



COMMODITY PRICE RISK MANAGEMENT

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EXECUTIVE SUMMARY

- CPM Group brings clients independent, expert advice and market intelligence based on experience in the commodities markets extending back to 1986.
- As a non-dealer market participant, CPM Group aligns its interests with those of clients. CPM's advisory role is to seek to secure for clients the most effective and reasonable transactions to mitigate their commodity price risk exposure.
- Volatile commodity prices require detailed scenario planning to implement risk management programs. CPM structures unique methods to reduce exposure to commodity price fluctuations, typically with the risk involved minimized and pre-determined at the outset of the hedge.
- CPM Group's risk management advisory services serve a variety of commodity producers, processors, and consumers in many markets.
- Risk management services provided by CPM Group are delivered without limiting or tying client companies to a specific financial institution, an important distinction between CPM Group and other market participants.
- CPM Group's commodity price risk management team works closely with our investment banking and corporate advisory team, which possesses extensive experience negotiating credit facilities, trading lines, and banking relationships.

KEY TEAM MEMBERS

Commodity Price Risk Management

Mark Hansen, *Director*

- Experience in structuring and execution of complex commodity derivative transactions across multiple commodity markets for investors, consumers and producers.
- Expertise covers exchange traded commodity markets, OTC transactions and execution, counterparty relationship management and client risk management.
- Trading, market operations, and research background working on the buy-side in commodity markets as well as supporting hedgers in their transactions.
- Recently completed a major hedging program for a mining company using compound OTC options and analyzed off exchange metals markets for hedging by a major metals consumer.

Jeffrey Christian, *Managing Director*

- One of the foremost authorities on the markets for gold, silver, and the platinum group metals, Mr. Christian also is considered one of the premier experts on commodities' derivatives.
- Written extensively about the precious metals markets, commodities, and world financial and economic conditions since the late 1970's and has been involved in much of the pioneering work applying economic analysis and econometric studies to the platinum group metals markets.
- Founded CPM Group in 1986.

Investment Banking and Corporate Advisory

Douglas Sherrod, *Managing Director*

- Investment banking and structured finance background.
- Originated and executed financing transactions and advisory mandates for clients in the commodities and natural resources sectors over the past 20+ years.
- Transactional expertise spans equity & debt capital markets, loan markets, risk management and corporate financial advisory.
- Among his recent assignments at CPM, Doug is advising on project financing for a greenfield molybdenum project in North America and is advising several precious metal producers on hedging.

Alec Kushnir, *Director*

- Investment banking and project finance background.
- 10+ years transaction experience across the spectrum of energy and natural resources debt and equity capital markets financings, project finance, and mergers and acquisitions.
- Currently advising a Canadian junior mining company on its bid to acquire gold assets in Peru and has arranged acquisition and development financing for coal companies in the US.

ABOUT PRICE RISK MANAGEMENT

WHY USE PRICE RISK MANAGEMENT?

- Commodity prices recently scaled new peaks and are extremely volatile.
- Uncertainty over supplies and global competition necessitates early planning.
- Proper hedging provides more stability and financial certainty, yielding positive results for credit relationships and shareholders.
- Properly constructed hedges need not burden a company with contingent liabilities or restrict participation in favorable price movements. CPM Group specializes in creating compound options strategies, which greatly reduce and can even eliminate the credit liabilities of a hedge.
- There are strategies that minimize credit risk and allow participants to take advantage of favorable price movements after a transaction is initiated if the original hedge is structured properly to provide this flexibility.

WHY DOESN'T EVERY COMPANY OR GROUP WITH EXPOSURE TO A COMMODITY DO THIS?

- Various factors have led to some derivative and hedging problems in the last fifteen years; most were the result of improper management or poor advice.
- Price risk management tools are sophisticated financial products that require a comprehensive understanding to be utilized to their optimal benefit.
- Independent advice is a necessity because of the inherent conflicts of interest many commodity traders and banks face when proposing hedging strategies to clients.

RISK MANAGEMENT ADVISORY SERVICES

CPM Group works with producers, consumers, institutional investors, governments, and international organizations to manage commodity price risks. Our *independence* affords clients an unbiased assessment of hedging structures and terms.

HEDGING ADVISOR OR MANAGER

- Analyze a company's commodity price exposures.
- Structure and execute strategies to manage price risks.
- Use hedging to optimize financial leverage.
- Provide price protection while preserving exposure to higher prices for producers, or lower prices for consumers.
- Analyze and modify existing hedge books.

MATERIALS MANAGEMENT CONSULTANT

- Solve complex problems related to commodity price risks.
- Evaluate proposals presented by counterparties.
- Act as agent to maintain anonymity and obtain optimal price discovery.

ONGOING PROCESS

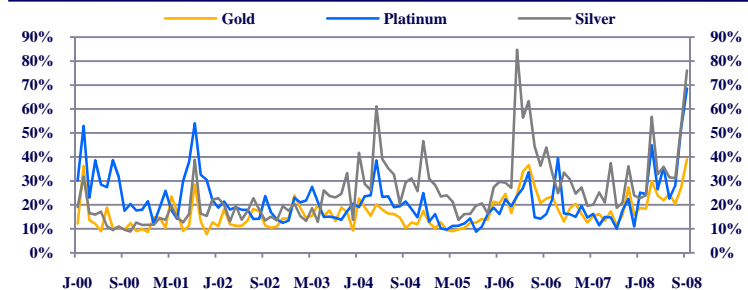
- Offer advice on an on-going basis.
- Train and educate company professionals on mechanics of hedging.
- Provide market research as well as on-going access to consult with analysts.

RISK MANAGEMENT ADVISORY SERVICES (CONT.)

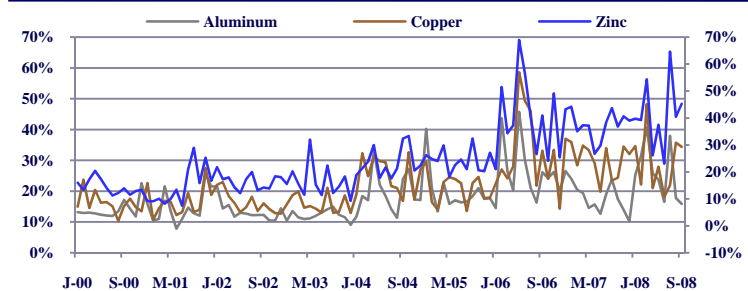
WHY HIRE A HEDGING ADVISOR?

- Provides the opportunity to analyze and review multiple hedging structures with an independent advisory group *that is not seeking to take the other side of the transaction.*
- Enhances corporate resources by providing expertise that would be too expensive to have in-house. Creates “outsourced hedging and trading department” allowing senior management to focus on core responsibilities.
- Creates the opportunity for additional counterparty introductions, while having a guide through the process of establishing trading lines.
- Creates an orderly auction process to aide in price discovery and obtain better pricing.
- Establishes an ongoing advisory partnership to assist in management of long-term financial planning and price risk management.

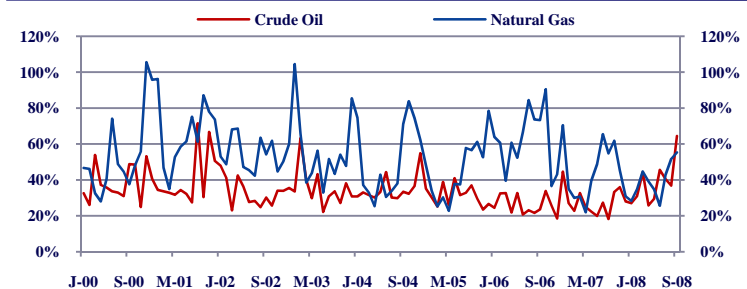
Precious Metals: Monthly Historical Price Volatilities



Base Metals: Monthly Historical Price Volatilities



Energy: Monthly Historical Price Volatilities



Commodity prices rise and fall substantially in short periods of time. Volatility has increased markedly since 2000 for most commodities.

STRUCTURING AND EXECUTION

HOW DOES THE PROCESS WORK?

Every client has different needs. Developing proper commodity risk management programs consists of analyzing strategy, counterparty evaluation, impact on finances, proper price discovery, execution and implementation, and ongoing management.

CPM Group is able to evaluate, structure, and execute strategies for clients:

- Spot sales
- Forwards
- Futures
- Simple Options
- Compound Options including participatory strategies
- Swaps
- Deferred Contracts
- Commodity Loans
- Back to back agreements between producers and consumers
- Direct options between producers and consumers

CPM Group can either present suitable strategies to clients for their review and manage the entire process, or can evaluate the suitability of hedges proposed by dealers and trading firms.

WHAT MAKES A HEDGE SUITABLE?

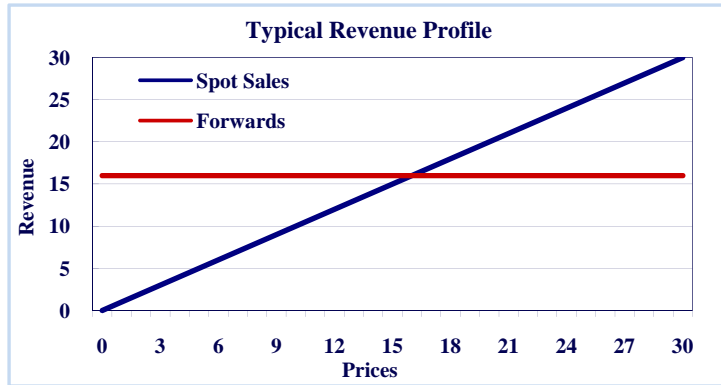
- Does it achieve client goals?
- Are the financial implications suitable for a client?
- Does the timing of the transaction match the client's business needs?

CPM Group seeks to minimize financial liability for its clients and to present the most shareholder friendly strategies to achieve the end goal.

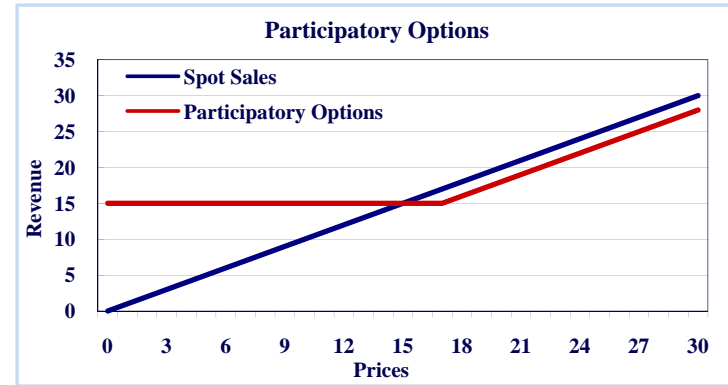
- CPM has extensive experience in dealing with commodity dealer markets and the listed exchanges.
- Geography is not an issue – CPM works with counterparties in New York, London, Sydney, and Mumbai – to name a few.
- CPM views hedging as an ongoing process and remains engaged with clients for the long-term.

SELECTED STRATEGIES

TRADITIONAL REVENUE STREAMS CAN BE MADE MORE DYNAMIC:



A revenue stream can be turned into a more dynamic and effective revenue profile than traditionally available, most importantly while simultaneously reducing credit exposure.



CPM Group structures alternative strategies such as participatory options which present effective solutions that protect end users or producers from negative revenue or cost exposures and credit risks while still allowing for participation in favorable price movements.

VALUE ADDED

WHAT SPECIFIC VALUE WILL CPM GROUP BRING TO AN ORGANIZATION?

CPM Group adds value through its knowledge of the financial markets, which allows for the development of optimal risk management structures for clients. CPM Group can work with client management at each step to present the most favorable risk management options and assist in executing an optimal strategy.

CPM Group provides:

- Complete independence in financial product selection.
- Experience with a range of clients from junior mining companies to multi-nationals.
- Intelligence on new derivative products and experience in evaluating proposals.
- Unbiased, impartial advice on structuring risk management tools.
- Unique ideas, structures, and price discovery on risk management of commodity prices.
- Assured client confidentiality and anonymity in the marketplace.

INCREASED ASSURANCE ON HEDGES AT INCEPTION

PRE-DETERMINED, MINIMIZED RISKS

CPM Group's preferred strategies for price hedging provides consumers and producers with:

- Pre-determined maximum risks for the corporation that are determined and known before the initiation of the hedge.
- Exposure to beneficial price developments.
- Protection against adverse price developments.
- Minimized contingent liabilities compared to open-ended liabilities with forwards and collars.

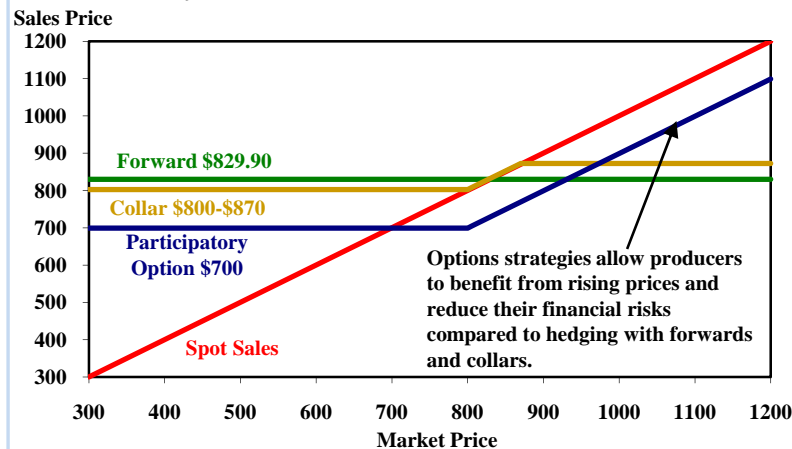
Comparative analysis

- CPM Group typically will consider, study, and price alternative hedge strategies, providing its clients with a clear, concise comparative analysis of the revenue streams and/or cost profiles, and the risks inherent in several strategies, allowing clients to understand the rewards and risks of alternate instruments and approaches to hedging before the clients choose which hedge to use.
- CPM Group typically provides clients with charts and tables that illustrate the revenue or cost consequences of comparable hedges under different price scenarios.

COMPARATIVE ANALYSES

Gold Producer Hedges: Participatory Options, Forwards, and Collars

24 November 2008 for December 2009



Comparative Analysis of Hedge Strategies: Gold Producer

24 November 2008 for December 2009

Spot, December 2008 Gold Price: \$819.50

December 2009 Gold Price: \$829.90

Price/ Spot Sale	Profitability Comparable		Profitability Comparable		Profitability Comparable	
	Forward	To Spot	Collar	To Spot	Participatory Option	To Spot
\$300.00	\$829.90	\$529.90	\$802.40	\$502.40	\$698.90	\$398.90
\$400.00	\$829.90	\$429.90	\$802.40	\$402.40	\$698.90	\$298.90
\$500.00	\$829.90	\$329.90	\$802.40	\$302.40	\$698.90	\$198.90
\$600.00	\$829.90	\$229.90	\$802.40	\$202.40	\$698.90	\$98.90
\$700.00	\$829.90	\$129.90	\$802.40	\$102.40	\$698.90	-\$1.10
\$800.00	\$829.90	\$29.90	\$802.40	\$2.40	\$698.90	-\$101.10
\$900.00	\$829.90	-\$70.10	\$872.40	-\$27.60	\$798.90	-\$101.10
\$1,000.00	\$829.90	-\$170.10	\$872.40	-\$127.60	\$898.90	-\$101.10
\$1,100.00	\$829.90	-\$170.10	\$872.40	-\$227.60	\$998.90	-\$101.10

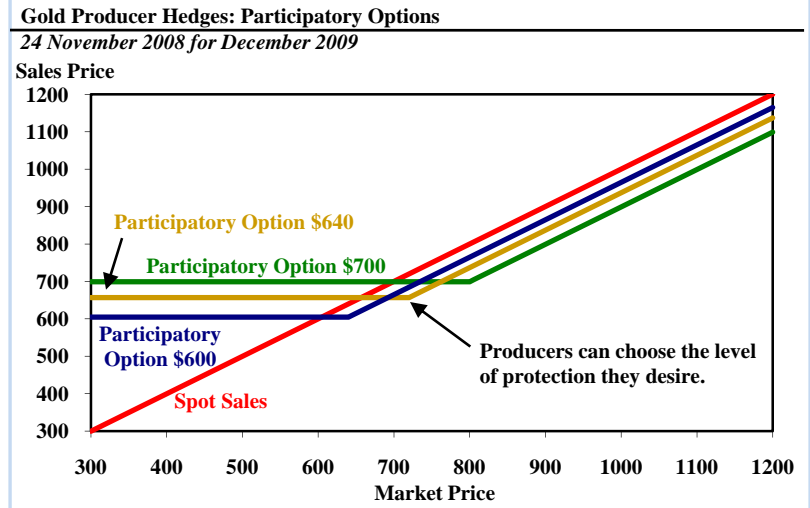
MAXIMIZING BENEFITS AND FLEXIBILITY FOR CLIENTS

TAILORING HEDGES TO CLIENTS' NEEDS

By having CPM Group on their team, assisting in structuring, pricing, and executing hedges, clients can control the process to maximize their benefits and minimize their risks.

- Clients can choose the levels of risk and protection they want, or that they need.
- Some producers may choose lower floor prices and preserve more of their exposure to higher prices, while others may seek or require higher floor prices, and be willing to give up more of the upside in exchange for the higher floor.
- CPM Group helps clients structure hedges tailored to their financial needs and desires, without bias toward particular strategies, trading counterparts, or means of execution.

COMPARATIVE ANALYSES



SELECTED EXPERIENCE

WHAT SPECIFIC EXPERIENCE DOES CPM GROUP BRING TO CLIENTS?

CPM Group has a wide range of experience in price risk management:

- Evaluation of effective strategies to control energy input costs for a major auto maker.
- Arranged pre-paid forward sales programs for leading precious metals recyclers.
- Structuring, presentation, and execution of a precious metals supply and management program for a major consumer of silver.
- Development, execution, and training of a hedge program sponsored by the International Cocoa Organization and the UN Common Fund for Commodities in the Ivory Coast using participatory options strategies to minimize credit risks and maintain favorable price exposure.
- Creation of metals leasing and recycling programs to significantly reduce the cost of production for a producer of a specialty technology product requiring a precious metal input.
- Conducted training seminars on options strategies for junior traders of major commodity trading banks.
- Authored comprehensive analysis of hedging for a major Japanese auto manufacturer.

SELECTED EXPERIENCE (CONT.)

CPM GROUP EXPERIENCE

- Provided hedging advisory services and developed strategies for small, medium, and large mining companies, including AngloGold Ashanti, Barrick, Newmont, Homestake, Gold Fields, Gencor, Rio Tinto, Freeport McMoRan, Phelps Dodge, Grupo Mexico, Luismin, Doe Run, Kennecott, BHP Billiton.
- Created gold rolling forward sales programs for Freeport McMoran and Homestake Mining, a non-hedged program of capturing enhanced returns on gold mine production sales.
- Developed for the U.S. Mint and Treasury procurement programs and hedging programs on silver, platinum, and base metals, implemented and managed the programs, and provided training on management of these programs.
- Provided hedging advisory services and strategies to large and small silver using companies, including photographic manufacturers, electronics manufacturers, and others.
- Developed and helped implement and manage metals leasing programs for major users of gold, silver, platinum, and rhodium.
- Served as International Advisor on Commodities Price Risk Management for the World Bank and its International Task Force on Commodities Risk Management. Co-authored the initial paper for the World Bank on how developing countries agricultural producers and processors could hedge their price risk using established market instruments, intermediaries, and relationships.

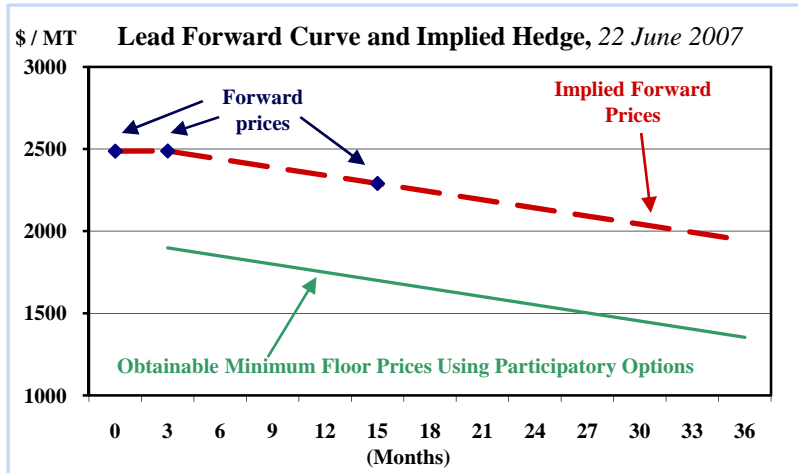
CASE STUDY: FORTUNA SILVER

HEDGING OF BASE METAL PRODUCTION: FORTUNA SILVER



- Fortuna Silver Mines Inc., a silver producer, engaged CPM Group to arrange a comprehensive price risk management program for its lead and zinc production.
- Fortuna wanted to hedge a portion of its base metal production, but was unsure of which hedge structure would achieve the highest sales price, while limiting its liability in the transaction, or which trading house would serve as the best counterparty.
- CPM Group assessed Fortuna's needs and structured a compound OTC option program that provided Fortuna with a very competitive sales price for its metal, while still giving the company upside participation to market prices with limited liability.
- Once Fortuna was comfortable with the proposed structure, CPM Group took the company through the process of setting up trading lines with suitable counterparties and guided the company through the price discovery and execution process.

Forward Curve & Implied Hedge Floor Prices



FORTUNA
SILVER MINES INC.

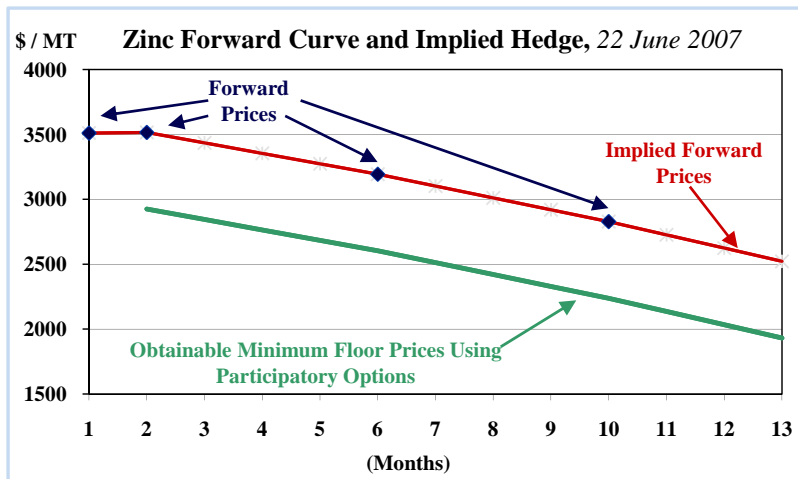
Hedging of Base Metal Production

CPM Group's Involvement

- Structured a limited risk, competitive hedge strategy for Fortuna that secured bi-product cash flows.
- Managed the counterparty introduction, assessment, and credit approval process.
- Arranged price discovery and execution of the trades to place the hedge.
- Achieved attractive price floors for lead and zinc, while maintaining upside exposure for Fortuna shareholders.

Outcome

- Hedges successfully insured the company from a significant decline in base metals prices in 2008.



CPM GROUP - RESEARCH DRIVEN FINANCIAL SERVICES

