Aurora gold mine, Guyana

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28/10/2014

Guyana Goldfields closed and made a first draw on the $185 million construction debt financing for the construction of its Aurora gold mine in Guyana on 20 October. The mine is the subject of the first project financing in Guyana, and closes at a time when low prices are making conditions for natural resources producers very difficult.

The significance of the mine to Guyana is immense. When it enters operations, Aurora will be one of the largest single contributors to the country's tax base. But the financing also highlights some important shifts in both bank and non-bank lending patterns in emerging markets.

The Aurora project

Aurora is located 170km west of Guyana's capital Georgetown, in the north of the country. It sits on a measured and indicated resource of 6.54 million ounces, or 62.83 tonnes of ore with a grade of 3.24g per tonne. The site features an additional inferred resource (at a slightly higher grade of 3.34g per tonne) of 1.82 million ounces.

Guyana Goldfields has been operating in Guyana since 1996, focusing on exploring and developing on the Guyana Shield, a part of the northern Amazon craton that covers parts of Guyana, Venezuela, Suriname, French Guyana and northern Brazil.

The Aurora mine is the developer's main prospect, and the developer hopes that Aurora will produce a total of 3.29 million ounces over its 17-year mine life. It has produced estimates saying that the mine will have a cash operating cost of $527 per ounce.

The Aurora project economics

Low cash operating costs are key for successful mining developers, because the per ounce gold price has fallen from around $1,790 in November 2012 to closer to $1,200 today. Banks have in turn demanded that producers sell forward more of their production at a fixed price to hedge against further falls.

Until recently, as the gold price edged ever higher, mine developers had become used to persuading banks to dispense with hedging requirements. Banks are again able to insist on hedges – and well placed to benefit from the fees for providing those hedges.

Guyana Goldfields' big achievement has been to persuade lenders to dispense with hedging on the mine's output, and to avoid having to sell forward any of its output to third-party stream providers. During periods of low prices, stream providers can get access to a share of mines' future production at a deep discount.

But Toronto-listed Guyana Goldfields had less success in protecting itself against rises in construction costs. The developer had hoped to build the mine at a capital cost of $205 million.

In December 2013, however, it awarded a $137 million engineering, procurement and construction contract for a $249 million mine to a joint venture of Sedgman and Graña y Montero. With financing costs and overhead the cost of the project was $277 million, though by the time of the EPC award Guyana Goldfields had already spent $11 million on the property.

Equity and new debt sources

The developer had already, in November 2013, named the International Finance Corporation lead arranger of $165 million debt facility, of which $40 million was set aside to meet potential cost overruns. After the increase in costs, Guyana Goldfields increased the size of the senior debt package to $185 million, but only $25 million of that was reserved to meet cost overruns.

The IFC mandate originally covered a contribution of $65 million, but in the end it was able to provide $45 million on its own account, and $33.6 million through its managed co-lending portfolio programme. The IFC was already an early-stage equity investor in the developer, after first making an investment in Guyana Goldfields eight years ago, though its largest two shareholders are hedge fund Baupost and Franklin Templeton.

The funding for the co-lending programme comes from China’s State Administration of Foreign Exchange, under a $3 billion pilot commitment, though the IFC hopes that other institutional investors and sovereign wealth funds will also join. The programme is designed to make it easier for these institutions to gain exposure to emerging markets infrastructure by outsourcing origination and due diligence to the IFC, and leaving it as lender of record.

Following May credit approvals from the IFC, Export Development Canada, ING, Caterpillar Financial, and Scotiabank, the sponsor’s main task before closing the debt was to raise additional equity. In early June it launched a C$37 million placement of 20 million Guyana Goldfields shares at C$1.85 each. By 26 June demand was sufficient at that price for it to issue 24 million in shares, for proceeds of C$44 million.

The banks signed a common terms agreement on 3 September, and closed on the debt financing on 20 October. The $160 million in term debt carries weighted average pricing of 511bp over three-month Libor, while the cost overrun debt would be priced at 561bp.

Less lucrative, still influential

The cost increase at Aurora means than the mine will not be as profitable as Guyana Goldfields estimated in 2013. With an unchanged base gold price assumption of $1,300 per ounce and an unchanged discount rate of 5%, the pre-tax net present value and after tax internal rate of return have decreased from $1.2 billion to $735 million respectively and 38% to 31%

But the developer’s ability to combine debt from two commercial banks, one equipment supplier, one export credit agency, one development finance lender, and one sovereign wealth fund bodes well for emerging markets resources financings. Several corners of global markets gained exposure to Guyana’s debut deal.

The sponsor's advisers on the financing were:

- Endeavour Financial (Financial adviser)
- Cassels Brock & Blackwell (Ontario legal counsel)
- Allen & Overy (US legal counsel)
- Harridyal-Sodha & Associates (Barbados legal counsel)
- Luckhoo & Luckhoo (Guyanese legal counsel).

The lenders' advisers were:

- Shearman & Sterling (US legal counsel)
- Stikeman Elliott (Ontario legal counsel)

- Hughes, Fields & Stoby (Guyanese legal counsel)
- Clarke Gittens Farmer (Barbados legal counsel)
- JLT (Insurance adviser)
- Roscoe Postle (Independent engineer)
- Golder (Environmental and social consultants)