



## **Improved Project. Improved Economics. The Positive Impact of Efficiencies in Mining.**

*Dear Shareholder,*

Welcome to the June 2016 Focus shareholder update letter. In this issue, we'll take a look at the updated PFS released May; we'll review the on-going efforts to find a strategic partner or investor, and we'll outline what we're doing to source the financing we need to move the project to bankable feasibility study and construction.

As you may have read, a fairly extensive revision of the Bayovar12 mine plan resulted in a dramatic improvement in the project economics. The project is very robust and we now have a clear idea where additional improvements and cost reductions can be made in the bankable feasibility study.

As ever, questions or feedback appreciated.

Regards

*David Cass,*  
President

### **Updated PFS**

The Company released a revised PFS in mid-May that showed significantly better project economics. We've used the word Update frequently in our recent press releases and presentations. But this was not strictly speaking an update. In fact it was a complete overhaul of the entire mine plan.

Highlights include a much higher IRR of 26.3%, NPV<sub>7.5</sub> of \$458 M, and a shorter payback period of 3.9 years. We've ended up with a much more robust project and a clearer idea of where we can achieve additional savings. In summary the cash flow model shows:

**Net Present Value (NPV<sub>7.5</sub>)** **\$458M**



Internal Rate of Return (IRR)	26.3%
Payback Period	3.9 years
Capital Expenditure (CAPEX)	\$167M
Operating Cost per tonne product (OPEX)	\$60 / T
Cumulative Cash Flows	\$1.2B
Life of Mine	>20 years

It's worth reiterating the key features of the project:

- A World Class Project*** This is a world class open-pit phosphate deposit located in an established phosphate mining camp in northern Peru adjacent to operating mines extracting the same phosphate layers.
- Free Digging Rock*** Waste and ore are both free digging rock. No drilling and blasting needed. Bayovar12 is an earth moving operation
- De-risked Engineering*** The project has been de-risked considerably with the completion of the Pre-feasibility engineering
- Excellent Logistics*** Mature logistics with road access to a port, power supply, trained labour
- 1-million Tonnes Per Year of Product*** Target production of 1M tpa, highly reactive 24 & 28% P<sub>2</sub>O<sub>5</sub> phosphate rock product for use as direct application fertilizer. Achieving organic certification should be straight forward once production begins.
- Within the Target Market*** The project is located on the doorstep of the Latin American fertilizer market: the fastest growing fertilizer market in the world. The organic fertilizer market continues to grow – think about how much natural fertilizer is needed the next time you buy organic produce.

The mine planning update work was completed by **IMC** (Independent Mining Consultants) of Tucson, Arizona. IMC is a proven mine consulting firm that's worked on over 500 mining projects worldwide over the last 30 years. Their clients include major and minor commodity producers, junior exploration firms, public sector entities, and financial institutions. **M3** were responsible for the design of the single process plant and mine infrastructure, plant capex and opex, and equally as important, bringing together all aspects of the study by the various consultants into a final NI43-101 report.

IMC took the resource block model and re-built the mining sequence and haulage schedule from scratch. The block model is essentially the 3-dimensional computerized model of the ore body broken down into hundreds of thousands –often millions- of blocks (a bit like 3D pixels but a few meters on a side) that represent the mining blocks to be extracted during the mining process.

The engineering software that's used to build the mine plan looks at the most logical sequence to mine the many thousands of blocks, bearing in mind the grade and yield of the phosphate mineral within each block, and the cost to mine, process the ore and haul and backfill the waste etc. This kind of work eats up a lot of

computing power and goes through numerous iterations until the optimum sequence of mining emerges to fit the production plan.

The end result of IMC’s fresh pair of eyes was that the capital cost increased by 34% (\$127 to \$167M). **However, operating costs decreased by 20% resulting in a hugely improved project.** The NPV –at a 7.5% discount rate- improved by 81%; Cash flows by 35%; IRR by over 50% and the payback period was cut to just under 4 years.

### Exactly how was this achieved?

There were 5 key components. On the operating cost side, because 56% of the mine costs are related to hauling mined materials, and about 90% of that material is waste, it makes sense that minimizing the distances that the trucks carry waste in and out of the pit will be key to reducing those costs.

1. Simplifying the mine plan, with mining starting in the south of the deposit and moving progressively northward. In-filling the pit progressively with back fill as soon as possible reduced the amount of overburden waste stored in ex-pit dumps and minimized the haul distances of the mine trucks.
2. Investment in more initial pre-stripping allows greater flexibility and access to all 13 of the phosphate beds sooner. This meant nameplate production capacity was reached in Year 2, in contrast to Year 4 in the old study.
2. Re-equipping the mine fleet with larger boxes on the back of 777 trucks to take advantage of the relative low density of the diatomite waste
4. Owner-operate as opposed to contracting out the overburden waste removal along with the ore and interburden mining. More cost effective and practical from a mining perspective. It’s like saying if you know you’re going to live somewhere for over 20 years, why rent when you can own?
5. Build a single, bigger process plant, instead of having 2 smaller ones. This meant a bit more in initial capex but an overall saving on equipment costs of approx. \$20m.

Table 1. The new and the old

New Study	Old Study	Effect
Mining starts in the south and progresses north	Complex- the pit progresses in 3 directions in 20 years	Allows use of backfill sooner and reduces the amount of waste store in ex pits
Double the pre-strip	Minimal pre-strip	Opens up more phosphate beds earlier, giving flexibility and reaches capacity sooner
Focus owns the fleet, bigger boxes on trucks	Contractor stripping of overburden	Better efficiency and reduced costs
1 plant	2 plants producing different products (24% and 28% P <sub>2</sub> O <sub>5</sub> )	Reduced costs and increased efficiency

These improvements save \$16 on the operating expenditure per tonne of product, or \$16 million a year on the operating margin, or \$320 million over the life of mine. The project is a useful reminder that large bulk mining projects, while not as sexy as gold, can be big moneymakers. The cash flow model indicates that Bayovar12 will produce \$60–70m in free cash flow per year, with potential resources to extend the life of



mine well beyond 20 years.

The improved numbers in the cash flow reflect the fact that by spending a bit more on Capex at the start of the project, and exposing a larger tonnage of ore for mining in the early years, we believe we can reach nameplate capacity quicker, and be cash flow positive earlier. The engineers were also able to reduce the sea water requirements of the project by recycling a lot of the water in the process route resulting in the need for a smaller pipeline from the coast.

On the down side, the initial Capex has increased to \$167M which reflects more pre-stripping, and includes a single 1Mtpa processing plant, tailings storage, water pipeline and powerline. But, the impact of the early Capex hit is clear in the improved cash flow model numbers.

Processing and upgrading of the ore will be done by a simple sizing, attrition and washing process using sea water supplied from the coast. The final 24% and 28%  $P_2O_5$  products will be exported from the nearby Port of Bayovar which is owned by Focus' Peruvian joint venture partner.

The huge scale of the phosphate-bearing basin in Bayovar, and the rapid expansion of fertilizer demand in South and Central America, should allow for a life of mine well beyond the assumed 20 years.

The authors of the study also made a few recommendations which could result in further improvements to the Opex and Capex at the Feasibility stage. The beneficiation process can probably be improved once we have sufficient material from a bulk sample to run through a pilot plant. We can also look to source much of the capital equipment locally in the Latin American used market. We also believe we can define additional reserves to the north and northeast of the current 20-year pit shell. This could potentially extend the mine life beyond the current 20 years.

There are also good opportunities to reduce costs even more by using of continuous mining systems for overburden removal. For example, our initial discussions with equipment supplier ThyssenKrupp Industrial Solutions, have focused on the potential use of continuous mining systems -such as the bucket wheel excavator pictured below- for overburden removal.



*Bucket Wheel Excavator removing overburden in a Chinese coal mine. There's coal there somewhere. Really. Photo courtesy of ThyssenKrupp.*



Next on our wish list for the project is a bulk sample which we're planning to collect via by drilling rather than a pit. The permitting process to excavate a trial pit is the same as permitting a full open pit mine so drilling a cluster of large diameter boreholes will be cheaper, faster to permit and have less on an impact at this stage of the project. We estimate we need 10-15 tonnes of plant feed for the pilot plant test work, which translates to roughly 4-6 tonnes of product for marketing and field tests.

## **Financing Going Forward**

Since mid-May our efforts have been focused on meeting with groups that could potentially finance the next phase of the Company's development, which is the Bankable Feasibility Study and beyond that, reaching a construction decision. But raising money is still tough. The recent small financing we announced relates to the terms of our Sprott loan. Under the loan covenants we're required to maintain a certain level of working capital at all times and the \$150k private placement was to top up the bank account so we remain compliant with the covenants.

The resource equity markets - for anything but gold, silver and lithium (the current flavour *du jour*)- continue to struggle. A recent renaissance in gold stock prices, particularly the producers and royalty companies, has breathed a little bit of life back into the moribund market we've had for the last 3-4 years. However, generating interest in industrial commodities isn't easy.

We've been in on-going discussion with a number of banks, brokers and private equity groups regarding our short, medium and long-term finance needs. On the long-term side, we've had approaches from banks that specialise project debt who are tracking the project and are waiting for completion of the bankable engineering work. There's genuine interest from these institutions and the Capex requirement (sub-\$200m) falls into a bit of a sweet spot for them.

The medium-term interest tends to be from private equity (PE) groups who are looking at funding us initially to completion of bankable feasibility study, but then continuing to invest as the project advances. The PE groups approach investment from a strongly technical stand point and waste little time diving into the engineering detail to really understand the nuts and bolts of the project.

Short-term financing interest is coming from the more traditional brokers looking to place clients into private placements.

The trick will be finding the balance between raising cash and over-diluting the share structure. It's tough to please everybody all of the time and keep the project moving forward. Issuing additional equity is not something we take likely with the current share price; nevertheless sometimes dilution is the cost of staying in business while we progress to the next stage.

## **Company Valuation**

The management team at Focus also believe our share price (and company valuation) is seriously out of sync with the value of the project. Of course, if you ask *any* management team they'll probably tell you that their company is undervalued.

So we put together a brief comparison table of a few published project pre-feas or bankable feasibility study numbers (see below). As you can see, the huge disparity between the capex of industrial mineral / REE companies and gold companies is quite striking. A gold project with similar capex, cash flow and DCF model results commands a valuation of more than 40 times that of an industrial mineral company with similar project metrics.

Company / Project	Market Cap	Commodity	Production	Post tax annual cash flow	NPV / IRR	CAPEX	Payback	Margin @ unit commodity price
1. Goldrock / Lindero	\$70M	Au	112k oz pa	\$46.6M	\$152M / 26%	\$167M	2 yrs	54%
2. GB Minerals / Farim	\$40M	Phosphate	1.75M Tpa	\$90M*	\$194M / 35%	\$194M	4.3 yrs	137%
3. Asanko / Esasae	\$940M	Au	200k oz pa	\$87M	\$412M / 26%	\$295M		66%
4. Tasman / Norra	\$19M	REE	200 Tpa REE	\$107M*	\$313M / 20%	\$378M	4.8 yrs	
5. Kaminak / Coffee	\$460M	Au	>200k oz pa	\$93M	\$455M / 37%	\$317M	1.5 yrs	109%
6. Roxgold / Yaramoko	\$480M	Au	99.5K oz pa	\$48M*	\$250M / 48%	\$107M	1.6 yrs	120%
7. Lundin / Frute d. Norte	\$570M	Au-Ag	340k oz pa	\$174M	\$676M / 16%	\$669M	4.5 yrs	100%
<b>8. Focus / Bayovar</b>	<b>\$10M</b>	<b>Phosphate</b>	<b>1M tpa</b>	<b>\$67M</b>	<b>\$458M/26%</b>	<b>\$167M</b>	<b>3.9 yrs</b>	<b>175%</b>

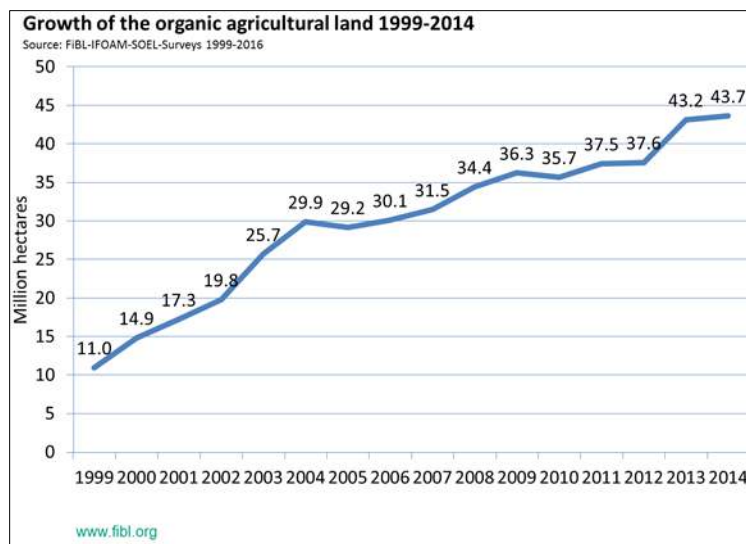
\*estimated average over LOM

Table 2. Three of these companies are not like the others...

### Bayovar RPR: The Organic Alternative

Phosphate rock from Bayovar is a natural mineral product and the processing route we're planning to use will avoid the addition of, or reaction with, any other chemical compounds. This should allow us to get organic certification for our phosphate rock products, allowing them to be used on organic farms all over the world.

Organic farming represents an increasingly large share of the world's agricultural industry and will be a big potential market for us. Since 1990 the market for organic food and other products has grown rapidly, reaching \$72 billion worldwide at the end of 2013<sup>1</sup> and an estimated \$80 billion in 2014: an 11% year on year growth rate. (source:<http://www.fibl.org/en/media/media-archive/media-archive16/media-release15/article/bio-waechst-weiter-weltweit-437-millionen-hektar-bioflaeche.html>)



The growth of organic farming globally since 1999

<sup>1</sup> <http://www.fibl.org/en/media/media-archive/media-release/article/growth-continues-global-organic-market-at-72-billion-us-dollars-with-43-million-hectares-of-organic.html>

Likewise, the area of organically managed farmland globally grew between 2001-2011 at a compound rate of 8.9% per annum. As of 2014, approximately 43.7 million hectares worldwide were farmed organically. Consumer demand for organically produced goods has grown by double digits during most years since the 1990s, providing market incentives for U.S. farmers across a broad range of products, and now represents between 4-5% of US food sales: close to a US\$30B<sup>2</sup> market. Fifteen percent of the world's organic farmland is in Latin America<sup>3</sup>.



*See what happens when you don't eat your P<sub>2</sub>O<sub>5</sub>?  
Tomato plants grown with and without phosphorus.*

Our proposed mine will be one of only a few sources of large quantities of natural phosphate nutrient available for large-scale organic farms and plantations.

### ***Mosaic, Vale and the Bayovar Mine***

You may have missed last week's [announcement](#) that the Brazilian miner Vale is probably selling its fertilizer unit to the US company Mosaic. Mosaic is the world's largest producer of phosphate nutrients and already owns a substantial stake in our Sechura neighbor, the Bayovar (Miski Mayo) phosphate mine which was built by Vale and is still operated by them. The value placed on the deal is around US\$3B to be paid in cash and shares. The deal seems to be part of Vale's debt reduction effort to slash \$10B in debt by 2017, and would end up with Vale owning 75% of the Bayovar mine with Mitsui holding the other 25%. Vale would also become Mosaic's largest shareholder.

What does it mean for us? We think it may be a positive development for Focus. We've never had any success talking to Vale about potential infrastructure sharing with them. We've had a few conversations with Mosaic over the last couple of years at conferences and elsewhere and we're looking forward to engaging with them again in the future as our project develops.

<sup>2</sup> <http://orgprints.org/25172/1/willer-lemoud-2014-world-of-organic.pdf>

<sup>3</sup> <http://orgprints.org/25172/1/willer-lemoud-2014-world-of-organic.pdf>

## Peruvian Presidential Elections

If you've been keeping up with the political news from South America, you may have noticed that Peru has a new President, Peruvians for Change candidate Pedro Pablo Kuczynski. Mr. Kuczynski narrowly beat Popular Force candidate Keiko Fujimori, the daughter of the former president, Alberto Fujimori. Kuczynski won the Presidency by a narrow margin of less than half a percentage point: 50.12% to Kuczynski while opponent Fujimori received 49.88% of the votes.

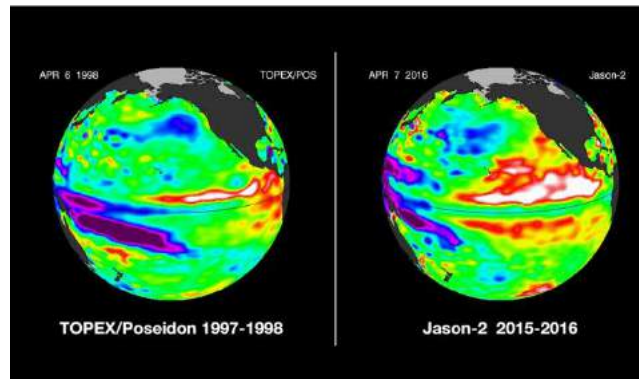
Educated in Britain and the US, the former cabinet member and renowned economist, Kuczynski said in the run up to the election that he would reduce red tape and take steps to placate the community opposition that's currently holding up \$22 billion of mining investment in Peru. That would be most welcome!



Peru's new President, Pedro Pablo Kuczynski, making his case

## To El Niño or not to El Niño?

The El Niño weather system raises sea water surface temperatures off the coast of South America. It forms a band of warm ocean water that develops in the central and east-central equatorial Pacific. This occurs every few years, and when it does the effects on the global and South American climates can be far reaching. In South America it often leads to much higher than average rainfall and catastrophic flooding in countries along the Pacific coast, particularly Peru and Ecuador. Countries that depend heavily on agriculture are often the hardest hit.



The 1998 and 2016 El Niños visualized in glorious dayglow colours by NASA's TOPEX/Poseidon satellite



The most recent El Niño started in 2014 and is only now dying down. Ahead of what was expected to be “a Godzilla of a weather system – the worst for 50 years” the Peruvian government declared a state of emergency in many regions and more than 100 places were declared “vulnerable” by the country’s Civil Defence Institute. The last time El Niños came to Peru, the city of Piura (which lies just north of our project) was badly hit by massive flooding, the effects of which can still be seen in the town.

The recent Niño contributed to the highest average global temperatures ever recorded. But in the end this was actually a very average El Niño and few of the apocalyptic predictions about its scale and impact came true. NASA went as far as to say that its effects on the North American weather systems were all but masked by normal variations in weather patterns. In Piura, the heaviest rains were actually recorded last year in February and March and the effects were thankfully very minimal. All a bit dull really for weather watchers...

## Upcoming Events

Focus is attending the [Sprott Natural Resource Conference](#) in Vancouver July 24-29 at the Hotel Fairmont Vancouver, and will also be presenting there.

## Contact Us

Unable to attend the shows and have questions? Please feel free to contact us. We’d be happy to answer shareholder questions or address any comments you may have.

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Focus is also active on Twitter and Facebook. Our Twitter account is part of the broader Gold Group Twitter feed, which can be followed at [@TheGoldGroup](#). Our new Facebook page is [Focus Ventures Ltd](#), under Mining/Metals. We’ll be regularly posting articles of interest, photos and some additional background on the Bayovar 12 project.

**Forward Looking Statements** This Newsletter may contain forward-looking statements including, but not limited to, comments regarding the timing and content of upcoming work programs, geological interpretations, receipt of property titles, potential mineral recovery processes, and other related matters. Forward-looking statements address future events and conditions and therefore involve inherent risks and uncertainties. Focus Ventures Ltd.’s projects are at an early stage and all estimates and projections are based on limited and possibly incomplete data. More work is required before the mineralization and the projects’ economic aspects can be confidently modeled. Actual results may differ materially from those currently anticipated in this presentation. No representation or prediction is intended as to the results of future work, nor can there be any promise that the estimates and projections herein will be sustained in future work or that the project will otherwise prove to be economic.

**Qualified Person** Mr. David Cass B.Sc., M.Sc., P.Geo., President of Focus Ventures, is a member of the Association of Professional Engineers and Geoscientists of British Columbia, and a "Qualified Person" in accordance with National Instrument 43-101. He has reviewed the technical information contained in this newsletter. Mr. Cass has an MSc degree in Mineral Exploration and Mining Geology from the United Kingdom, and 25 years international exploration and mining industry experience. He has worked in many countries including the America's, Australia, Turkey, Iran, South Africa and Eastern Europe. His career to date has included 15 years with Anglo American, one of the world's largest mining companies,

including 6 years as Anglo's Exploration Manager for North America, and 4 years managing exploration programs for gold and base metals in Peru.