Panel Discussion: country models that are working and why?

**Agenda**

- Why diamonds?
- Diamond production and sales
- What investors look for
- What explorers look for
- What governments look for
- Prospectivity and country risk
- Observations on funding
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Why diamonds?

- Powerful industry fundamentals
- Clear supply-demand gap emerging in medium term
- Demand shifting from historic consumer markets of US, Japan and Europe to China & India
- Marketing to Millennials a key growth driver

Source: Bain & Co, 2016
Why diamonds?

- No significant discoveries in last 10 years other than Karowe (Botswana, Lucara) and Luaxe (Angola, Alrosa)
- Long lead-time from discovery to production
- Combination of stable demand growth and significantly constrained supply should be a significant driver for diamond prices
- Rough diamond prices forecast to begin rising late in 2017
Diamond production and sales (2016)

- **Production**
  - Carats, m
  - Russia
    - 2016 total: 40.8
  - Botswana: 13.6
  - Congo: 16.0
  - Angola: 8.8
  - Namibia: 1.6
  - South Africa: 7.8
  - Zimbabwe: 2.6
  - Other: 0.7

- **Sales**
  - De Beers: $bn
  - ALROSA: $bn
  - Rio Tinto: $bn
  - Dominion Diamond: $bn
  - Petra Diamonds: $bn
  - Other: $bn

Source: Bain & Company

*Estimate
What investors look for

- Stable democracy
- Continued political stability
- Good governance
- Prudent economic and natural resource management
- High credit rating
- Consistent economic growth rates
- Security of investment
- Incentives for local investors (e.g. Canadian flow-through options)

Country risk map adapted from: Euler Hermes 2017
What explorers look for

- Diamond prospectivity
- Track record of economic production
- Security of tenure
- Transparent mining regulation
- Tax incentives for mining (e.g. SA)

Illustration of the tax incentive structure recently introduced to promote venture capital investments in South Africa

Source: Engineering News

Craton map modified after Campbell, 2003

Illustration of the tax incentive structure recently introduced to promote venture capital investments in South Africa

Source: GIA

CARAT WEIGHT BY COUNTRY/REGION

Source: GIA
What governments look for

- Revenue
- Job creation
- Community development
- Beneficiation
- Sustainability

Government share in mining revenues (2008)

Source: World Bank
Prospectivity and country attractiveness

Diamond prospectivity ranking*

Mining investment attractiveness**

Cumulative diamond production (2007-2016) for selected African countries***

*Author's own research
**Adapted from Fraser Institute, 2016
***Kimberley Process
Diamond explorers are typically small-cap juniors

Exploration spend is their lifeblood

No/little production cashflow to fund exploration activities

Equity financing is the juniors’ dominant source of funding (whereas the majority of mining debt financings are undertaken by large market cap companies)

Typically, juniors have to raise equity to fund their exploration/evaluation activities all the way to feasibility stage (whereas majors are able to self-fund this process)

Funding for early exploration typically comes from ‘friends & family’ and only once a resource is declared, then institutional funding possibly becomes available

Primarily funded through risk capital out of the UK, Canada and Australia

Juniors are subject to equal extent of onerous regulatory and reporting obligations

Local shareholding is politically important and often key to attracting committed, long-term investors