

# Aura Minerals – Minority Shareholder Concerns & How to Maximize Value for All Shareholders

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# Executive Summary

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*Honest and open communication should be the best approach to maximizing the value of any undervalued public company...*

- **Part I: Economic earnings and intrinsic valuation**

- What are the true economic earnings of Aura?
- How should those earnings be valued?
- What is the market saying about Aura's valuation?
- Economic earnings and valuation conclusions

- **Part II: Minority shareholder concerns**

- How does the company respond to each of these concerns / misperceptions?
- What can be done to permanently remove these concerns / misperceptions?
- How can Aura (re)build its presence in the capital markets?

- **Part III: Shareholder recommendations**

# Economic Earnings & Intrinsic Valuation

## Aura Minerals - Economic Earnings

|                            |           | <u>Low</u> | <u>Mid</u> | <u>High</u> |
|----------------------------|-----------|------------|------------|-------------|
| San Andres gold production | (Oz)      | 82,500     | 85,000     | 92,500      |
| Average gold price         | (\$ / oz) | \$1,150    | \$1,250    | \$1,325     |
| Average cash cost          | (\$ / oz) | (\$825)    | (\$800)    | (\$750)     |
| Annual cash margin         | (\$ / oz) | \$325      | \$450      | \$575       |

|   |           |                 |                  |                  |
|---|-----------|-----------------|------------------|------------------|
| Annual cash margin                          | (\$ 000s) | \$ 26,813       | \$ 38,250        | \$ 53,188        |
| Less: D&A / sustaining capital              |           | (8,000)         | (10,000)         | (10,000)         |
| Pre-tax unlevered cash earnings             |           | \$ 18,813       | \$ 28,250        | \$ 43,188        |
| Less: Taxes (25%)                           |           | (4,703)         | (7,063)          | (10,797)         |
| Less: Honduras withholdings (10%)           |           | (1,411)         | (2,119)          | (3,239)          |
| Less: G&A (All offices ex. severance costs) |           | (3,500)         | (4,500)          | (5,000)          |
| Less: Copper care & maintenance             |           | (2,750)         | (3,000)          | (3,250)          |
| <b>Total economic earnings</b>              | (\$ 000s) | <b>\$ 6,448</b> | <b>\$ 11,569</b> | <b>\$ 20,902</b> |

## Aura Minerals - Economic Valuation

|   |                   | <u>Low</u>       | <u>Mid</u>        | <u>High</u>       |
|---|-------------------|------------------|-------------------|-------------------|
| Average gold price                        | (\$ / oz)         | \$1,150          | \$1,250           | \$1,325           |
| Total economic earnings                   | (\$ 000s)         | \$ 6,448         | \$ 11,569         | \$ 20,902         |
| Mine life                                 | (yrs)             | 10.0             | 10.0              | 10.0              |
| Total gold recovered                      | (k oz)            | 825              | 850               | 925               |
| Discount rate                             | (%)               | 8.0%             | 8.0%              | 8.0%              |
| NAV                                       | (\$ 000s)         | \$ 43,270        | \$ 77,627         | \$ 140,251        |
| Add: 2016 ending net cash                 | (\$ 000s)         | 10,000           | 15,000            | 20,000            |
| Less: Gold "prepayment"                   | (\$ 000s)         | (1,300)          | (2,000)           | (2,500)           |
| <b>Equity value</b>                       | <b>(\$ 000s)</b>  | <b>\$ 51,970</b> | <b>\$ 90,627</b>  | <b>\$ 157,751</b> |
| FX  | (CAD/USD)         | 0.75             | 0.75              | 0.75              |
| <b>Equity value</b>                       | <b>(C\$ 000s)</b> | <b>\$ 69,293</b> | <b>\$ 120,836</b> | <b>\$ 210,335</b> |
| <b>Equity value</b>                       | <b>(C\$ / sh)</b> | <b>\$0.243</b>   | <b>\$0.424</b>    | <b>\$0.738</b>    |
| Simple average NAVPS                      |                   | <b>\$0.468</b>   | P / NAV           | <b>0.44x</b>      |
| Simple avg. NAVPS ex Copper care & maint. |                   | <b>\$0.563</b>   | EV / Resource     | <b>\$76.06</b>    |

- Aura's economic earnings are derived from just one asset
  - Low cash cost operations must support ~\$120/oz of sustaining capital + ~\$85/oz of G&A (including care & maintenance of Serrote and Aranzazu development projects)
- Unlevered economic earnings demonstrate significant operating leverage to relatively small variations in gold price
  - Suggests a target capital structure of nil debt
- Intrinsic value > 2.0x the public market value of Aura's common equity, even when economic earnings are burdened with corporate G&A (including the care & maintenance costs of Serrote and Aranzazu development projects)
- Traditional "gold discount rate" of 5% yields a ~10% increase in NAV across scenarios
  - Low case assuming \$800 cash costs = 0.77x P/NAV
- Assumes no tax shield and zero "option" value for EPP, Aranzazu or Serrote
- Implication is that equity value of common shares is worth >2.0x the market price without pursuing any further development activities

Note: Resource estimate for San Andres based on 2015 AIF. EV/Resource based on average NAV.

# What the Market Valuation Says About Aura

## Aura Minerals - Economic Valuation

|   |                   | <u>Low</u>       | <u>Mid</u>       | <u>High</u>       |
|---|-------------------|------------------|------------------|-------------------|
| Average gold price                        | (\$ / oz)         | \$1,150          | \$1,250          | \$1,325           |
| Total economic earnings                   | (\$ 000s)         | \$ 6,448         | \$ 11,569        | \$ 20,902         |
| Mine life                                 | (yrs)             | 10.0             | 10.0             | 10.0              |
| Total gold recovered                      | (k oz)            | 825              | 850              | 925               |
| Discount rate                             | (%)               | <b>25.0%</b>     | <b>25.0%</b>     | <b>25.0%</b>      |
| NAV                                       | (\$ 000s)         | \$ 23,024        | \$ 41,306        | \$ 74,629         |
| Add: 2016 ending net cash                 | (\$ 000s)         | 10,000           | 15,000           | 20,000            |
| Less: Gold "prepayment"                   | (\$ 000s)         | (1,300)          | (2,000)          | (2,500)           |
| <b>Equity value</b>                       | <b>(\$ 000s)</b>  | <b>\$ 31,724</b> | <b>\$ 54,306</b> | <b>\$ 92,129</b>  |
| FX  | (CAD/USD)         | 0.75             | 0.75             | 0.75              |
| <b>Equity value</b>                       | <b>(C\$ 000s)</b> | <b>\$ 42,299</b> | <b>\$ 72,408</b> | <b>\$ 122,839</b> |
| <b>Equity value</b>                       | <b>(C\$ / sh)</b> | <b>\$0.148</b>   | <b>\$0.254</b>   | <b>\$0.431</b>    |
| Simple average NAVPS                      |                   | <b>\$0.278</b>   | P / NAV<br>EV /  | <b>0.74x</b>      |
| Simple avg. NAVPS ex Copper care & maint. |                   | <b>\$0.328</b>   | Resource         | <b>\$45.12</b>    |

## ■ Key questions:

### i. Why is Aura taking on any new debt?

### ii. Why is >20% Sr. Sec the only debt available?

### iii. What is the right discount rate for San Andres' cash flows?

### iv. How much Aura reinvestment risk is being captured in the market-implied discount rate?

### v. What are the capital allocation implications?

- If economic earning assumptions are *approximately* correct, then what is the market saying about Aura?
- Not only are shares pricing in zero value for EPP, Serrote and Aranzazu, but either:
  - Ascribing a negative option value to these assets; or
  - Discounting economic earnings at a much higher rate
- Assuming zero option value for other assets, the implied discount rate on fully burdened San Andres cash flows is ~25%
- Aura's financing decisions have *confirmed* that this is perhaps the correct discount rate

|                            | <b>Gold Loan<br/>3</b> | <b>Gold Loan<br/>2</b> | <b>Gold Loan<br/>1</b> |
|----------------------------|------------------------|------------------------|------------------------|
| Announcement Date          | 2-Mar-16               | 2-Dec-14               | 17-Mar-14              |
| Gold price at announcement | \$1,240                | \$1,207                | \$1,373                |
| Weekly delivery (ozs)      | 176.5                  | 305.0                  | 458.0                  |
| Weekly payments (\$000s)   | \$ 218.86              | \$ 368.28              | \$ 628.83              |
| Term (weeks)               | 68.0                   | 50.0                   | 40.0                   |
| Total payments (\$000s)    | \$ 14,882              | \$ 18,414              | \$ 25,153              |
| Upfront proceeds (\$000s)  | \$ 12,325              | \$ 15,500              | \$ 22,500              |
| Total interest (\$000s)    | \$ 2,557               | \$ 2,914               | \$ 2,653               |
| Basic cost of financing    | 20.8%                  | 18.8%                  | 11.8%                  |
| Adj. cost of financing     | <b>14.4%</b>           | <b>17.9%</b>           | <b>14.5%</b>           |
| Weekly IRR to borrower     | <b>29.4%</b>           | <b>36.3%</b>           | 28.9%                  |

Note: Resource estimate for San Andres based on 2015 AIF. EV/Resource based on average NAV.

# Intrinsic vs. Market Valuation Implications

## 1) Aura's optimal capital structure contains zero debt

- One of the most painful lessons for resource issuers and investors in recent years has been that resource companies incapable of controlling the price of the commodities they produce should have an all equity capital structure
  - In the case of Aura, this should extend to gold loans *and* project financing

## 2) At 25% cost of capital, ORA needs to double every three years to create economic value

- What evidence was relied on to suggest that \$1 spent on EPP, Serrote and/or Aranzazu would be worth \$2 in three years?
  - Capital spent in the past 2-3 years - just to keep option value of copper assets alive - would need to be worth the current equity value of Aura to justify the investment...

|                                      | <b>Quantum</b><br><b>(\$000s)</b> | <b>Time</b><br><b>(yrs)</b> | <b>TEV</b><br><b>(\$000s)</b> | <b>Time</b><br><b>(yrs)</b> | <b>TEV</b><br><b>(\$000s)</b> |
|--------------------------------------|-----------------------------------|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
| Itau loan                            | \$ 10,954                         | 2.0                         | \$ 17,115                     | 3.0                         | \$ 21,394                     |
| Auramet gold loans #2,3 interest     | \$ 5,630                          | 2.0                         | \$ 8,796                      | 3.0                         | \$ 10,995                     |
| 2015 private placement               | \$ 5,000                          | 2.0                         | \$ 7,813                      | 3.0                         | \$ 9,766                      |
| Feasibility studies                  | \$ 2,000                          | 2.0                         | \$ 3,125                      | 3.0                         | \$ 3,906                      |
| Care & maintenance                   | \$ 2,500                          | 2.0                         | \$ 3,906                      | 3.0                         | \$ 4,883                      |
| <b>Total other asset investments</b> | <b>\$ 26,084</b>                  |                             | <b>\$ 40,755</b>              |                             | <b>\$ 50,944</b>              |
| Value of other assets                | (C\$ 000s)                        |                             | \$ 54,341                     |                             | \$ 67,926                     |
| Value of other assets                | (C\$/share)                       |                             | <b>\$0.191</b>                |                             | <b>\$0.238</b>                |

# Minority Shareholder Concerns

*Independent minority shareholders have expressed concerns that may be a case of perception vs. reality. All parties should benefit from clarification.*

| Issue | Minority shareholder perspective  | Reality |
|-------|---|---------|
| 1     | <b>Limited disclosure</b><br>No quarterly calls; corporate presentation is relatively weak and updated infrequently; modus operandi could be perceived to be one that restricts information rather than promoting it)   | ?       |
| 2     | <b>Asymmetric information</b><br>Management and Board members have frequent conversations with the major shareholder who has, on occasion, appeared to possess more intimate knowledge of Aura's operations and financial position than other shareholders; identity of recent private placement investor remains anonymous but he/she is believed to be an acquaintance of the Company's major shareholder | ?       |
| 3     | <b>Uneconomic decisions</b><br>Funding of copper projects in the absence of feasibility studies / evidence supporting their value; unwillingness to negotiate or abandon Itau loan on Serrote copper project despite being non-recourse; using cash flows from operating assets to fund non-recourse loan repayment; repaying non-recourse low-cost debt with fully secured high-cost debt                  | ?       |
| 4     | <b>Misaligned shareholder interests</b><br>Company's major shareholder has a personal banking relationship with Itau; unclear what economic benefit the major shareholder and private placement investor are receiving; Aura has turned to ~20% secured loans on three occasions in two years...no clear rationale provided   | ?       |
| 5     | <b>Governance</b><br>Major shareholder(s) may be exerting significant influence on the Board / Company; the major shareholder seems to have a personal relationship with CEO, Chairman and other Board members; minority shareholders at risk of being adversely affected by decisions of the Board that benefit the major shareholder at the expense of minority shareholders                              | ?       |

# Cash, Cash flow and Relative Valuation

- Alternative approach to intrinsic valuation
- A significant number of TSX-listed issuers provide this type of valuation overview
  - Isolates variables that the Company can not control (price and to a lesser degree, production) from those that they can (costs and capital allocation)

|                |               | 2016       |             | 2017       |             | 2018       |             |
|----------------|---------------|------------|-------------|------------|-------------|------------|-------------|
|                |               | <u>Low</u> | <u>High</u> | <u>Low</u> | <u>High</u> | <u>Low</u> | <u>High</u> |
| Production     | (Oz)          | 130,000    | 140,000     | 82,500     | 92,500      | 82,500     | 92,500      |
| Au price       | (\$ / oz)     | \$1,150    | \$1,275     | \$1,150    | \$1,275     | \$1,150    | \$1,275     |
| Cash cost      | (\$ / oz)     | \$775      | \$725       | \$825      | \$750       | \$825      | \$750       |
| EBITDA         | (\$ 000s)     | \$ 40,500  | \$ 68,750   | \$ 18,563  | \$ 40,313   | \$ 18,563  | \$ 40,313   |
| FCF            | (\$ 000s)     | 19,575     | 38,644      | 4,767      | 19,448      | 4,767      | 19,448      |
| Net cash       | (\$ 000s)     | 8,700      | 13,000      | 13,467     | 32,448      | 18,234     | 51,897      |
| Mkt Cap        | (C\$ 000s)    | \$ 62,700  | \$ 62,700   | \$ 62,700  | \$ 62,700   | \$ 62,700  | \$ 62,700   |
| TEV            | (C\$ 000s)    | 54,000     | 49,700      | 49,233     | 30,252      | 44,466     | 10,803      |
| EV / EBITDA    |               | 1.33x      | 0.72x       | 2.65x      | 0.75x       | 2.40x      | 0.27x       |
| FCF Yield      |               | 36.3%      | 77.8%       | 9.7%       | 64.3%       | 10.7%      | 180.0%      |
| Net cash       | (C\$ / share) | \$0.04     | \$0.06      | \$0.06     | \$0.15      | \$0.09     | \$0.24      |
| Free cash flow | (C\$ / share) | \$0.09     | \$0.18      | \$0.02     | \$0.09      | \$0.02     | \$0.09      |

Note: EBITDA assumes cash margin less \$8,250 for G&A and copper asset care and maintenance for all years. Free cash flow based on EBITDA less \$11,500 D&A/sustaining capital for all years net of 25% corporate tax rate and 10% withholding tax. FCF yield equals FCF divided by total enterprise value.

# Investor Recommendations

## *Seven recommendations for the Board, as it considers options, to maximize the value for all shareholders*

- No more borrowing
  - Optimal capital structure = zero debt
  - Not even project financing
- Appoint 1-2 new, independent Board members
- Buy back shares when it offers the best risk-adjusted RoC
  - For example, ~\$1m-\$3m cash balance set aside so as to be able to buy stock at 80% of spot NAV
- Introduce a dividend policy
  - Regular \$0.02 / share (~C\$6m appears supportable, even at \$1,150)
  - Alternatively, a special year-end dividend
- Establish firm hurdle rates for all projects / capital allocation decisions
- Re-engage market participants
  - Begin making more regular communications
  - Market to investors, analysts and corporate issuers
- If the above fails to narrow valuation gap, then engage a capital markets advisor to review strategic alternatives