

Lodgement of 'Company Interview'



'COMPANY INTERVIEW'-MARKET PROFESSIONALS

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**OceanaGold Corporation**

**Date of lodgement: 8/4/2015**

**TITLE: "Company Interview. Strong Outlook for 2015"**

**Highlights:**

- Explains record financials for 2014 - and should continue.
- Discusses dividend and the approach to dividends, repaying more debt and growth.
- Expects M&A activity in gold sector; also discusses Company growth strategy.
- Discusses extremely low cost operation at Didipio and plans for the underground.
- Expects copper price to continue to rebound due to supply constraints.
- Lower fuel price and NZ exchange rate significantly improves NZ operations.
- Outlines objectives at operations this year & recent site visits.

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**Record of interview:**

**Company Interview question:**

OceanaGold Corporation (TSX/ASX/NZX code: OGC; market cap of ~C\$800m) reported EBITDA of US\$239.8 million for the year ended 31 December 2014. Both revenue and net profit were records. You have one of the best operating cost profiles in the sector. What were the key drivers for your record numbers and strong performance in 2014?

**Managing Director & CEO, Mick Wilkes**

The first thing is the low cost and high grades of Didipio in the Philippines where we generate significant free cash flow. It's been a huge success for the Company and it continues to perform very well. The second thing is that all the people who work for the Company are extremely dedicated to the goals of the Company, one of which is to run our operations as efficiently as possible. This has flowed through to all operations including Didipio and will continue for future mines we develop.

**Company Interview question:**

You reported that over the last two years, you reduced your total debt by US\$150 million. How does this figure compare to what you had planned to repay?

**Managing Director & CEO, Mick Wilkes**

I've been telling the market for some time that we would be paying down quite a bit of debt and we would have paid down more if commodity prices had held up to where they were a couple of years ago. Even so, we're one of the few companies – not only in the gold sector, but the mining sector generally – who has been able to pay down significant debt from operating cash flow. It's a big change from around three years ago when we had about US\$270 million of debt.

**Company Interview question:**

You also increased cash by US\$26.4 million to US\$51.2 million and paid a dividend of US\$0.04 cents per common share or CHES Depository Interest (CDI). How is the dividend structured? Why did you decide on paying a dividend?

**Managing Director & CEO, Mick Wilkes**

I believe a dividend should be part of a well run business. We're endeavouring to build a leading gold mining company with robust assets with high margins and strong production levels. Now that we've paid down debt, we're in a position to pay dividends. We plan to maintain at least a US\$0.02 dividend over our current five year plan and should economic conditions improve and we don't plan to use our capital on other value-creating opportunities, then we could increase the dividend. So it's a flexible dividend policy and we want to send a message to the market that we want this to be part of our business model and that we expect to be giving returns to shareholders over the long term.

**Company Interview question:**

Presumably the dividend was a nice surprise for the investment community with yield stocks in vogue? In future, how will you balance the payment of dividends, repaying debt and investing in growth?

**Managing Director & CEO, Mick Wilkes**

Yes people were happy to see the dividend announced and recognising the success and profitability of the Company.

We're only paying a small percentage of free cash flow on dividends. We generated US\$106 million last year in free cash flow after growth capital. The dividends are only 12% of that figure so this level of dividend leaves plenty of scope for further increases.

**Company Interview question:**

With the A\$ gold price quite healthy, what's your view on potential M&A activity in the gold sector?

**Managing Director & CEO, Mick Wilkes**

Recent reports by market commentators are that the gold sector is poised for significant M&A activity. Everyone is aware that the gold sector has gone through challenging times over the past few years. So there has been a real focus to reduce costs and increase returns on invested capital. We are hearing messages from shareholders to look for consolidation to reduce risk and increase returns through synergies.

**Company Interview question:**

What is the Company's strategy for growth? Has this strategy changed over the last year?

**Managing Director & CEO, Mick Wilkes**

Our strategy hasn't changed for the last four years. We set out to build a mid tier multinational gold company with significant returns for shareholders. Our primary recent goals have been to

develop Didipio and pay down debt and we have successfully done both. We have a very robust business, one that we feel confident about and I believe we are well regarded in the market and the public generally.

Most importantly we have demonstrated to the market that maintaining discipline across our business including growth will enhance shareholder value and we will continue to do this.

**Company Interview question:**

Have you any plans to increase your revolving credit facility to provide more liquidity for a potential transaction?

**Managing Director & CEO, Mick Wilkes**

We put the banking syndicate in place a few years ago to provide us with the capital we need to grow – so they are on board in the journey. We have a very good relationship with our banks Barclays, BNP Paribas, Citibank, HSBC and Nedbank. Our first aim was to remove the convertible notes and replace it with the revolving credit facility which, as we've discussed, we've paid down significantly. The banks have all been very supportive so if there is a need to increase our facility I'm sure they will support it.

**Company Interview question:**

Didipio (Philippines – OGC 92%) remains one of the lowest cost gold mines globally, what are the main drivers for this low cost structure? Can you give an update on your plans for Didipio underground?

**Managing Director & CEO, Mick Wilkes**

It is high grade and also has low operating costs because of the low strip ratio and significant copper by-product credits. It's also a large ore body with dimensions of 150 metres by 100 metres and lends itself to low cost mining. So it has been a strong performer in these times of low gold prices.

The underground has always been part of our mining plans. Last year we ran geotechnical and resource drilling and engineering studies to get a better understanding of the nature of the ore body and developed an optimal mine plan. Now that we understand the ore body much better, we know the new plan will add considerable value.

We've reduced the size of the open pit by some 67 million tonnes and that means there are around US\$215 million in mining costs that we now don't have to spend between 2018 and 2020. We will now access the high grade core of the ore body by bringing in the underground earlier in late 2017. The underground will have two domains to enable us to access the high grade core. So it was a very positive result from the optimisation study on the underground. We'll spend around US\$116 million to the end of 2017 developing the underground mine. We'll start producing from the upper level of the underground in late 2017. At that stage the open pit would have been completed and we'll then be treating some 20 million tonnes of medium to low grade stockpiles to supplement ore from the new underground mine.

**Company Interview question:**

The copper price has come off considerably over the past several months. Copper is a very significant by-product credit at Didipio - how does this impact your bottom line?

**Managing Director & CEO, Mick Wilkes**

Last year the copper price averaged US\$3.11/pound and it fell to around US\$2.60/pound in January this year. That was a surprise because the supply/demand balance is expected to tighten

with a lack of supply moving into 2016. We don't believe that price is logical based on supply demand fundamentals. However, in the last few weeks the copper price has been trending back up again and I expect it won't be long before it's again over US\$3/pound and then moves considerably higher with the expected supply shortfall in 2016.

At Didipio, copper is a strong by-product for us. With a \$0.10/lb change in the copper price our AISC margin changes by \$40/oz at Didipio. This is based on a \$2.70/lb copper price. On the flip side, the fall in the oil price will save us around \$15 million a year between New Zealand and Didipio. Plus we've also benefited from the higher US dollar and lower NZ dollar.

A 10 cents per litre fall in the diesel price equates to a \$10/oz fall in New Zealand AISC margin. Plus a 1 cent fall in the New Zealand exchange rate equates to a fall in operating costs of \$15/oz for our NZ business. Last year the New Zealand exchange rate averaged US\$0.83 and this year US\$0.75 – so that means operating costs benefit by \$120/oz plus the savings from the lower diesel price. There are significant tail winds for us in New Zealand at present.

**Company Interview question:**

Have these changes to the cost base made you reconsider the future of the New Zealand operations?

**Managing Director & CEO, Mick Wilkes**

Yes. The New Zealand operations are looking a lot more healthy with the lower exchange rate and oil price. We've also had exploration success both at surface and underground. The underground is higher grade and that exploration will allow it to continue for another year. On surface we're looking for more resources, albeit low grade, between the pits we've mined over the last 24 years. It has a low strip ratio and we believe we can mine the open pits for many more years. At Macraes, we'll be mining for 3-5 years at 150,000 ounces per year from the open pit and underground which is a similar production level to today.

As previously announced Reefion will go on care and maintenance at the end of this year. The nature of the ore body means it will be difficult to mine the underground and an extension of the open pit would require a higher gold price. Notwithstanding, there is plenty of exploration potential and we will keep the plant in working order.

Blackwater is close by and we conducted a successful scoping study on that last year. We will evaluate different mining options this year to reduce the project risk. It is a project that could be brought into production at a relatively low cost.

The other growth opportunity in New Zealand is the gold with tungsten by-product project called Round Hill. We may reinvent Macraes as a gold/tungsten project as there are quite significant amounts of tungsten there. We're well advanced on the flow sheet and will be conducting a scoping study shortly. So Macraes could go for an additional 10-12 years after the current plant closes down. So that's exciting and we're in discussions with several tungsten off-takers. We're encouraged by those discussions.

**Company Interview question:**

What are the upcoming catalysts and major objectives at the operations this year?

**Managing Director & CEO, Mick Wilkes**

This year will look similar to last year in terms of cash flow generation. We've commenced the development of the underground portal at Didipio and we'll update the market on progress

throughout the year. We expect to connect to the grid in the third quarter this year and that will reduce our costs by US\$8-10 million a year. It's already a very low cost operation.

We expect some positive news from New Zealand at Macraes, from exploration and project development at Round Hill and Blackwater.

Very shortly, we will commence the geophysical survey of our Paco exploration tenements in the Philippines and plan on drilling there later this year. We will also continue drilling within the Didipio Mine area where we've recently had some drilling success.

**Company Interview question:**

What were the main points raised at the recent site visits to Didipio and Macraes? What was the reaction from trip participants – any areas of concerns raised?

**Managing Director & CEO, Mick Wilkes**

The reaction at both site visits was very positive. The participants were impressed by how well the operations were run. We're very proud of our employees because of their dedication to their tasks and to the Company.

The operations are going extremely well and we understand the risks and manage those well. The other thing that was apparent was the improved outlook at Macraes with the lower fuel price and exchange rate.

Finally, we discussed the significant exploration potential which exists at Didipio and in the Philippines generally. We've really only scratched the surface and we hope to announce positive results from our exploration programs this year.

**Company Interview:**

Thank you Mick.

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