The thick of it

The recent Precious Metals Summit in Colorado was heaving with the right kind of people

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At over 7000ft above sea level the air at Beaver Creek was thin, certainly thinner than I expected. When I arrived at the conference I thought the tinned oxygen provided by CIBC was a novelty.

A day later it was greatly appreciated whether the headache was altitude, hangover, jetlag or all three. The good news for the companies presenting at the Precious Metals Summit, my reason for being in the mountains, was while the air was a bit thin, the place was thick with investors and financiers.

For someone not as familiar with the junior space in North America as I am with my home patch, I was a little overwhelmed by the sheer number of companies presenting at the conference but I was more surprised by the representation from the 'buy-side'. Between the rapid fire presentations run on a dual stream over two days and the fantastic software for co-ordinating one-on-one meetings, both prior to arrival and during the conference, over the full three days of the conference I certainly felt it was worth the trip and I heard plenty of stories I want to learn more about.

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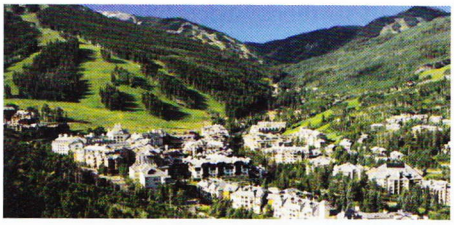
As quick immersion into the junior developer/producer space in North America, with a few familiar faces from home thrown in, I couldn't have asked for a better set up. Noah's Rule has worked for a number of juniors in Canada and we have always had aspirations to ultimately have a presence on the ground, so getting an improved understanding of how this community thinks about financing and how it thinks, or doesn't think, about hedging was of great medium term interest. More immediately though I mostly just wanted to learn how the sector talks about itself, and its issues, because it often seems to dominate our local agenda in many areas, and certainly in the areas of finance and hedging.

Equally, the punter (sorry investor) in me was excited about the smorgasbord the organisers had laid out for us.

After years of watching presentations in our search for prospective advisory clients,



but being astounded about how rich I thought their share prices were relative to my broader view on metals prices, I was now also looking from the perspective of someone who thinks if this isn't the best time in a decade or more to be investing in the sector, then that time is surely only just around the corner.

On both counts Beaver Creek was a happy hunting ground and a very good microcosm of the industry more generally.

As such, it helped me consolidate my thoughts on some of the current themes that seem to be prevalent. One of those was that for many junior producers life sucks (and I reached that conclusion before gold shed another US$40/oz and silver another US$1.50/oz).

For many of the developers, assuming they had a reasonable treasury and no debt, it seemed that while however frustrating their share price was, relative to their years of hard work and belief in their asset, management had a sense that dollars carefully spent would increase the value and progress of their project. Not yet being ready to be a producer was in many ways a blessing; slow progress is still progress. If they weren't convinced of that already, watching the presentations of a number of those who had been 'lucky' enough to get into production a few years earlier might have cheered them up.

There were certainly many producers who, while putting on a brave face, appeared to be simultaneously running down their reserves and their cash balances and that was based on average gold and silver prices over the past quarter, not the spot prices that were unravelling that week on a trajectory that made the black runs all around us look tame. That position was exacerbated in many cases by quite high levels of debt, very high by my conservative standards, and nary a forward sale or any form of price protection was evident. On the latter point the Aussies presenting at both Beaver Creek and at Denver the following week stood out. The locals were still putting up slides declaring they were "hedge free" like it was a virtue and the market wasn't on the lows, while many of the Aussie based producers could show certain revenues, at solid prices, for good chunks of future production and some of those were debt free to boot!

All of the producers presenting had worked hard to get costs down, some by a very big margin, but in the main it seemed they had stripped no more out of costs than the market gods had stripped off spot prices and that wasn't a pace it looked like they could keep up if further tested.

There were of course a number of producers who were doing okay despite the markets and even a few that met the criteria to go on my list of 'cockroaches'. Interesting for me, those North American candidates for the cockroaches list didn't have hedging but they also didn't have debt and they were much lower cost than I was used to seeing in our neck of the woods. Often courtesy of mines south of the border so maybe they are more aptly 'cucaracha'.

Ten years ago as I finished up 20 wonderful years in the banking industry it was clear to me that a game of musical chairs was about to start in that industry, and so it has been for all of the past 10 years. Each time the music has stopped there has been massive reduction in the number of traders, bankers and other industry positions. Many of those roles will not return in our lifetimes.

When it comes to mining I am not a believer that big is beautiful and I never fell for the rubbish that a mine has to produce more than 100,000ozpa of gold to be taken seriously. Mines that make money come in all shapes and sizes and big mines can lose big money. However, small mines will also struggle to make money when encumbered with big management.

Surely a similar game of musical chairs must begin in earnest in the precious metals mining sector. There are simply too many companies for the number of mines we have. People who understand the production side of the industry better than me can opine on how many of the current mines should be shut and how many of the best prospects should get the funding to become mines. Regardless of whether the number of mines increases or decreases in the coming years the numbers of chairmen, directors, presidents/managing directors and finance directors/CFOs must reduce substantially. In the main that's not a comment on the quality of the people who will have to leave, just like many exceptionally good people had to leave the banking industry, it's simply a sign of the times.

Well at least it should be. ▼

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