

Q&A

PDAC's new torch bearer

The man determined to make a difference in Canada's mineral sector

As the 2016 Prospectors & Developers Association of Canada (PDAC) annual convention kicks off, *Mining Journal* speaks with the organisations' new president, Robert Schafer*, about his plans for PDAC, how miners and explorers can entice investors back in, and the most influential person in mining.

Mining Journal: What are the three things you feel PDAC has done well in the past five years?

Robert Schafer: Amid this global downturn, one of the things PDAC has been able to do is secure the mineral exploration tax credit (METC) – a 15% tax credit for those exploring in Canada – which comes directly off the bottom line and helps the fiscal side. This supplements the advantages shareholders have through Canada's flow-through share programme as well.

We have also continued to advocate for some new security regulations to enable investors to enter the market and hopefully broaden the pool of accessible capital. For this funding portal we are looking at things like crowdfunding and alternative financing solutions.

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In several jurisdictions in Canada we have successfully advocated for enhanced fiscal incentives. For instance in the Yukon and Manitoba, we have helped double work assessment credits to ensure companies spending money in the ground can extend their claims for longer.

Recently, we have been bringing the cost of working and operating in remote areas of Canada for both exploration and mining to the attention of politicians.

We have learned through our surveys that if a project is more than about 50km from infrastructure, the cost of developing a mine is almost two-and-a-half times what it costs if

it is within infrastructure reach. The operating costs go up by a similar amount because of the remoteness. Costs of the most remote exploration project we looked at were more than six times higher than the least remote project.

Because of the corporate finance challenges within the sector, we have submitted a request to double the METC to 30% for a three-year period to help incentivise additional exploration. That has gone in as part of the federal budget planning process.

MJ: And what do you hope to achieve during your tenure?

RS: What I want to do with PDAC, and I have great support for it, is help to catalyse investments in infrastructure in remote parts of Canada, to help reduce the costs of operating and improve the viability of moving stranded deposits into production. I think a northern infrastructure corridor would also stimulate exploration and mining activity. It is win-win.

We think the federal government has an important role to play here, either through dedicated funds for infrastructure within its proposed Infrastructure Bank, or through the use of fiscal policy, such as investment tax credits for dedicated infrastructure expenditures.

I also want to continue to improve on our programmes for enhancing our world-leading sustainability guidance on exploration, e3 Plus: A Framework for Responsible Exploration. e3 Plus is a free online information resource for companies who want to improve their social, environmental and health and safety performance.

Robert Schafer has the industry experience to bring significant change to Canada's mining and exploration sectors

MJ: What is the greatest challenge facing the industry at the moment and what can PDAC do to alleviate this?

RS: I would say access to capital – particularly for early-stage exploration – is our greatest challenge.

The only interest from traditional corporate financiers is in very advanced, feasibility-stage projects. The risk appetite for regenerative exploration is virtually zero.

We are trying to help the industry access finance through our advocacy efforts as well as the development of our funding portal [mentioned earlier].

Also a key aspect of our annual convention is bringing together investors and companies through our investor exchange. That is open to the public and free.

MJ: There has been much talk about the need to revitalise trading on the TSX Venture Exchange. What do you think is the core problem for mining and exploration issuers on the bourse?

RS: I perceive there being two challenges impacting trading. First, the shift in risk tolerance by investors. Money avoids risk as you are well aware and the perception – which began with the global economic crisis in



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2008-2009 – is that exploration dollars, in particular, are at the high end of the risk profile.

Banks, trying to improve their risk profile following the bank crisis, have shied away from the investment side of things. And, private-equity money and sovereign wealth funds started looking at investing in exploration and mining, but I think there is a weak connection between the time frames for exploration and mining and the timeframes for the return on investment and exit strategies for those types of firms. It has become a self-fulfilling prophecy.

“In the late 1990s and early-2000s, gold companies had cash costs of less than \$300 per ounce, now they are struggling to produce at \$1,000/oz”

The second challenge relates to raising capital and listing on the stock exchange. The regulatory requirements by security commissions have amped up a bit and the fees imposed by exchanges have not changed, despite the current downturn.

At a recent town hall meeting in Vancouver, for instance, the Toronto Stock Exchange put forward a number of initiatives they hoped would reinvigorate and reignite the Venture Exchange, but they refused to look at their fee structure.

MJ: What province or territory has impressed you the most in the past year in terms of policy change or incentives to do business?

RS: It looks to me like a lot of the jurisdictions are trying to do things that are going to help the resource sector.

In British Columbia they have been working really hard on creating indigenous engagement initiatives, which, in BC, is probably the key aspect to exploration and mining success.

In Manitoba, they have come up with a formula for sharing resource revenues with Aboriginal communities, for which PDAC has been advocating for a long time.

In the Yukon, they have a real ongoing commitment to infrastructure development.

In Quebec, they have Plan Nord. That, together with their constellation of public-private finance institutions, gives them

access to capital as well as incentives to do work there.

And, Ontario and the Northwest Territories are putting together some new mining development strategies.

Saskatchewan is one of the leading jurisdictions in Canada for managing its duty to consult and accommodate Aboriginal people. It's also a leading jurisdiction with respect to land-use planning, and balancing economic development and environmental stewardship.

MJ: What do miners and explorers need to do to encourage investors back into the sector?

RS: The majors need to get a better handle on their operating cost structures and refine their capital cost estimates for project development.

Those things need to get under control so investors have confidence that when a company comes out with a feasibility study the numbers mean something.

On the junior side, the boots on the ground and traditional technologies are still required, but at the same time, because juniors do most of the industry's exploration, they need to adopt newer technologies and tools to help make new discoveries in already established mining camps.

MJ: Who would you say is the most influential person in mining at the moment?

RS: I'm going to go at this from a Canadian perspective. Following the recent changes in the federal government in Canada, it is hard for me not to believe the most influential person going forward is going to be the Minister of Natural Resources, James Carr, or perhaps even Prime Minister Justin Trudeau. They are going to set the tone for how our industry behaves in the immediate and mid-term future.

MJ: How much do you think this current downturn looks like those that have come before it?

RS: I'm not sure this downturn is as deep as some before, but it's been very long lasting. In reality, we have been on a decline since 2008. There was kind of a dead cat bounce in 2010, but it has been dragging along the bottom since. What makes this one a bit different is – thinking back to 1960s-1980s – is the price of, say, gold, copper and zinc. Back then, today's prices would help generate spectacular profits. Nowadays, the operating cost inflation has caught up. In the late 1990s and early-2000s, gold companies had cash costs of less than US\$300 per ounce, now they are struggling to produce at \$1,000/oz.

MJ: what is your favourite book/movie?

RS: First of all, the types of things I enjoy reading and watching tend to be either historical or biographical in nature. I'm not for fiction at all.

One book I am currently enjoying reading is Henry Kissinger's World Order. It's not an easy read in the sense that Dr Kissinger is an intellectual and writes in this fashion, but it takes apart the history of civilisation and how the world order has evolved over time and how it is all coming together during this century.

I see a lot of movies as I'm on planes a lot – they help me relax – but they don't tend to stay with me.

MJ: Do you take holidays?

RS: Yes, my wife would beat me over the head if I didn't.

We tend to go on safaris, mountain hikes, or scuba diving holidays. In recent years we've been to Machu Picchu and did a two week safari in Zambia. We've been to Alaska a couple of times and went to the original Kennicott mine.

The only way to get there is by float plane. That was very neat.

It was a ghost town with a glacier going past it and the remnants of a very high-grade copper deposit.

The other thing we really enjoy is NBA basketball. We have season tickets to the Utah Jazz and try to attend every single game.

In fact, Utah plays Toronto a few days before PDAC convention and I managed to wrangle some seats two rows behind the Utah bench.

MJ: You've been with some very big companies in the past. If you could manage any one of the big diversified miners at the moment, who would it be?

RS: It is hard for me to say I would choose any one company over another because I don't appreciate the details or the circumstances each operate in.

What I would encourage them to do is look to adapt to what is coming in the future, rather than looking at the past and trying to dig themselves out of the problems they find themselves in now.

Right now I am really just excited about becoming the president of PDAC and advocating and pushing forward with programmes that will help the entire sector from exploration all the way through to the production side.

Hopefully this will benefit Canadian companies working at home, but also those active in international jurisdictions, so we have an impact on global business. ▼

*Robert Schafer, who takes on the PDAC presidency during this year's convention, has held a number of roles at firms such as Hunter Dickinson, Kinross Gold and both the BHP and Billiton arms of the company now known as BHP Billiton. He is also a past president of the Canadian Institute of Mining, Metallurgy and Petroleum and the Mining and Metallurgical Society of America