

# PDAC 2020: The search for certainty in a time of uncertainty

MARCH 9, 2020 6 MIN READ

## Related Expertise

- [Mining and Natural Resources](#)

Authors: [Alan Hutchison](#), [James R. Brown](#)

It is difficult to identify a prevailing theme for the 2020 PDAC Convention. The year began with a real sense of optimism in the mining industry – signs of resolution of trade wars suggested momentum for base metals while concerns over a potential market slowdown suggested gold was regaining its safe haven status while the gold price rose to multi-year highs. In January and February, there was momentum for deals to be announced before PDAC and some financing activity. Simply put, we were looking forward to PDAC this year. Although the world was watching the novel coronavirus with bated breath, it hadn't severely impacted the markets or outlook ... until it spread to new and unexpected jurisdictions and the market grew increasingly worried about the effectiveness of ongoing efforts to contain it, causing a full blown panic in the days before the conference began.

Coronavirus, its risks, potential impact and effects became the major discussion topic in the mining industry. Many companies imposed travel bans or limited event participation, and hand sanitizer became the most coveted commodity. We struggled with whether to shake hands, fist bump, elbow bump or simply nod, and that decision played out in real time in interactions that looked more like boxing than a business greeting.

However, at the end of the day, the mining industry is resilient, and the show went on (though with what felt like quite a noticeable decline in attendees, even though organizers noted attendance at over 23,000 people). Our takeaways from PDAC 2020 are below.

## The juniors are not all right

The junior end of the market continues to struggle. Access to capital is limited for exploration, and has been for some time. The PDAC's State of Mineral Finance continues to paint a fairly dismal picture. Early stage exploration is most limited. Though private equity on the whole continues to increase its war chests and available capital, its focus is almost entirely oriented towards producing or near term production stage assets. There are fewer sources of capital willing to invest in mining, and capital is selective and becoming more so. Of course, this theme has been around for a number of years. Expectations that the junior end of the market would consolidate or die have for the most part not materialized. Admittedly there was some consolidation in the gold space at the end of 2019 and into 2020, but not as widespread as anticipated (or hoped for). One gets the sense that one or both of these things will need to happen to reinvigorate exploration.

The majors, having stabilized their balance sheets over recent years, are continuing to provide a source of exploration financing through equity investments and joint ventures. This represents a key source of potential capital for many junior issuers given the lack of other available financing alternatives. Although a few financings have been announced and completed in 2020, continued uncertainty due to coronavirus is unlikely to be constructive for raising capital over the near to medium term for issuers other than the already well-

capitalized majors.

The sector faces an interesting paradox: the only companies who have access to capital are the ones who don't really need it.

## Declining discovery rates

Another continuing theme focused on the significant need for compelling discoveries. This goes hand in hand with the state of junior exploration companies, as junior companies have traditionally been responsible for a disproportionate number of new discoveries. While what constitutes a “discovery” is somewhat subjective, evidence suggests that the rate of discoveries has been falling for years. No one has an answer for how to remedy this phenomenon when the market will not currently support exploration activities. In the meantime, we expect major companies to continue to support select exploration companies through strategic investments and joint ventures. The ongoing strength of the market for royalty interests (both new financing and portfolio trading) is helpful, as it provides a means for junior companies to dilute to a royalty while still preserving value.

But this selective financing will not save the entire ecosystem of junior companies, and major companies are prone to their own financial pressures to return capital to shareholders and demonstrate profitability. It is not clear when or if the days of a junior company being able to raise money for dedicated exploration programs year over year to add incremental value over time will return.

## ESG – talking and not talking

In recent years, all resource companies have had to increase environmental, social and governance (ESG) disclosure. ESG has been a critical component of the mining industry for many years, but now more than ever it is front and centre in public disclosure to meet expectations of investors. Some companies spoke more about ESG efforts than exploration, development and mining operations. While ESG is no doubt important to investors, this may say more about the lack of operational achievements than meeting new societal expectations around dealing with various stakeholders and the environment.

On the other hand, the topic that strangely did not seem to come up during PDAC was jurisdictional risk. Over the past few years, the mining sector has focused on so-called “safe jurisdictions” as a way to manage risk in an inherently risky industry, but it is not clear what constitutes a safe jurisdiction anymore. Traditionally “safer” jurisdictions for mining have faced significant headwinds lately. Chile continues to face societal upheaval and even Canada's image as a very safe mining jurisdiction is not immune to scrutiny – for the first time in 10 years no Canadian jurisdiction ranks in the top 10 for investment attractiveness in the most recent Fraser Institute annual survey of mining companies. To complicate matters for the Canadian industry (which historically exports its expertise to other countries with capital raised on Canadian stock exchanges), the recent decision of the Supreme Court of Canada in the *Nevsun* case has heightened the risk of liability for operations of foreign affiliates in jurisdictions with poor records on human rights and the rule of law. This decision will affect the market and in our view was not discussed enough. Osler recently published a summary of this decision [here](#).

## Dealmaking – opportunity lost or patience as a virtue?

As noted above, at the beginning of 2020 it appeared that market conditions were setting up

for a number of PDAC deal and financing announcements. With very limited exceptions, none of that materialized. However, the conditions were not ripe for that to happen. Rather than a catalyst to complete and announce deals, PDAC was an opportunity to continue discussions to inch closer to a deal. It is a simple fact that in times of uncertainty it takes more time for parties to get comfortable with proceeding with a transaction and it is virtually impossible to get a deal done when the markets are in freefall as they were at the end of February. However, it seems like a bit of an unfortunate wasted opportunity to have the entirety of the global mining sector (other than those impacted by travel bans) converge in Toronto to just talk with no more definitive outcome.

## The future ahead?

It is difficult to make any bold predictions on what is to come for the mining sector in the year ahead. Coronavirus has had a significant short-term impact on global markets, including the mining sector; what remains to be seen is the medium- and long-term impact on commodity demand and availability of capital. Unfortunately PDAC didn't provide many answers on what comes next beyond the fact that it will take more time to find out.