

IMPRESSIONS FROM PDAC 2020

# MINING MANOEUVRES IN SPITE OF PANDEMIC

BRYNDON KYDD, LEADER, GLOBAL MINING  
SHERIF ANDRAWES, HEAD, GLOBAL NATURAL RESOURCES





**BDO's Natural Resources team recently attended the Prospectors and Developers Association of Canada's 2020 Annual Convention in Toronto, Canada, which boasts to be the world's premier international event for the mineral exploration and mining industry. Some 25,000 people and 135 countries brave the 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. Health concerns related to COVID 19 permeated the conference, with PDAC being one of a small handful of major conferences to not be cancelled given the spread of the virus, although the attendance did appear to be down from last year. This year's PDAC could be the first where attendees consumed more alcohol on their hands in the form of hand sanitizer than they did from the drinks on offer at the various networking events. We noted several common themes, the most significant of which we've summarized in this paper.

## **CHINA IS DOWN, BUT FAR FROM OUT**

Almost without exception, speakers factored reduced demand from China into 2020 projections, with the uncertainty around COVID 19 being at the core of the issue. Given that this virus could just be getting started, it's impossible to factor in the full effect it will have on China's, and the world's, economy, with many suggesting that if the virus is under control by mid-year and if China provides a major stimulus package to kick start its economy, then we may end the year off flat. But the underlying message is clear: China is central to the global economy and the weakening of China significantly affects everyone. This perhaps is not news, but the irony of this is that the emphasis of China's importance to the world may give them more political and economic clout after COVID 19 than before, given everyone will be counting on them to help the rest of us get back on our feet.



## CLEANING UP THE JUNIOR EXPLORER MARKET

Juniors have struggled to attract financing for several years and 2019 was no different. Data over the past few years indicates that exploration performed by majors increasingly exceeds that of the juniors. Much of that spend by the majors is on 'near to mine' expansion opportunities. Earlier stage exploration is still being carried out by the juniors but much of the funding juniors were able to secure came from the majors. This increase in exploration oversight by the majors should result in a more effective process, given there will be more scrutiny and focus on results. This process will also serve to starve out the numerous 'lifestyle companies' that have historically been so prevalent in the junior space. Investors should be wary of companies previously marketing themselves as exploration companies suddenly finding themselves interested in the newest hot market, such as cryptocurrency or cannabis.

## ESG ON HOLD?

At PDAC 2019, the importance of Environmental, Social and Governance (ESG) programs was on the lips of nearly every mining executive at the podium. While this certainly remains an important issue for stakeholders, the reduced prominence of this issue at PDAC 2020 suggests that it's been set on the back burner by many in favour of simply maintaining profitability in light of the numerous economic setbacks that have recently (China-US trade war, Brexit) and currently (COVID 19) manifested themselves. Whilst ESG was the main topic of discussion as recently as at the Mining Indaba in early February it is concerning that, whilst still on the agenda, it could be moved down the priority list so quickly by the prospect of economic uncertainty. The irony is that the reduced economic activity caused by COVID 19 is reported to have caused a significant reduction in China's carbon emissions, with estimates as high as a 25% carbon emission reduction.



## ROYALTIES ARE ALL THE RAGE

Not only has financing for juniors reduced in volume, the nature of those financings appears to be shifting toward royalty arrangements. Royalty companies appeared in force at PDAC. Not only do they fill the gap between debt and equity for juniors, they often provide the investors in royalty companies with a better, and often more certain, return than an equity or debt instrument may provide. Further, when aggregated into a royalty company, such arrangements provide the benefits of a diversified revenue stream while reducing exposure to operational risks typically associated with mining investments. Look for a notable shift from debt and equity financings to royalties through 2020. It is not a cheap form of capital for juniors but can be an important option to fill a funding gap.

## THE AUSTRALIANS ARE COMING!

2019 was a very good year for mining financing in Australia and Western Australia has been named by the Fraser Institute as the top jurisdiction for mining in 2019. We've noted a significant uptick in interest in ASX listings and many Australian companies flush with cash are looking to deploy capital into their own and other's projects. With the reduction in demand for many commodities and the high potential for a global recession in 2020, we may see an increase in ownership of overseas mining assets by Australian companies as they encounter bargains abroad. Conversely, Canada did not factor into the Fraser Institute's top 10 mining jurisdictions for 2019, down from holding four of the top 10 spots in 2018, confirming Canada's reduction as a preferred mining jurisdiction over the past few years.

---

## FOR MORE INFORMATION:

### **BRYNDON KYDD,**

LEADER, BDO GLOBAL MINING  
[bkydd@bdo.ca](mailto:bkydd@bdo.ca)

### **SHERIF ANDRAWES**

HEAD, BDO GLOBAL NATURAL RESOURCES  
[Sherif.Andrawes@bdo.com.au](mailto:Sherif.Andrawes@bdo.com.au)

### **CATHERINE BELL**

MANAGER, GLOBAL NATURAL  
RESOURCES PRACTICE  
[catherine.bell@bdo.global](mailto:catherine.bell@bdo.global)

## BDO'S GLOBAL NATURAL RESOURCES INDUSTRY PRACTICE

BDO's Natural Resources industry practice provides assurance, tax and advisory services to emerging and established businesses all over the world who are involved in both the traditional and alternative energy industries. Our clients often operate across borders either raising capital or making acquisitions abroad. Our extensive industry knowledge is supported by our international network of more than 1,500 offices in 162 countries, allowing us to provide a consistently high level of service wherever our clients do business.

Service provision within the international BDO network of independent member firms ('the BDO network') is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

The fee income of the member firms in the BDO network, including the members of their exclusive alliances, was US\$8.99 billion in 30 September 2018. These public accounting, tax and advisory firms provide professional services in 162 countries and territories, with 80,087 people working out of 1,591 offices worldwide.

[www.bdo.global/en-gb/industries/natural-resources](http://www.bdo.global/en-gb/industries/natural-resources)