

Impressions from PDAC 2019

INSIGHTS FROM BDO'S NATURAL RESOURCES PRACTICE

A Changing Landscape

BDO's Natural Resources team recently attended the Prospectors and Developers Association of Canada's 2019 Annual Convention in Toronto, Canada, that boasts to be the world's premier international event for the minerals and mining industry. Some 25,000 people from 135 countries brave the chilly Toronto weather each year to share ideas, connect and strike deals.

While at PDAC, our team listened to dozens of speakers and caught up with many of our clients and colleagues to glean insights into current events and predictions for the global mining sector. We noted a number of common themes, the most significant of which we have summarized for you in this post.

Stakeholders are Demanding Sustainability

Gone are the days where the economics of sustainability meant mining companies had to choose between what was best for their bottom line and what was best for the environment and the communities their mines affect. Not only have the cost of electric mining equipment become more aligned with traditional equipment, mining stakeholders are now demanding that companies implement substantive sustainability measures into their corporate planning, with organizations such as BlackRock, Inc. and the Export Development Canada both making sustainability non-negotiable for their investees.

Progressive companies having already implemented substantive Environmental, Sustainability and Governance programs are reaping the benefits with lower costs, public support and more investment and borrowing options. We expect such programs to become the base standard, with the performance of outliers lagging behind the sector.

Ethically Sourced Metals and Minerals as a Competitive Advantage

Since the concept of 'blood diamonds' became broadly understood a number of years ago, consumers have demanded that their diamonds are sourced ethically. Slower to gain public acknowledgment is the grim fact that many metals and minerals used in every day applications come from jurisdictions with deplorable human rights or environmental practices. For example, 58% of the world's cobalt, a metal commonly used in batteries, comes from the Democratic Republic of Congo. Mining companies whose product originates from ethical sources are beginning to market their products as superior than others, suggesting that ethically sourced gold, for example, may command a price premium of 3% to 5%. This concept is very attractive in an industry where there is little ability for producers to affect the price they receive.

Blockchain technology is being put into use by a number of mining companies, including Goldcorp and Yamana Gold, as a means to monitor and validate the source of the gold they produced, from ore through to consumer. Cutting edge technologies such as G-Coin employ blockchain technology to trace responsibly sourced gold from the mine to the vault and then digitizes that gold into secure, tradable tokens. With full transparency now possible through these approaches, we hope that consumer pressure can help the mining sector affect positive change in the places they operate.

Metals and Minerals Shortages Coming, Nearly Across the Board

Predictions for metals and minerals demand abound at PDAC and we noted a few interesting commonalities. The most prominent metal supply gap in the coming years appears to be copper, with an estimated 27% increase in production needed to meet supply through to 2028, requiring an investment of US\$115B in mining investment to produce. Whether this demand will be fully met by copper itself, or if this also represents an opportunity in other conductive materials such as graphene, remains to be seen. Lithium is a notable metal that appears to be in oversupply in coming years, with nearly a 10% oversupply predicted through to 2028.



Equity Funding for Junior Miners Remains Tough in Canada

A recurrent theme throughout the PDAC conference was an acknowledgement that equity markets have fallen out of love with junior miners over the last couple of years with an understanding that investors have been lured away by other sectors, most notably into cannabis stocks. Discussions around the conference explored possible alternative sources such as moving away from Canadian exchanges towards the exchanges in London or Australia. Commodity streamers and royalty investors were very visible and whilst there may be a view that this is a very expensive option for many juniors, in some cases it may be the only option.

Interestingly, exploration expenditure has been increasing despite the difficulty in being able to raise funds but this increase has been in established areas not on greenfields projects. It appears that companies with more advanced projects, where the risks are lower, are finding it easier to attract risk capital. However, if new greenfields projects are not being explored that reduces the number of new projects that will be developed in the future.

People who know Natural Resources, know BDO

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