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PDAC 2024 delivers mixed signals as attendees look for answers to industry challenges

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The 2024 Prospectors & Developers Association of Canada's convention kicked off with a strong start with large crowds and a buzz of optimism as thousands of delegates descended upon Toronto to discuss the state of the global mining industry. No doubt the recent uptick in some commodity prices leading up to the conference helped fuel enthusiasm, but the inherently optimistic character of the mining industry did not disappoint. Yet, we can't help but feel that there was something lacking this year that left many wanting for more.

After the initial buzz, the crowds seemed more focused on reception hopping and socializing rather than deal-making. It seems we are still looking for the next catalyst for positivity in the space and still looking for answers to the industry's challenges as many of last year's themes continue to resonate. We are once again pleased to offer our thoughts on this year's convention.

Hot topics: critical minerals, energy transition and electric mobility

The most consistent theme reiterated by the growing number of lithium and critical mineral issuers remains the growth in the sector and optimism for the future. Notwithstanding dramatic declines in pricing for key critical minerals in 2024 — particularly lithium and nickel — we heard many such issuers expressing their views that the bottom of the market had come and gone, with enthusiasm for growth in 2024.

Many of these same issuers were optimistic about their ability to bring to market new producing mines over the next few years. With continued regulatory uncertainty, particularly around federal impact assessments in light of the Supreme Court of Canada's decision to strike down a portion of the federal legislation, timing of project development remains questionable. We discussed the impact of this decision in our *Osler Legal Outlook* year-end article. It also remains to be seen how promises of a more efficient permitting process can be intertwined with community consultation obligations.

With strong governmental support in Canada at both the federal and provincial level for the development of critical minerals projects, industry participants are actively looking at ways to take advantage of government funding and support to accelerate exploration and development. With a variety of funding options, including the government of Canada's $4 billion critical minerals strategy, $1.5 billion Critical Minerals Infrastructure Fund, and a variety of investment tax credits, as well as a variety of provincial programs, miners are hoping to fast-track access to funds. It remains to be seen whether the Canadian government will extend the mineral exploration tax credit, given its pending expiry.

At the same time, federal Industry Minister François-Philippe Champagne doubled down on the approach to investments by Chinese entities in Canadian-owned and controlled businesses, publicly calling out an issuer for proposing a transaction to try to avoid a national security review. Significant changes to the approach to national security reviews have been in the works (as discussed in our *Osler Legal Outlook* article) and the Canadian government has not been shy about taking actions to deny investments and acquisitions by Chinese state-owned enterprises.

In addition to government funding, the trend of original equipment manufacturers (OEMs) and large cap producers of electric vehicle materials continue to make strategic investments in exploration and development stage critical mineral issuers. This has provided a number of issuers with a strong and stable source of financing in an otherwise continuing challenging financing market. Most recently, as announced on the first day of the PDAC conference, Frontier Lithium disclosed a strategic investment and joint venture with Mitsubishi Corporation to support the development of the PAK lithium project in northern Ontario.[1]

Gold price disconnect

At a time when gold prices are at all-time highs, it did not go unrecognized that gold equities remain persistently low. Although many gold issuers have seen a very recent positive trend, the disconnect between commodities and equities evidences the significant risk premia that investors are placing on the mining industry. This is even true for many issuers generating significant results and strong cash flows.

While large cap M&A deal making in the gold space (and, for that matter, the industry as a whole) has been down with the broader market, we saw and heard a great deal of discussion and excitement regarding Newmont Corporation’s planned sale of six non-core operating assets in Canada and Australia. Seeking proceeds to repay outstanding indebtedness following its successful acquisition of Newcrest Mining, these assets will surely generate a significant amount of interest and hopefully act as a catalyst for broader deal-making in the gold space.

Exploration challenges

Low equity valuations pervade virtually the entirety of the junior end of the market populated by exploration companies. Much has been said about the scarcity of capital in the junior market for more than a decade. For the most part, exploration companies have been resilient in cobbling together exploration funding from sources other than public equity markets, such as joint venture partners, flow-through shares, royalty sales or other non-dilutive funding transactions. A number of issuers offered their positions as ones of balance sheet strength, confirming their ability to meet near-term needs through strategic investment and spending.

For the rest of the market, we appear to be approaching the point of desperation waiting for generalist investors to come back into the space, which is a concern to the entire industry. Traditionally it is the junior exploration companies that make discoveries of new deposits that are developed by major producers. As many longtime producing assets approach the end of their mine lives amid rising long-term demand forecasts and as reserves begin to dwindle (especially for copper, which is critical to the energy transition), the industry needs new discoveries for the next generation of mines.

It is becoming increasingly difficult for exploration companies and even some developers and operators to get profile and traction in the market. The equity markets remain mostly frozen for mining issuers (notwithstanding the recent successful First Quantum financing). Something will need to change. Either equity markets will rebound and new investment will return, or the long-awaited culling of junior companies will start to happen. The challenge will be to implement change in a sustainable way that doesn't decimate the junior space.

ESG?

Discussions on ESG (environmental, social and governance) were definitely more muted at PDAC this year.

Positively, however, many issuers were candid and positive about the efforts they have taken to build relationships with Indigenous groups near their respective projects. Talk of partnerships, consultation and investment provide a positive sign for improving relationships between issuers and First Nations. The Canadian federal government also announced funding and support for Indigenous investments in mining projects during the convention.

Ontario's far north remained a popular discussion topic, with more interest in continuing to find ways to progress development of access to challenging projects. The government of Ontario, Marten Falls First Nation and Webequie First Nation jointly announced an agreement to develop community infrastructure projects that could support future development opportunities in the area, including building all-seasons roads to the mineral-rich Ring of Fire region.

The way forward

All of the foregoing leaves us wondering what the balance of the year will bring to the mining industry. For every positive development there is a corresponding area of concern, mostly beyond the control of the companies to which such developments relate. We think there are more signals to come before we have clarity. In the meantime, even well-positioned companies with strong balance sheets and cash flows are poised to exercise caution with future funding uncertain. While we wait for the next market window(s) to open for renewed financings and dealmaking, nothing beats the value creating power of a discovery, so we are counting on the optimists to deliver.

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[1] Osler acted for Frontier Lithium on the investment.