Mining Journal online, November 25

http://www.mining-journal.com/services-top-articles/is-mainstream-finance-the-new-alternative/

Is mainstream finance the new alternative?

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As we begin to measure the commodity price slump in years and challenging financing conditions continue for mining companies, it is worth taking stock of the mine financing transactions being completed in the sector. There are a number of key themes unfolding here.

Pretium Resources recently completed a US$450 million financing of its Brucejack gold project in British Columbia

Creative and more complex – but there for the right projects

Financing remains available for high quality projects in lower risk jurisdictions where the investors and the developer/operator are willing to be creative and use the complete tool box to assemble a package.

By way of example, Pretium Resources recently completed a US$450 million financing with Orion Mine Finance and Blackstone Tactical Opportunities to fund the construction of Pretium's Brucejack gold mine. Brucejack is located in northern British Columbia, Canada and is considered a high grade resource that was in advanced development stages prior to completing the financing.

This transaction highlights the complexity and creativity required to complete project financing in the current environment. Unlike in the commodity boom period when companies could more easily obtain financing from the capital markets and conventional project finance lenders, the current financing transactions tend to be more complex, involve multiple instruments and often multiple investors, each subscribing for different components of the overall financing.

The Pretium financing involved a US$150 million gold and silver stream, a US$350 million credit facility and a US$40 million private placement of common shares. In addition, the parties entered into a gold offtake agreement for a portion of the ongoing gold production. In transactions of this nature, ensuring appropriate structuring and interaction of the different financing components and related agreements (including complex inter-creditor arrangements) are critical to the execution of a successful transaction.

The funding for Noront's acquisition of Cliffs Natural Resources' Ring of Fire assets earlier this year is an example of innovative financing for a promising early stage group of assets.

The assets included world-class chromite deposits and allowed Noront to consolidate the major discoveries to date in that highly prospective region. The acquisition was entirely funded by a unique US$28.5 million combination loan and royalty financing package provided by Franco-Nevada.

Streaming evolution continues

Another key theme is the ongoing evolution of streaming as a financing tool from both a quantitative perspective in terms of the number and size of transactions and a qualitative perspective in terms of the evolving terms of the transactions.

Streams as alternatives to asset sales

In prior years, most streaming transactions were aimed at assisting companies finance construction of new projects. In 2015 the bulk have been on tier one producing assets to facilitate urgently needed debt reduction by some of the major global miners – in many cases as an alternative to outright assets sales. Vale, Glencore, Barrick Gold and Teck Resources have this year sold streams worth more than US$3.5 billion in aggregate to the leading streamers including Franco-Nevada, Royal Gold and Silver Wheaton.

The sales of streams by Teck and Glencore on their respective shares of the silver production from the Antamina mine in Peru are good examples of this pattern.

In Teck's case, it sold Franco-Nevada the future silver production from its interest in the Antamina mine for US$610 million. Glencore sold a similar stream on its share of silver production from the Antamina mine to Silver Wheaton for US$900 million.

One of the key requirements for these deals, aimed at reducing their debt positions, was to ensure the streams were not treated as debt by rating agencies. Certain key features of the traditional structure of streaming transactions had to be adapted for this purpose – including foregoing the security interests traditionally granted over the assets and project ownership interests by the mining company.

Tailoring to fit the parties

As streaming transactions become more prevalent, they are increasingly being tailored to align with the nature of the project being financed and needs of the transaction parties. The Pretium stream described above is not a by-product commodity sale, but the main commodity at the mine. In addition, in the Pretium case the stream can be repurchased or reduced by the gold developer under certain conditions for a negotiated settlement payment, adding to the flexibility of the structure for Pretium while protecting the financial investment of the investors.

Recent transactions have also included some of the following features:

- A combination of fixed and floating delivery schedules
- The linkage of streamed precious metals deliveries to underlying base metal production
- Multiple buyers and third party information/paying agents and security trustees involved in syndicated stream arrangements
- Coverage of new products, such as diamonds (Stornoway Diamond)
- The use of 'early deposit' stream structures to fund pre-development stage projects.

Entry of new participants

In 2014, Orion and La Caisse de depot et placement du Quebec (La Caisse) combined to provide C$250 million (US$188 million) stream as part of the financing for Stornoway's Renard diamond project in Quebec. The Stornoway stream was subsequently further syndicated through a secondary sale of an interest in that stream to a Blackstone affiliate. That stream agreement was structured to permit subsequent syndication through the use of third party information/paying agents and security trustees.

La Caisse's and Blackstone's participation in transactions like Stornoway and Pretium evidences a further trend which is the entry of new participants. The major royalty and streaming companies continue to be the primary players in the area of stream and royalty finance, however, we are seeing increasing interest in the space from new participants such as major pension funds and traditional and mining-focused private equity funds.

As challenging commodity price conditions persist, creative and complex financing solutions will continue to draw new investors and play a key role in supplying capital to deserving projects throughout the mining sector.

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