A Confidence Crisis

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Bien comprendre les enjeux économiques actuels

Séminaire sur le financement minier – Chaire en entrepreneuriat minier UQAT-UQAM

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The market has lost confidence in mining

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Confidence…

…that costs can be controlled.

….that capital discipline will occur.

…that new CEOs can deliver on promises.

…that returns on capital employed will improve.

…that the industry won't pile back into too many new projects or expensive deals when prices rebound.

…that resource nationalism will not overwhelm the industry.

… that commodity prices will not collapse.

And the markets reflect this *confidence crisis*

Miners have done well over the last decade…

The industry has seen unprecedented growth of both commodity prices and global production volumes…

Ten-year increases in year-end prices and annual global production volumes – 2003 to 2012

Commodity	Price	Volume
Gold	+372%	+4%
Iron ore	+302%	+168%
Copper	+384%	+25%

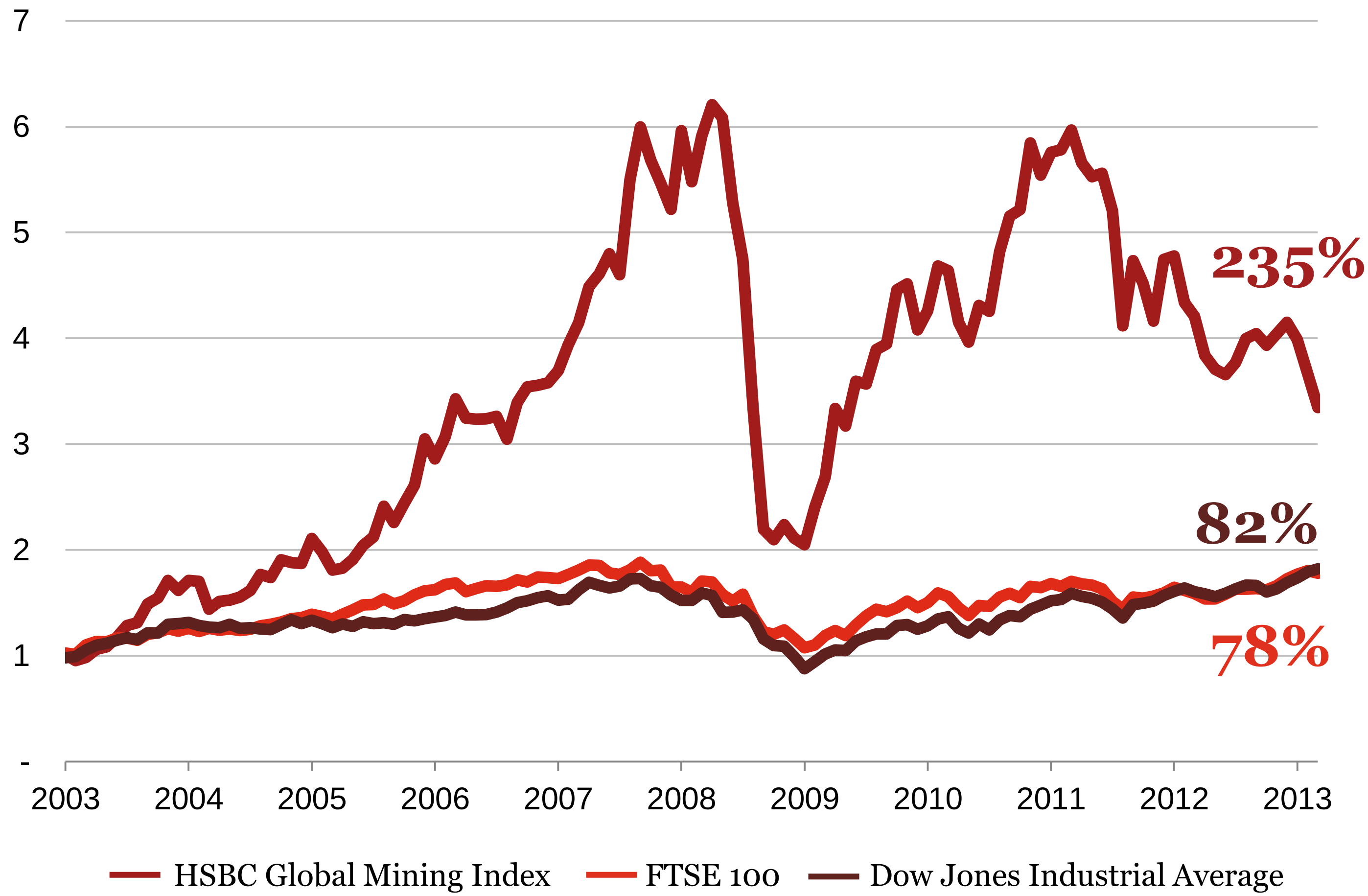
**2003 to 2011*

Source: The World Bank, U.S. Geological Survey, BP Statistical Review of World Energy

… with volatile, but still strong share prices…

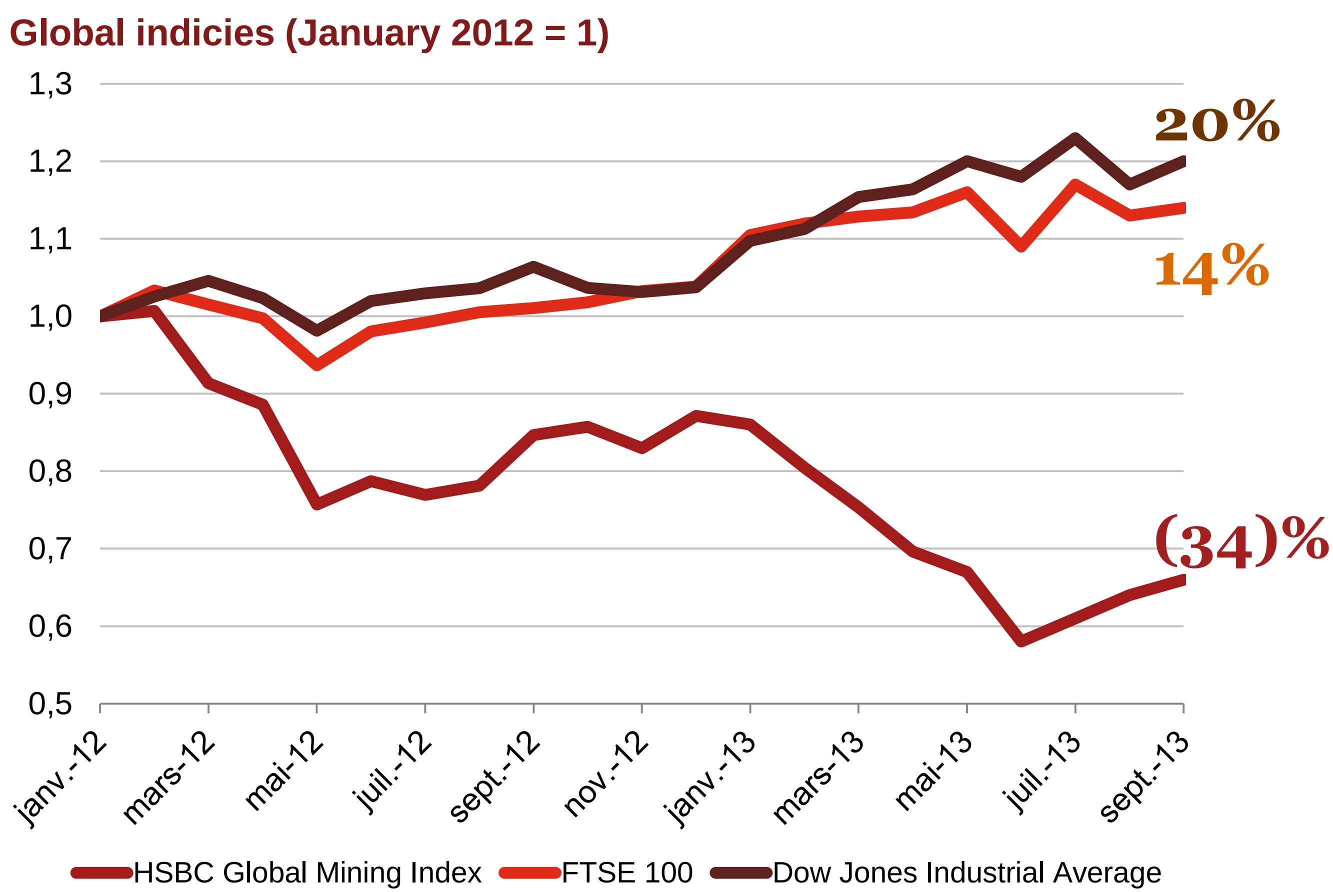
The mining industry has outperformed the broader equity markets.

Global indices (January 2003 = 1)



...but there is a growing disconnect with the broader markets, which widened in 2013

- Since January 2012, the HSBC Global Mining Index fell by 34% while the broader markets rallied.
- The HSBC Global Mining Index underperformed the Dow Jones and FTSE 100 by 54% and 48%, respectively.
- Challenging for the industry to fully rebound in the remainder of 2013.



Soft prices and increased costs hurt the bottom line...

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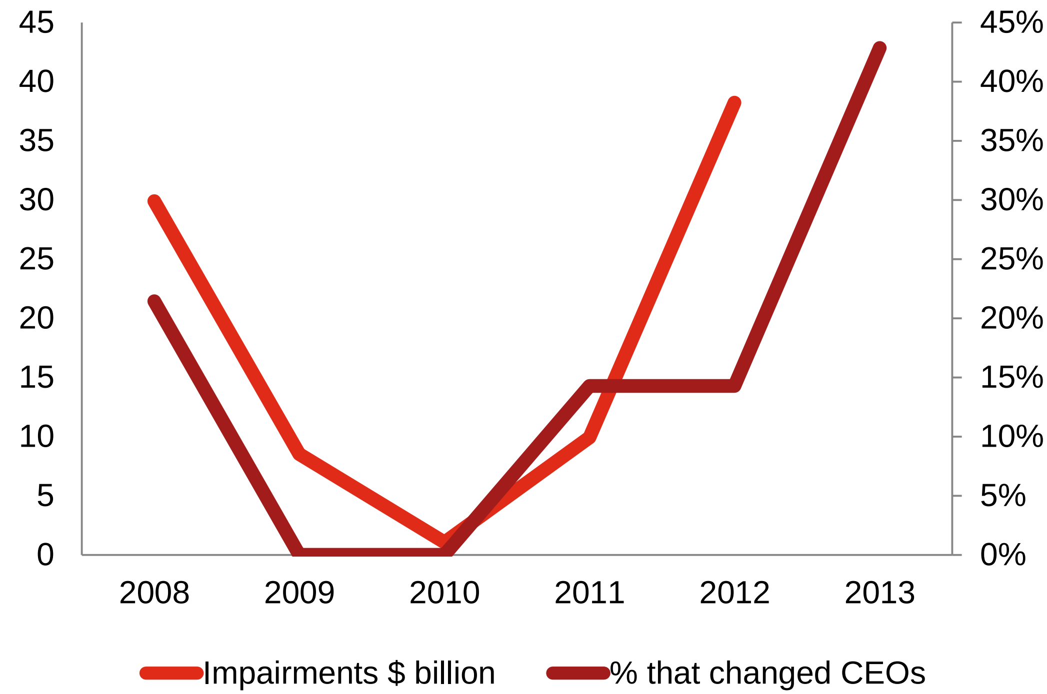
With the exception of gold, all major commodities traded in 2012 significantly below 2011 average prices… no exception in 2013!

	Iron ore	Gold	Copper
	$/dmt	$/oz	$/tonne
2011 avg	168	1,568	8,828
2012 avg	128	1,670	7,962
Change	**-24%**	**6%**	**-10%**
Q3 2013 close	131	1,329	7,290

2012 saw record impairment charges…and changes at the top

- The Top 40 impaired $45 billion in assets
- The four largest writedowns account for more than half of impairment charges and relate to acquired assets
- Since last year, a quarter of the Top 40 have changed leaders
- Half of the Top 10 have seen a new CEO take the helm

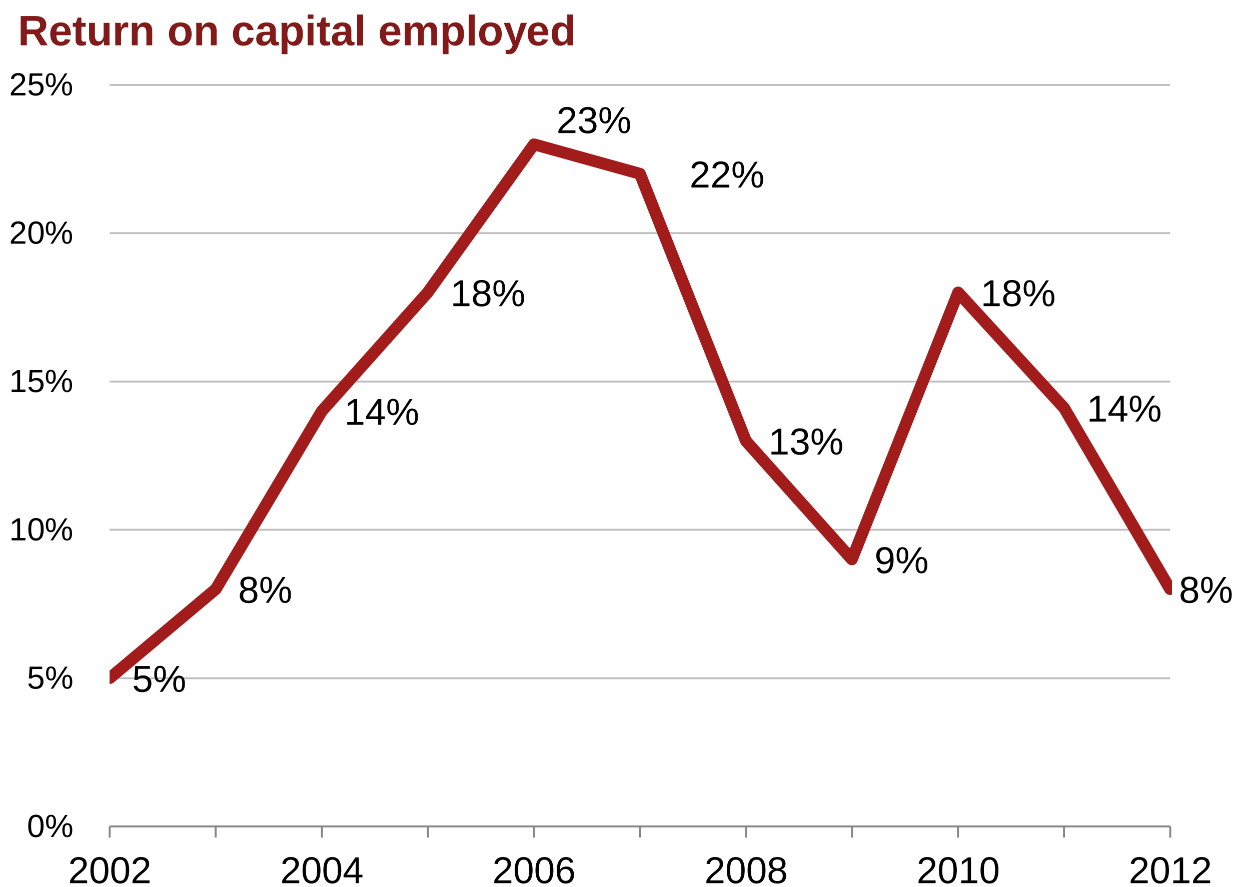
Annual Top 40 CEO turnover rate vs Impairments[1]



[1] In relation to the companies in the Top 40 that has had a CEO change in the last decade.

Over the past five years, the Top 40's total writeoffs have been equivalent to 20% of their total investment cash flows.

...return on capital employed continued to fall...



- ROCE fell to 8%, the lowest level in a decade
- This was driven by:
  - Outsized capital expenditure
  - Sacrificed productivity
  - Increasing operating costs
  - Falling head grades
  - Deposits in riskier locations
  - Lower commodity prices

How is the mining industry trying to win back confidence?

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Are miners generating quick wins or long-term value?

Cost cutting and productivity improvement + capital reduction + reduced M&A/greenfield projects

Increase in dividend yield and dividend payouts

Increased pressure for investment returns

Shift from growth to delivering profits

Focus on 'tier 1' assets

Divest non-core assets

Going after efficiency gains appears sensible given current cost and commodity price pressures, and will help generate long-term value.

Divestment creates visible short-term financial gains, but the longer-term impact on portfolio value is harder to see.

Review and analysis of the Top 100 mining companies on TSXV

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Juniors hold on tight during market downturn

- Drop in commodity prices
- Decrease in market capitalization
- Tight financing market
- Write downs
- Cutting costs + stop work + survival tactic
- Confidence crisis

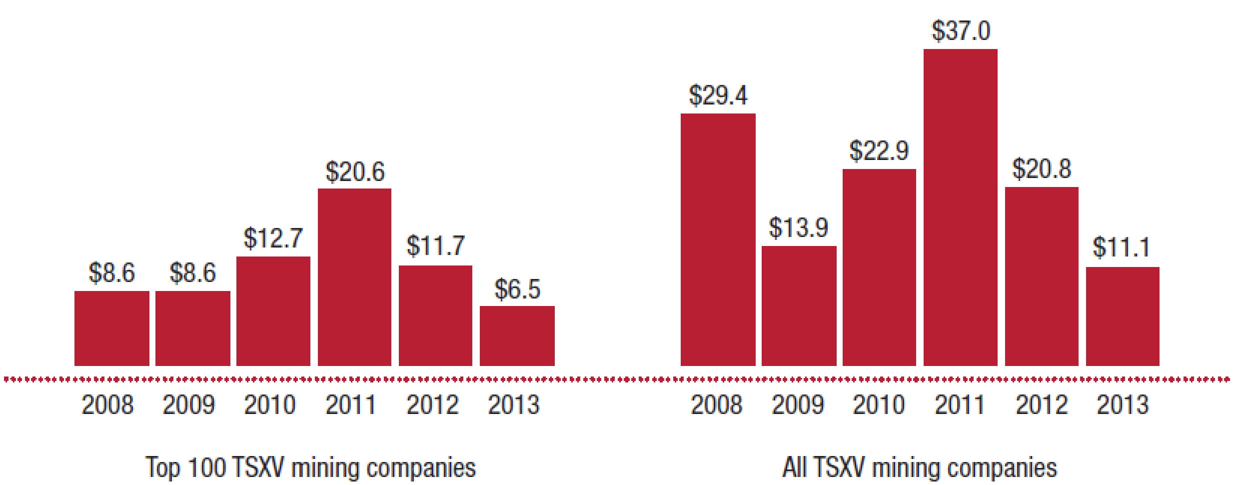
Top 100 Miners on the TSXV: A struggling sector

44%

Market cap of Top 100 falls, on the back of a 43% decline in 2012

- No mining companies have a market cap of more than $500 million on the TSXV, compared to 2 in 2012 and 5 in 2011.
- The total market capitalization of top five fell 50% to $1.2 billion in 2013, compared to $2.4 billion in 2012 and $3.6 billion in 2011.
- Trading volumes fell to 38 billion in 2013, down from 79 billion in 2011

Change in market capitalization: TSXV from 2008 to 2013 (in billions)



The lowdown on write downs

Write downs among the top 100 increased 175%, or by $55 million in 2013 compared to 2012

- Write downs were a necessary drawback to the current volatile market environment
- 2013 saw the top 100 take $87 million in write downs for the period ended June 30, 2013
- These write downs were not isolated to few companies, but instead spread out across 37 of the top 100

Financing overview

34%

Cash generated from financing activities fell in 2013, representing $462M; that's after a 52% drop in 2012

- Cash held by the top 100 fell 36% as a result of significantly less financing in 2013
- Top 100 raised $795 million through equity financings in 2013, which is down 50% compared to $1.6 billion in 2012
- The amount of money raised through debt financings in 2013 was slightly higher at $289 million compared to $251 million in 2012. Debt as a total of all financings increased to 27% in 2013, versus 14% in 2012.

2013 – Financing split – $ billions

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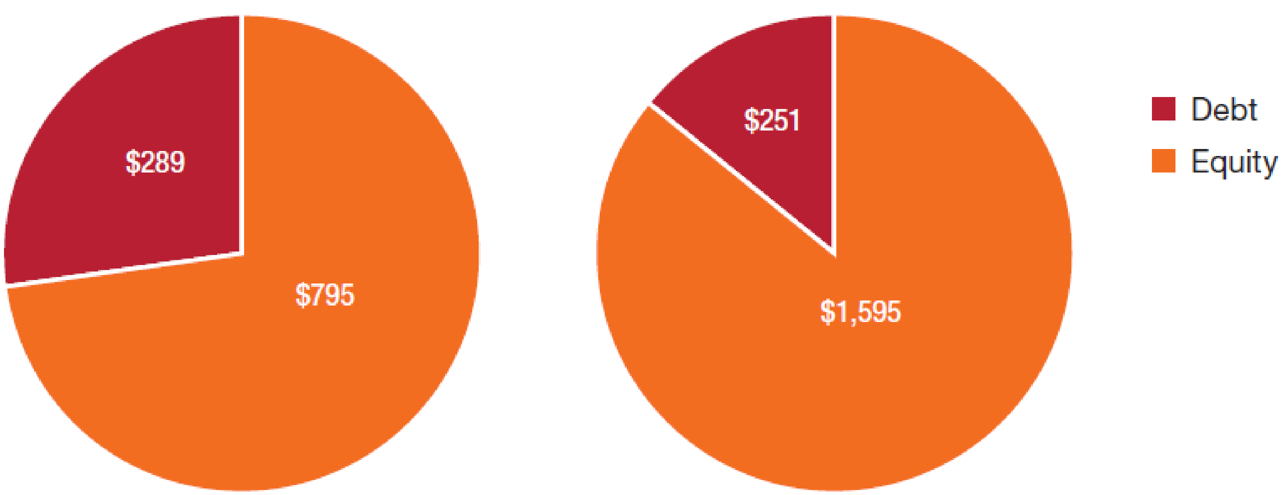
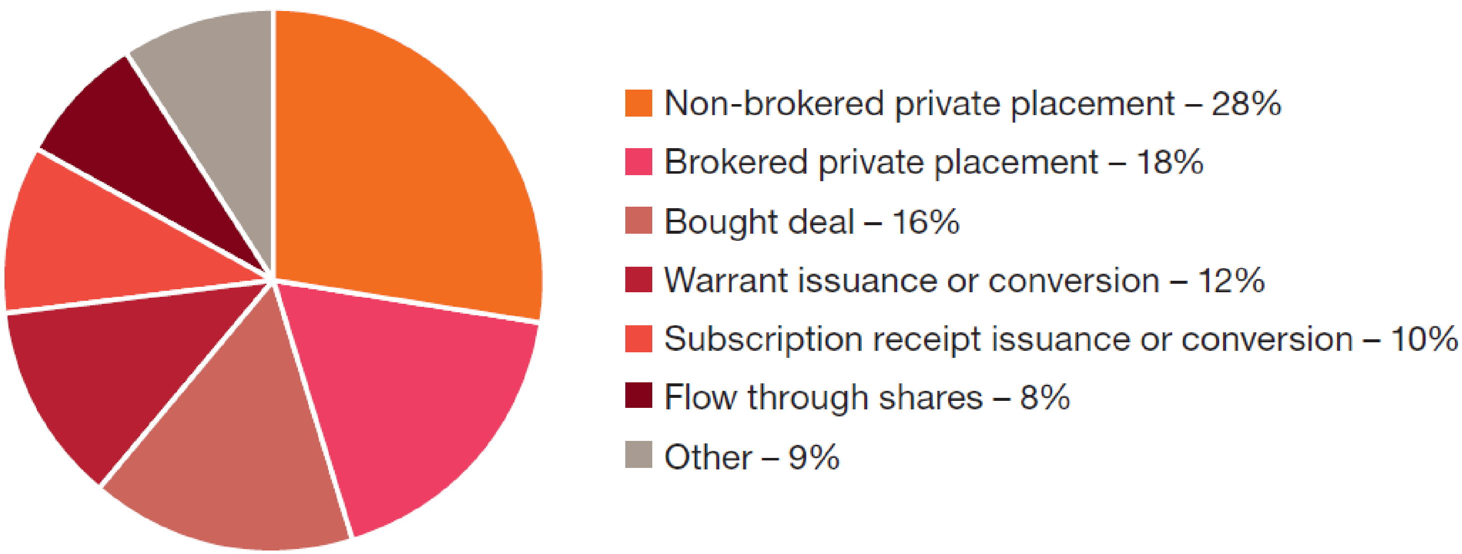


Financing overview *(cont'd)*

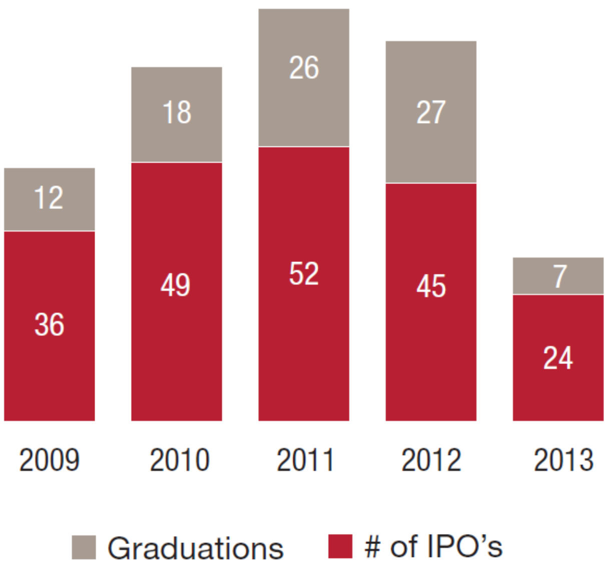
- Juniors are avoiding brokers to save costs
- Non-brokered private placements represent 28% of all financing, replacing bought deals as the most common form of financing

Type of equity financing raised in 2013



IPOs, graduations and delistings

Annual IPO's + Graduations



- The number of IPOs has fallen by more than half in the past three years, to 24 in 2013, down from 52 in 2011.
- The average market capitalization for the 24 companies that went public in 2013 was only $2.2 million.
- Graduations to TSX declined significantly in 2013, with only 7 companies making the leap compared to 27 companies in 2012.
- In 2013, 31 companies were delisted, a number largely unchanged in 2013 compared to 2012.
- Few companies have actually gone under in 2013. However, things may change in 2014 given the cash position of many juniors.

Outlook

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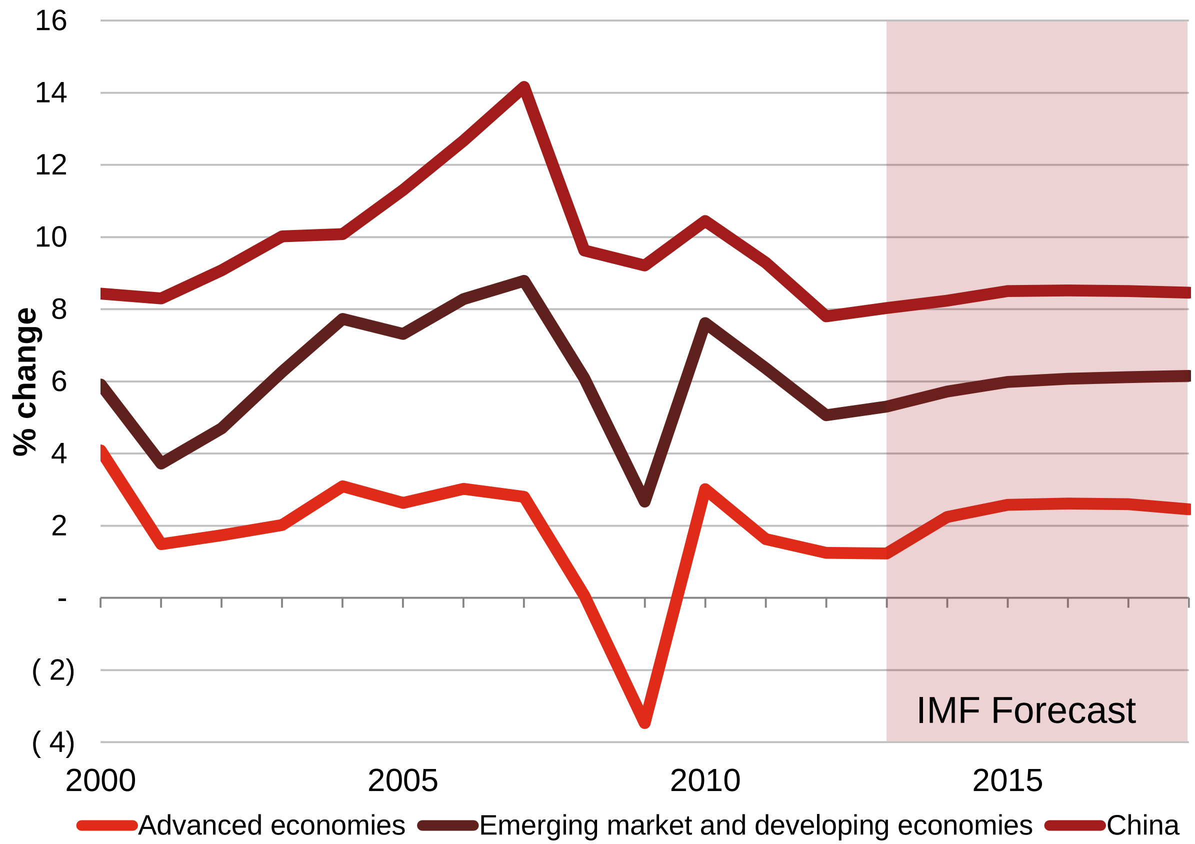
Long-term global demand fundamentals remain intact, but will be emerging market/developing economy driven

GDP Growth year on year (2000 to 2018)



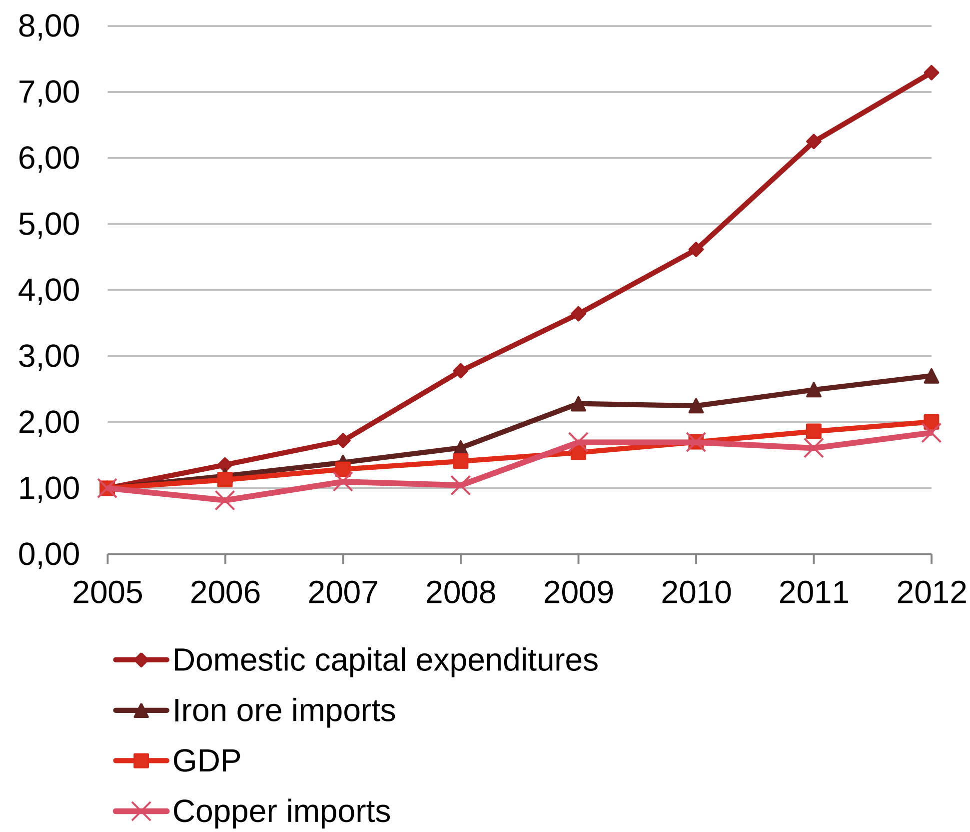
- The trend of slower growth is expected to linger for the rest of 2013, with higher growth prospects returning in 2014.
- Europe will dampen any advanced-economy-led recovery.
- Emerging and developing markets, China in particular, will drive the continued growth.

China will continue to dominate the industry's prospects

China's changing role as a mining consumer, supplier, financier and regulator

- China consumes nearly 40% of global mineral products.
- Demand driven by an unprecedented movement of rural populations to cities (Currently just over 50% live in cities compared with the US at 82%).
- While demand is slow compared to recent years, it will be from a larger base.

Mining industry growth in China (2005 = 1)



Resource nationalism's continued impact

Resource nationalism remains one of the industry's biggest risks. Relatively high commodity prices have prompted many governments to continue to seek a greater percentage of mining profits.

Governments are changing:

- how mining is taxed;
- how products are processed; and
- and how mines are owned and licenced.

Worldwide transparency takes shape

Worldwide shifts in the regulatory environment around disclosure of government payments by mining companies:

- US disclosure rules under Dodd-Frank near phase-in:
  - Conflict minerals
  - Disclosure of payments to government
- European Union backs new profit and tax disclosures
- Canada looks to mandate mining transparency
- G8 leaders promote transparency in mining

Conclusion

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Regaining confidence?

It depends on how the industry responds to:

- Rising costs;
- Increasingly volatile commodity prices;
- Resource nationalism; and
- Transparency

Mining investors aren't looking for companies to take big risks. Right now, they're looking for signs of a discernable turnaround in performance.

While currently there may be a confidence crisis, we have faith that the long-term fundamentals will ensure mining is a great industry to be in for many years to come.

Thank you! / Merci!

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Survival mode continued

Junior Mine 2013

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November 2013