



# Exploration Trends and the International Presence of Canadian Mining Companies

*Skill, spirit, tradition—and access to financing—power Canada’s global exploration ventures*



Photo courtesy of: Gitennes Exploration.

The mining industry is crucial to the Canadian economy. It displays world leadership in the production of several minerals and it mines for an incredible array of resources, ranging from diamonds to bitumen. Even though these premises establish Canada as a mining powerhouse, one could argue that what makes it distinct is the dynamism of its exploration sector, embodied particularly by its junior companies. A combination of entrepreneurial spirit, geological skills, mining tradition, adventurism, adaptability and access to finance makes Canada a truly world-class platform from which to explore for new deposits at home and develop mining operations overseas.

Each year in March, the Prospectors and Developers Association (PDAC) of Canada hosts the biggest convention of miners and explorers worldwide. The convention can serve as a sort of barometer: breaking all previous records, this year’s attendance of 14,500 provides a clear indication that metal prices have resuscitated exploration. The mood of attendants, which the PDAC’s Executive Director, Tony Andrews, described as “everybody jumping up and down going

crazy” would instill a further sense of the magnitude of the shift.

The hard numbers tell the real story: 250% growth experienced between 2002 and 2006 (projected) in expenditures dedicated to exploration and deposit appraisal in Canada. Most consider 2002 as the period where the five-year trough engendered by events such as the Bre-X scandal of 1997 ended. Expenditures in Canada reached \$573.4 million. Four years of continued growth later, Natural Resources Canada predicts that companies will spend \$1,419.5 million in 2006, a number that could very well be surpassed by the year’s end.

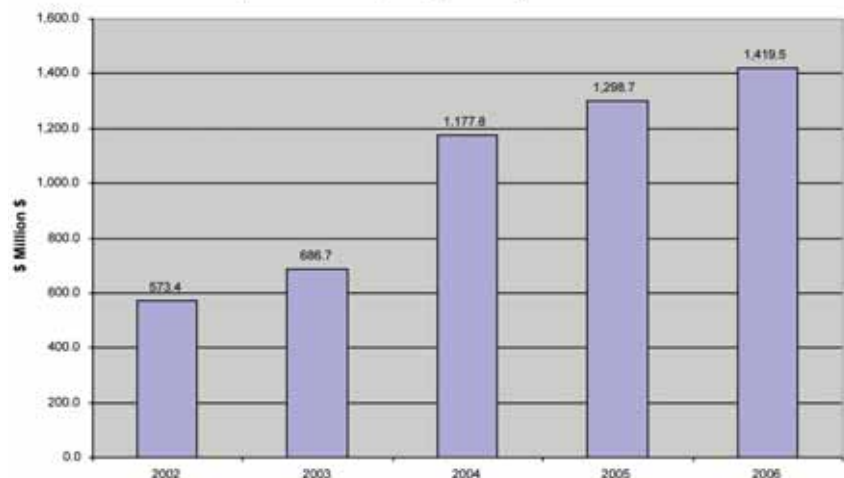
As a result of this upward cycle, which he predicts will be sustained for some years to come, Andrews insists that Canada right now is in a very strong position both domestically and internationally. “About 50% of the world’s mining exploration project financing is raised in Canada and it is attracting 19% of all exploration expenditures on its territory, the highest of any country in the world,” said Andrews. He explained that this illustrates Canada’s global mining competitiveness. Whereas a little more than a decade ago there were few countries competing for exploration dollars and Canadians did not

need to work all that hard, now there are a hundred countries all vying for a finite pool of exploration capital.

Some of the roots of this exploration excellence can be traced to very simple legislation that encourages and facilitates entrepreneurialism. Canada provides for “free-entry.” Anybody with \$25 in their pocket can acquire a prospector’s license and stake claims on crown land (most of Canada is crown land, i.e. territory belonging to the Canadian people but administered by the government). Provided they do some work on it, after a period of time they have complete security of tenure. And if they find something exploitable then they can take it to a lease. Tacked on to free-entry is the assessment system, which obliges prospectors who have done work on a claim to disclose their findings to the government. This is then stored in a file which is available to the public that contains anything from reports on mineralization to drilling results or geological/geophysical maps. Additionally, the government maintains and updates a consultable geosciences database.

Legislation extends into financial incentives that exist to boost fundraising for mineral exploration. “The Investment Tax Credit for Exploration (ICTE)—otherwise

Exploration and deposit appraisal expenditures



Source: compiled from statistics from Natural Resources Canada. Notes: Exploration and deposit appraisal activities include only the search for and appraisal of deposits and do not include work for extensions of known reserves



known as the “super flow-through” system—has been very effective at encouraging investors to return to the mineral sector and to put their money into high-risk ventures,” said MaryAnn Mihychuk, PDAC’s Director of Regulatory Affairs. The mechanism behind the ICTE is quite simple: prospecting companies are allowed special tax benefits that flow through to the purchaser of the share thereby creating a win-win situation where both investors and exploration companies benefit. Its validity has recently been extended.

Canada’s competitiveness lies partly in this favorable legal environment, but its real asset is its people. Centuries of mining history have provided a fertile ground for the emergence of skills that permeate throughout different sub-sectors. The Toronto Stock Exchange’s Kevan Cowan asserts that Canada got into the game very early with public finance to fund early stages of exploration activities, so there is a long tradition. “When you do that for such a long period of time, you are then able to develop all the expertise needed to support it: the TSX, the investment bankers, the analysts, the lawyers, mining engineers and technical specialists,” said Cowan.

“This community of experts in Canada is second to none in the world. It offers a pool of talent of real breadth and depth.” Ronald Thiessen, said president and CEO of Hunter Dickinson, adding that “because we have the expertise, it is logical that the markets look for the local experts to tell them where to invest money. Now that mining is an international game, funds all over the world are looking to Canadian experts to advise them.”

### Global Growth Based on Flow-Through

To understand the internationalization of the Canadian mining industry, one only need look back to the mid to late 1980s. “The legislation allowed individuals to play the game, not just big companies,” Andrews said. When the flow-through program started to be used extensively, a lot of junior companies emerged and provoked a huge spike in exploration expenditure (1987 and 1988 were both record years, unmatched to this day). This led to results while the big companies reasoned that their better strategy was to let the



As many as 600 Canadian companies are conducting an estimated 3,500 exploration and mining projects in 100 countries. This photo of junior miner Etree Gold’s mining camp in Mongolia illustrates the frequent contrast between local culture and modern exploration technology.

juniors focus on prospectors’ work. Indeed, they were more nimble, possessed less aversion to risk, advantages that the seniors did not have. Rather than spending huge amounts of money on exploration, which led to overhead on their balance sheets, the senior companies figured that in many cases it would be better to lean on such dedicated juniors and get involved at a later stage when real financial muscle is required to develop known deposits into mines. In fact, the same holds true today; according to NRC, about 58% of total exploration expenditure in 2005 was spent by juniors .

A few years later, the end of the Cold War brought about a new world order. Many mineral-rich developing countries transformed their economies, became more stable and opened up to foreign investment. Alamos Gold’s President and CEO, John McCluskey recalls that “mining laws changed in 1993 and it marked the beginning of a massive wave of foreign investment in Mexico.” The same applied in many other countries. When that happened, “the Canadian juniors were poised and ready and the financing system here as well” said Andrews. In short, the well-oiled mechanisms that they had applied at home could now be extended to a much larger playing field. Nowadays he estimates that Canada has something like 600 companies working on about 3,500 projects in 100 countries. The NRC states that in 2004, about 43% of all exploration programs in the world were undertaken by Canadian companies .

With a presence so overwhelming, it is hard to pinpoint areas where Canadians thrive most. Peter Guest is President and CEO of Mediterranean Resources, a company whose involvement in Turkey gives it a heavily-tinged European shareholder base though it is listed in Canada. According to Guest, “Canada is time-zone driven which is why you see [Canadian companies] everywhere in North, Central and South America.” While this may be true, it hasn’t limited involvement to other parts of the world. For example, the NRC’s Gary Nash anticipates that “Canadian [mining] companies in Africa alone are in the process of investing anywhere up to \$6 billion with plans to spend another \$17 billion over the next five years.” In fact, Canadians are often at the forefront when it comes to bringing mining to countries that had no previous history of it. Tiomin Resources is a company with heavy titanium investments in Kenya. Jean-Charles Potvin, its president, chairman and CEO recalls that “at the time [of our initial investment] there was no environmental law in Kenya. We were the ‘seed’ that pushed that law ahead. It took three years but you could argue that the reason Kenya has an environmental law today is Tiomin.”

In China, 21 of 39 foreign companies who have mineral exploration programs are Canadian and one of them in particular, Eldorado Gold, is expecting a major part of its growth to stem from its developments and acquisitions there. Niger was a virtual unknown to the mining world as only French nuclear group Cogema operated



In the volatile environment of shifting politics and mineral resources policy, country risk is a critical factor in obtaining project financing—even when the risk may be more perception than reality. Shown here is a tree-planting project sponsored by gold miner Crystallex in Venezuela.

there. Canadians such as North Atlantic Resources and Northwestern Mineral Ventures are now securing large land positions with an aim to be strategically placed when the country's uranium potential is fully unlocked. "I really believe that you find great deposits in unknown territories," said Marek Kreczmer, Northwestern Mineral Ventures president and CEO. "In known mining camps, properties are either of poor quality or grossly overpriced. I like to develop large area-plays, go into virgin territories and be ahead of people." Nevsun Resources is one of only a handful of companies that follows a similar strategy in Eritrea, a country not a single miner could have situated only a decade ago. If Mongolia is on the mining map today, it is also largely because of Canadians. Ivanhoe Mines' Oyu Tolgoi project is poised to be one of the world's largest copper-gold development projects. In fact, it spurred an 'exploration rush' of sorts that had several other companies such as Entrée Gold stake claims in its vicinity.

"I think the industry in this country has moved offshore and I cannot see it coming back," said Joseph Conway, president and CEO of Iamgold Corp., a mid-tier gold producer. "Our company is now in South America and in Africa, but as we evolve we will likely go elsewhere as well, as long as there is stability, receptive governments and local communities that are welcoming." The last part of his comment is conditional and very revealing of relatively new dimensions that the industry has to face.

### Operating Abroad

Corporate governance is an issue that older generations of miners perhaps understood less. With internationalization and an increased focus on the environment, "the 'above ground' issues have become more complicated than the 'below ground ones'" said Andrews without a trace of irony.

This is true in Canada, but perhaps more acutely so abroad where the 'country-risk' factor that Conway alludes to plays a part in the financial valuation of a project. When the Ecuadorian government ran into a tussle with U.S. oil company Occidental Petroleum this year, the shares of nearly all mining companies present in the country took a plunge, irrespective of the quality of their relationship with the government. Todd Bruce, Crystallex President and CEO—a gold company operating in Venezuela—said that "the fascinating thing about Venezuela is the difference between perception and what we experience on the ground as a company." Because of the negative political relations between President Hugo Chavez and the U.S., a lot of distortion occurs. A few months back, when the government announced changes to the mining laws, it was widely interpreted as a move to nationalize projects. Bruce said that the effect was immediate and he "had to counter the negative perceptions by

arranging one to one conferences or phone calls with investors to take them through what the government had actually done and how the media was portraying it." The damage to share prices, in any case, was already catastrophic.

Of course, not everything is based on erroneous perception. Companies in Mongolia went through a share price meltdown after the government unexpectedly slapped a massive windfall tax on mining output. In the Democratic Republic of Congo, the world's largest and highest-grade copper/cobalt project—Tenke Fungurume—has remained undeveloped for years because of safety and infrastructure issues. Paul Conibear, President and CEO of the minority partner in the venture, Tenke Mining Corp. and he explained that when he was appointed in 1999, "we literally had to sit on the assets and try to minimize our costs because it was really uncertain how long the war would last." He said that investor interest was always there because of the quality of the deposit, but that explaining the risk was an utmost priority when making presentations.



Examining core samples for gold at a North Atlantic Resources exploration project in Mali.



## Problems Not Limited to the Developing World

Country risk, perceived or real, can explain why Canada still drains most of the world's exploration expenditures. Some say that even the U.S. is not necessarily a good choice for mining investments despite the obvious economic and political stability. We have heard many a Canadian complain of the 'mining-unfriendly' nature of many states. The O.T. Mining Corp. is exploring for gold in the historical mining district of Butte, Montana, since 1987. Though it acknowledges that this has changed, O.T. laments the amount of time lost during years of confrontation between the mining world and politicians. A similar cry is heard from Formation Capital, an emerging cobalt producer active in Idaho. Mari-Ann Green, chairman and CEO, says that "it has been an incredible money-consuming and time-consuming permitting process. Out of \$34 million spent on developing the project, \$14 million alone were for permitting, largely due to red tape. The upside, she says, is "that

the truth of the matter is that once you have a permit, it is yours to keep."

Political and legal risks aside, managing community relations is also increasingly becoming of the essence. Gabriel Resources, for example, can attest that their gold development project in Romania is largely delayed due to issues of this nature. In this regard, miners complain incessantly of disruptive NGO involvement. Often, they claim, NGOs play on emotions to ensure their own survival. As opposing development projects becomes their 'raison d'être,' many abuses are committed in the name of defending communities who actually welcome projects for the economic benefits they represent. Jean-Charles Potvin cynically points out that "in Kenya, there are 3,500 western NGO's, which is the most of any country in the world. If you ask a Kenyan what kind of job he/she wants to do as they graduate, they'll tell you they want to work in an NGO."

These 'modern' issues set new standards and Canadians feel better positioned than most to remain leaders in international mining investment. Because of

the commitment they have shown to environmental responsibility and the experience they have in dealing with native communities back home, miners feel they are well-prepared to tackle issues of this nature abroad and to help advance standards in far-off markets. Additionally, they have the right 'brand name'. On a national level, they point to the absence of a colonial past or to the positively neutral stance attached to Canada's foreign policy that makes them welcome in most jurisdictions. On a more personal level, Kreczmer highlights the fact that Canada is a country of immigrants. "I think we are all comfortable dealing with people of other cultures and we tend to be more accepting and more understanding," Kreczmer said. His comment was echoed by many of the companies interviewed in the preparation of this article. On a financial level, Canadians can tap into their home finance base of Toronto. Jonathan Goodman, President and CEO of Dundee Precious Metals, reminds us that "Canadians have been able to bring capital financing to places that do not have it naturally."



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