flexibility in repaying the convertible notes. A revolving facility of up to US$500M increases flexibility and has been made available along with cash generated from operations.
- **Returning value to shareholders:** Management views B2 as primarily a growth company and that the preferred way to generate value for shareholders is through growth, specifically accretive acquisitions and exploration success. In view of the current debt levels and debt repayment options, the company said that dividends in 2019 might be appropriate and preferred over share buybacks.
- **Evaluation of non-core assets:** B2 indicated potential to divest assets that have been identified as non-core. At Limon, the current strategy is to evaluate options to extend the life of mine as resources indicate potential to extend the life by another two years and a higher grade open pit discovery has been encountered via drilling to date. An initial study has also indicated potential for reprocessing of historical tailings. Management however has not ruled out divestment in the future.
- **High-grade success at the Burkina Faso deposits:** Management is pleased with the positive exploration results at the Burkina Faso deposits including Toega, and expects to release the Initial resource assessment by the end of FY17 with average grades exceeding 2g/t.

Detour Gold

TSX: DGC; Sector Perform; C$20.00 Price Target

Paul Martin, President & CEO

- **Detour Lake tracking well with mine plan:** Operations at Detour Lake are tracking well with the expectations laid out in the updated mine plan earlier this year with the company on track to mine 100 Mt from the open-pit this year with further gains anticipated as additional equipment is delivered. The company noted that if it can continue to deliver on planned mining rates there is the potential to bring ounces forward from 2021 into 2020 which could help reduce the impact of lower anticipated production and lift free cash flow. The ability to materially accelerate the mine plan is unlikely given limitations around the amount of equipment operating in the pit until the Phase II lay-back is completed.

  In addition to optimizing the performance of the mine, the company continues to look at ways to improve productivity levels and utilization rates in the mill as well as continue to reduce unit costs. The company has also made a number of upgrades to the mine camp and improved its travel incentives in order to minimize workforce turnover as much as possible.
- **Progress being made on West Detour:** Detour has signed amended investment agreements with a number of its First Nations partners and is working towards an agreement with the Moose Cree. The company continues to have open dialog with its stakeholders and work with them to address concerns regarding water discharge and other aspects related to the nearby West Detour deposit. Detour reaffirmed it is committed to reaching alignment with local stakeholders on key elements.
- **Zone 58N still a few years off:** Management believes the high-grade 58N under-ground deposit could start production in 4-5 years based on permitting, need to drill-off from underground, and time to fully develop. The company expects it could cost roughly $50M to develop an exploration decline to efficiently drill off the deposit at depth.
- **M&A - not in a rush to acquire anything at this time:** Management's view is that paying a premium for something with weak paper makes no sense and is value destructive, especially just to diversify its portfolio. The company did note it would look at potential merger of equals if a transaction were to make sense for shareholders. In the view of management, Detour cannot remain a single asset company, but with a long life asset, the company has the ability to remain patient and not rush into a dilutive transaction.
- **Capital structure:** Management appeared quite comfortable with the current level of debt and once the company is through recapitalizing the mine they plan to direct excess free cash flow to reducing debt further. The company would also likely look at a dividend once the Phase II layback is complete and free cash flow from the mine materially improves post 2019/20.
- **Exploration to remain a focus:** Detour is likely to invest $10-15M annually in exploration. The primary focus on the main property is on the 58N Zone. The company continues to flush out other potential targets on the main property and expects to begin testing targets on the Burntbush property which was staked last year and is located about 70 km south of the mill.

Eldorado Gold

NYSE: EGO, TSX: ELD; Underperform; US$1.50 Price Target

George Burns, President & CEO

- **Progress at Lamaque:** Infrastructure at Lamaque is largely in place with upgrades to the existing mill scheduled. The company has successfully run samples through the mill (21 Kt at 7.1 g/t Au) and the resulting recoveries (95.5%) exceeded/met management expectations. The pre-feasibility study with initial reserve is scheduled for completion in Q1/18 and first production could come by the end of 2018. Management expects the asset to start generating free cash flow rather quickly after the start of production.
  Until recently, the focus at Lamaque was on in-fill drilling but rigs are now being moved to new targets on the broader land package. While mining deeper provides upside potential to extend Lamaque's mine life, new discoveries closer to surface could support higher production levels with excess capacity in the mill.
- **Olympias ramp-up continues:** Olympias is ramping up to commercial production this quarter. Permit to construct the paste back-fill plant has been received and development of the circuit should take pressure off the tailings filters and remove the current bottleneck. Eldorado expects the mill to achieve design levels in 2018.
- **Decision on mill at Kisladag still anticipated in early-2018:** Management is trying to determine whether the lower recoveries (40% versus 60%) from the open pit are the result of a temporary or permanent change in ore body at depth. The company is considering a number of processing options with the milling option indicating higher level of certainty in achieving 60 - 90% recoveries (mid-70% likely). A mill would cost US$300-400M and take 2 years to build after ~12 months of permitting. The company will weigh the economics of the mill with continuing to run the heap leach, depending on results of additional met-work.
- **Skouries remains on hold:** Eldorado has met with a number of key ministers in Greece and does not believe there are specific environmental issues and therefore sees opposition to the project as political in nature. The company has invested significant resources into the project and will reassess their strategy once permits have been received. The company also noted that the next government elections could result in a supportive government given the New Democracy party has publicly noted their support for Eldorado's projects throughout the country.
- **Investment priorities:** At present, the company's number one investment priority is Lamaque given relatively quick time-line to bring into production and ability to deliver free cash flow with a quick payback period. Assuming the investment climate in Greece does not materially improve, next priority would be Kisladag if a milling option is determined to be the best avenue forward. Skouries would be next on the list. However, the project could leap forward should the company see a material improvement politically given long life and low-cost nature.
- **M&A/Growth options**: Eldorado continues to consider acquisitions as a growth option but sees early discoveries and their development projects as the overriding growth strategy.

OceanaGold

TSX: OGC; ASX: OGC; Outperform; A$6.00 Price Target

Mick Wilkes, President & CEO

- **Focus on low cost, long life assets:** Management have grown the business with a focus on low cost, long life assets. With Haile now up and running and production expected to exceed 500 Koz, management is looking to reduce costs further. The long term target is to operate 5-6 quality assets.
- **Haile:** The Romarco transaction in 2015 was done in their view at the bottom of the cycle. The project was largely designed when acquired, and thus went into construction shortly afterwards. After a good start, there were some challenges with the CIL circuit, which impacted recoveries, but were resolved in August, and the mill is now meeting design throughput. There is potential to ramp up throughput further by 20 to 40% through small projects (US$20M for a pebble crusher to go above 3Mtpa, and US$50M in 2020 to take production up to 200 Koz/yr in 2021). On permitting, management feels confident around the process and the underground can be comfortably brought into full production by 2021.
- **Philippines:** Oceana has a high level of engagement with the government that they had not had previously. This has led them to feel encouraged by the actions and dialog with the Government. Underground operations at Didipio are on track to start next year with approximately $30M left to spend on the project.
- **Macraes:** The mine has 4.8 Moz in resources, and 1.2 Moz in reserve; Oceana is also looking for more deposits. Mine life here is out to 2021; barring any new discoveries, there is potential to access 1.5 Moz of gold which is currently sterilized by the plant location. However, this asset is not seen as a low cost, long life asset; it delivers stable production, but management questions whether this is an asset for the long-term.
- **Exploration:** Next year, Oceana will spend US$40M on exploration vs. US$35M this year. The company is also looking in Argentina, which is a new geography. There is further potential for brownfields exploration, highlighted by upside below the open pits at Haile, where Oceana is looking to extend the life through underground upside.

Yamana Gold

NYSE: AUY, TSX:YRI; Outperform; US$3.50 Price Target

Peter Marrone, Chairman & CEO

- **Operational performance expected to continue:** Yamana expects operational consistency to continue at its core operations. The operational improvements are a result of changes at the management level which saw technical services centralized and a number of personnel changes made. Productivity initiatives at Jacobina and El Penon have led to more sustainable and consistent operational results.
- **Cerro Moro on track for first output in 2018:** The high-grade project in Argentina remains on track for commissioning in Q1/18 and first production in Q2/18. The company expects a relatively quick ramp-up given throughput of 1,000 tpd and development work put in place on the mining side.
- **Balance sheet to improve with Cerro Moro:** Yamana remains comfortable with current balance sheet leverage and expects leverage to decline once Cerro Moro begins producing. The company also noted it expects to pull-back on growth capital post completion of Cerro Moro with growth capital of $50-75M starting in 2019.
- **Exploration could drive further upside at Chapada:** Exploration success has been solid at Chapada with a number of new discoveries made the last few years. The success is likely to support an extended mine life and potentially support increased production including near-pit and regional opportunities. The company plans to provide an update on potential opportunities early next year.
- **Project pipeline reduces the need for M&A:** External growth opportunities do not appear to be a real need for Yamana at this time with the company having a number of internal opportunities to provide near and longer term growth. Any external opportunities would need to compete against internal opportunities. One such organic project could be Monument Bay which the company now expects will become a mine in the future.
- **Looking to unlock value at Agua Rica:** The company is currently running a process at its Agua Rica project in Argentina to either divest the asset or bring in a new party to build the project while maintaining a minority stake. The company has spent a lot of time on two development options including a large open-pit and a smaller, more capital efficient underground operation.

Franco-Nevada

TSX/NYSE: FNV; Outperform; C$116.00 Price Target
David Harquail, CEO

- **Energy royalty acquisitions:** The typical royalty burden within the Permian Basin is 25%, and the size of the overall energy opportunity is bigger than the gold industry in terms of mineral rights owned by individuals. There are also significantly more opportunities in the US energy plays than in Canada. The company has invested $425M in energy royalties over the past year, within a potential budget of $1B, and Franco is still targeting to have at least 80% precious metals revenues in its overall portfolio.
- In terms of driving value in the energy business Franco focuses on top line Gross Overriding Royalties, versus net profits or participating joint ventures. Mr. Harquail believes that the market is looking at the energy royalty business more agnostically, and with the royalty business trading at twice the multiples of a typical E&P company, he believes that the market is paying a premium for royalties given the reduced operating and capital risk.
- **Capital allocation:** There are mining royalty and streaming assets available and Franco continues to review opportunities. The company is not expecting to increase dividends significantly once the free cash flow improves after the Cobre Panama funding commitment has been met. However, the board is expected to continue its existing dividend policy of a progressive and sustained pay-out. Given the amount of generalist investors in the stock, management believes that it needs to ensure that the yield is comparable to the S&P 500 yield of ~2%.
- **Financing and the balance sheet:** Franco looks to invest counter cyclically, when commodity prices are weak, and mining companies are seeking alternative means of financing. The company also seeks to maintain a strong balance sheet with little or no debt, which enables it to acquire assets in a commodity price downturn. FNV believes that the right time for debt is at the bottom of the market, when assets are distressed and it can step in. In terms of raising equity, again, the company is counter cyclical. It has historically sought to raise equity when the stock is 40-50% higher than the last time it raised equity, however it is uncertain whether this is a sustainable practice.
- **Diversified asset base:** Franco seeks to run its asset base as a diversified portfolio and does not want to have a disproportionally too great a concentration of revenue from one or two assets within the portfolio. As an example, Franco recently syndicated one third of its additional Cobre Panama stream acquisition to CEF Holdings Limited, which reduced the overall exposure of the Cobre Panama stream in Franco’s portfolio (RBC estimate 11% of NAV).

Wheaton Precious Metals

NYSE/TSX: WPM; Outperform; US$25.00 Price Target

Randy Smallwood, President and CEO

- **Opportunity pipeline remains healthy:** Wheaton feels the opportunity set is shifting with new streams likely to be to support growth projects versus the previous phase of streams motivated by balance sheet repair. Wheaton still believes the best place for streams is on base metal mines where gold and silver are by-products. Wheaton has looked at a number of royalty packages, but was not as interested given a higher proportion of base metal revenues. The company plans to remain 100% precious metal focused.
- **Syndication not required:** The company does not see a real need for syndication with an existing company or financial player. It would be open to discussing if another company wanted to syndicate their existing assets but does not appear to see a need for syndication on new opportunities.
- **Process for San Dimas ongoing:** The company noted Primero continues to review strategic opportunities and that any solution is likely to result in a reduced stream. Wheaton noted the current stream is too large for San Dimas, is willing to reduce the economic impact by 70% and would like to spread across both gold and silver in order to ensure silver-rich zones are developed. Wheaton appears to be willing to provide an extension on its guarantee of Primero's line of credit if a deal is close at hand. Primero noted in its Q3/17 report that it "has received proposals from interested parties regarding a potential acquisition of the San Dimas operation" and "Discussions are now focused on the distribution of potential proceeds among stakeholders".
- **No change on status of tax dispute:** Wheaton is deep in the discovery process which it expects to conclude shortly. If the case were to proceed to the Tax Court of Canada, the case could be first heard by late-2018 with a verdict potentially by late-2019. The company reiterated the confidence in the tax structure of its non-Canadian based streams.
- **Upbeat around prospects at Salobo:** Vale is studying a third phase of expansion at the asset and has resumed drilling targeting extensions of the large ore body at depth. Once the ore body has been fully defined, a new plan to take the asset forward is expected by the end of 2018 which could see Wheaton benefit from further production upside.
- **Dividend expected to grow as opportunities are flushed out:** Wheaton sees potential to reach a 70-80% payout ratio on cash flow over time (versus the current level of 30%) as the company noted it remains in a growth phase. Current capital allocation plans are first geared towards adding new growth opportunities, reducing debt and then paying dividends.

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Companies mentioned

Acacia Mining plc (LSE: ACA.LN; GBp176.20; Sector Perform; Speculative Risk)
Agnico Eagle Mines Limited (NYSE: AEM; $44.60; Sector Perform)
B2Gold Corp (TSX: BTO.TO; C$3.51; Outperform)
Barrick Gold Corporation (NYSE: ABX; $14.07; Sector Perform)
Detour Gold Corporation (TSX: DGC.TO; C$13.85; Sector Perform)
Eldorado Gold Corporation (NYSE: EGO; $1.26; Underperform)
Franco-Nevada Corporation (TSX: FNV.TO; C$107.71; Outperform)
Kinross Gold Corporation (NYSE: KGC; $4.33; Outperform)
OceanaGold Corporation (ASX: OGC.AX; AUD3.59; Outperform)
Polymetal International PLC (LSE: POLY LN; GBp875.00; Sector Perform)
Randgold Resources Limited (LSE: RRS.L; GBp7,075.00; Underperform)
Sibanye Gold Limited (JSE: SGL SJ; ZAc1,844.00; Sector Perform)
Wheaton Precious Metals Corp. (NYSE: WPM US; $20.92; Outperform)
Yamana Gold Inc. (NYSE: AUY; $2.74; Outperform)

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