Slow economy forces B.C.'s junior miners into survival mode

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Mercator Minerals president Bruce McLeod said items such as environmental assessments, gaining access to land and impact benefit agreements with affected parties have made drilling program costs almost prohibitive.

Photograph by: Handout, Vancouver Sun

VANCOUVER — Falling metals prices, rising costs and a lack of capital funding threaten the future viability of many of B.C.'s 800-plus junior mining companies.

That was the overriding message Thursday at the B.C. Securities Commission's annual Capital Ideas conference in Vancouver as conditions force some firms into survival mode until markets improve.

"Too few (junior mining companies) are in expansion mode and too many are in contraction mode now," Mercator Minerals president Bruce McLeod said during a panel discussion. "Given the lack of capital available for junior exploration companies, (the number of firms operating today) is not sustainable."

He said items such as environmental assessments, gaining access to land and impact benefit agreements with affected parties have made drilling program costs almost prohibitive.

"By the time you get your permits for what used to be a half-million-dollar drill program, you've already spent half-a-million dollars and you haven't drilled a hole," McLeod said.

The current slowdown in the global economy could delay a turnaround in the junior mining sector as metals prices continue to flatline, Scotiabank vice-president of economics Patricia Mohr said.

“I think it’s going to be a few years before we see prices hugely ratchet up again,” she said. “We’re still very optimistic that the bull run is going to return but I think it’s going to be a second-half-of-the-decade story.”

A KPMG survey of junior mining executives released at the conference said tough market conditions for raising funds have forced many B.C. junior mining firms to drastically cut costs until markets improve.

The study noted falling stock prices and rising transactional costs for structuring deals have “diminished” the cost-effectiveness of public financing.

Some junior companies have worked together to cut costs by sharing offices and administrative staff, freeing up a significant amount of office space in downtown Vancouver.

The findings came from interviews with executives from 15 B.C.-based junior mining companies. KPMG representative Paul Levelton acknowledged the small number of interviews does not provide a representative industry sample. But he said it does provide a good indication of the general sense of concern that exists among junior mining executives now.

“Much of the funding (raised today) is survival capital — being used to keep the company operational until such times as the market returns,” the report said.

As a result, junior companies are putting less money into exploration, or into the studies needed to move a project forward.

Several executives in the survey pointed to the falling price of gold as a major factor in the loss of interest in all mining stocks, with gold prices often having a trickle-down effect on the price of other metals

Others said the demand for metals has slowed over the past few years due to slower global economic growth.

Almost all survey participants pointed to “inconsistent review and enforcement” of regulations by the B.C. Securities Commission and feel the BCSC should focus on protecting the public interest by thoroughly reviewing “questionable” media releases and feasibility studies.

Many executives feel the current downturn is cyclical in nature and conditions should improve over the next few years. They see the potential exodus of “less-economic” mining companies as a positive outcome because investor confidence may increase when stronger junior mining companies remain in the market.

A PricewaterhouseCoopers report earlier this year estimated pre-tax income for the entire B.C. mining industry fell to $1.8 billion last year from $3.7 billion in 2011. Falling coal and copper prices were a significant factor in gross revenues falling from $9.9 billion to $9.2 billion.

More than 29,000 B.C. workers are employed in mining and related sectors.

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