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# Investment and financing opportunities in the Mexican mining sector

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**T**he mining industry has a 500-year history in Mexico. During the colonial period, the mining industry was the main economic activity of Mexico.

In recent years, mining has experienced a resurgence due to an increased demand for mining products in industrialised countries, in particular China, and the consequent international rise of their price. This trend has turned mining into the third largest source of foreign currency for Mexico (behind automotive and oil exports). Due to this growth, the mining sector currently accounts for 2.5 per cent of Mexico's GDP, whereas in 2000 it accounted for only one per cent. In 2010, exports of mining products grew by 27 per cent to reach US\$22bn. Mining exploration and production in Mexico are poised to continue growing in the years to come.

Today, more silver is extracted from Mexican mines annually than from those of any other country in the world. Gold has also been plentiful in Mexico since the Spanish conquest. During the last five years, gold production in Mexico has doubled, placing Mexico as the second top producer in Latin America. Mexico also holds second place among Latin American countries when it comes to gold reserves and resources. Other important minerals produced by Mexico are copper, iron, molybdenum, titanium, lead and zinc.

Nowadays, Mexico is the fourth largest receiver of mining investment in the world, just behind Australia, Canada and Chile. Mexico is a top destination for mining investment as it is regarded as a strong and regulatory-friendly economy with attractive geological prospects and a favourable tax regime.

The Mexican Government does not charge mineral royalties. Foreign investors enjoy the same treatment as Mexican investors and thus are allowed 100 per cent participation in Mexican mining companies engaged in exploration, extraction and beneficiation of mineral deposits. Extraction concessions are given on a 'first come, first served' basis for a 50-year period, which may be renewed for

an equivalent period. Mining concessions can be totally or partially pledged or transferred to third parties. Minerals can be freely sold between private entities.

Mexico's favourable mining investment climate is attested by internationally renowned indexes and rankings. For example, the Fraser Institute's 2009/2010 Current Mineral Potential Index places Mexico in the top five, out of 72, of jurisdictions encouraging exploration due to their current mineral potential and policy environment. Likewise, Mexico took fourth position in the Behre Dolbear Group's 2010 Ranking of Countries for Mining Investment and sixth position in the Metals Economics Group's 2009 list of exploration budgets by country.

Foreign investment represents 70 per cent of Mexico's mining exploration budget. Seventy-five per cent of such investment originates in Canada, whereas barely 15 per cent hails from the US. Conversely, 60 per cent of Mexico's mining production is still held by domestic enterprises. Most of the remaining 40 per cent is produced by Canadian-owned companies.

Canadian success in the Mexican mining sector is associated with the success of the Toronto Stock and Toronto Ventures Exchanges (TSX) in the financing of projects in the region. Today, there are over 200 companies on the TSX with projects and assets in Mexico. Most of these companies may be categorised as junior companies with market capitalisations ranging from US\$10m to US\$200m. The ownership structure of those junior companies is generally divided between management (around ten per cent to 25 per cent) with the remaining shares held by North American institutional investors and global specialist mining funds. It is noteworthy that the market capitalisation of the 40 companies which form the Mexican Mining Task Force (an initiative sponsored by the Canadian Government) exceeds US\$58bn. Further, there are several billion dollars of additional capital in the 160 remaining companies listed on the TSX with

assets in Mexico. Undoubtedly, the Mexican mining sector on the TSX can be regarded as substantial.

Some investment specialists believe that a dual-listed structure of the TSX and the Mexican Stock Exchange (*Bolsa Mexicana de Valores* – BMV) is an ideal instrument for investment in the sector. They also believe that the creation of the intermediate market for the small and medium-sized enterprises sector (generally known in Mexico under the acronym PyME) should be a catalyst for greater Mexican investment in the Mexican mining sector.

In our opinion, such structures will evidently bring benefits to Mexican PyMEs in the mining sector and Mexican investors. Mexican PyMEs will gain access to capital for local projects and a diversified investor base. Mexican institutional investors will gain access to the expanding Mexican PyME mining sector while being protected by the safeguards and regulatory requirements of the TSX. Dual-listed structures have already been successfully implemented in the mining industry; such experience could be wisely replicated in the BMV and the TSX.

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