

# OceanaGold hits headwinds in the Philippines

OCEANAGOLD From 9

report and in our case, there was nothing in it that was a violation of environmental law, or a violation or a breach of any law whatsoever. It was a clean audit."

What the report on OceanaGold recommended, he says, was that the company should broaden its communication program with communities farther away from the mine, beyond the 11 communities living closest to the mine.

"They wanted us to cast a wider net and educate those communities about what mining is," he says, "and there was not any reason to suspend our operation. Nobody heard anything for the rest of the year until the announcement on Feb. 2, when Secretary Lopez held another press conference and announced that 13 mining operations would be recommended for closure and five operations recommended for suspension."

But President Duterte, along with the country's finance secretary, subsequently weighed in and the Mining Industry Coordinating Council, which is cochaired by the finance secretary and Secretary Lopez, passed a resolution on Feb. 9, stating that they would take a step back and review the entire mining audit and determine whether due process was followed, Pazuki says.

"Keep in mind that the Philippines has a strong constitution, their legal system was adopted from the U.S., and the rule of law is strongly applied there," Pazuki says. "Following due process isn't optional, it's mandatory, and if there's any politician who breaks away from

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**SAM PAZUKI**  
DIRECTOR OF INVESTOR RELATIONS,  
OCEANAGOLD

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Pazuki notes that as in the U.S., presidential appointments like Secretary Lopez must be approved in a confirmation process and vetted through the Commission of Appointments. Lopez's second hearing is scheduled for March 1.

"There are three possible outcomes: One, she gets rejected; two, she gets confirmed; or three, she gets bypassed again," Pazuki says. "There are 24 votes and a tiebreaker vote, so to get confirmed you need 12 plus one. If one person abstains, it's a bypass. If her nomination is bypassed a second time, it's sent back to the president and he can either reappoint her and go through the confirmation process again, or appoint someone else."

Pazuki notes that on Lopez's most



The Philippines President Rodrigo Duterte (right) speaks with Natural Resources Secretary Regina Lopez before a meeting in February. THE PHILIPPINES PRESIDENTIAL COMMUNICATIONS OPERATIONS OFFICE

recent list of 75 mining projects she wants to cancel, unveiled on Valentine's Day, two are owned by wealthy local families, like hers, which owns ABS-CBN, the country's largest media company.

One is Tampakan, the country's largest undeveloped copper-gold project, and the other is King-king.

"Tampakan is owned by two of the wealthiest families in the Philippines — it was previously owned by Glencore and then purchased by these two families for US\$600 million in cash about 18 months ago," Pazuki says. "The King-king copper-gold project is also owned by one of the wealthiest families in the country."

"We'll have to wait and see what happens in terms of her confirmation hearings, but it certainly has caused a stir for the mining sector

and the whole country."

OceanaGold's troubles in the Philippines underscore the benefit of diversifying political risk across jurisdictions. In addition to the Philippines and the U.S., the company has gold mines in New Zealand.

Last year the company produced a total of 416,741 oz. gold and 21,123 tonnes copper. Of that, 147,150 oz. gold and all of its copper were produced in the Philippines at Didipio, while in New Zealand, OceanaGold's Macraes and Reefton mines on the South Island contributed 153,563 oz. gold, and Waihi on the North Island produced 116,028 oz. gold.

Consolidated all-in sustaining costs (AISCs) for 2016 came in at US\$708 per oz. sold and cash costs were US\$452 per oz. sold.

For all of 2016, OceanaGold reported a record revenue of US\$629 million and net profit of US\$137 million, including US\$147 million in revenue and US\$23 million in net profit during the fourth quarter. The company declared a semi-annual dividend of US1¢, compared to a previous annual dividend of US2¢.

On Jan. 30, before news of the suspension order at Didipio, the company reported 2017 guidance of between 550,000 and 610,000 oz. gold at AISCs of US\$600 to US\$650 per oz. sold.

In a research note after news of the Didipio suspension, Brian Quast of BMO Capital Markets said his target price on the company of \$4.50 per share was based on "a blending of the following two scenarios: 1) a \$3 target price, assuming Didipio is permanently shut; and 2) a \$5 target price, assuming the mine continues to operate for the rest of its life."

At press time, OceanaGold's shares traded at \$4.06 apiece within a 52-week trading range of \$3.24 to \$5.56.

Michael Gray of Macquarie noted in a commentary that Didipio represented 18% of the value of OceanaGold's mineral assets and that he expects the company is "capable of addressing the audit, with a focus on remedying agricultural impact issues."

The mining analyst also noted that the suspension "would be disruptive to thousands of locals who directly and indirectly are employed by the operation."

Gray estimates Didipio "will generate \$660 million of revenue sharing, taxes and royalties for the rest of its mine life." TNM



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