

Coal Prices Determined Record Performance in 2008 for the BC Mining Industry

By Cecilia Jamasmie

Despite the general [glumness](#) that surrounds the mining industry in general, and [British Columbia junior companies](#) in particular, the sector achieved record financial results in 2008. Increased coal prices were the [primary source of financial strength](#) for the Province.

According to the [PricewaterhouseCoopers \(PwC\)](#) report, ["The Mining Industry in British Columbia – 2008,"](#) aggregate pre-tax net earnings for the industry were up by 88% to \$3.2 billion, the highest amount in the 41-year history of PwC's annual survey. Returns on shareholders investments in B.C.'s operating mines, based on pre-tax earnings, reached an unprecedented 98% in 2008, up from 46% the prior year.

Overall, operating companies enjoyed strong commodity prices and increased shipment volume. At the other end of the spectrum, junior exploration mining companies faced a cash crunch and tightening credit markets, which curtailed exploration activity. The total exploration expenditure for the year, as [reported by the Government of B.C.,](#) still totaled CD\$ 367 million, down from the CD\$ 416 million spent in 2007.

For the first time the PwC study includes the results of a survey to CEO's of mining companies based in B.C. that aimed to evaluate how the economic downturn affected their decisions and business.

With the support of the [Association for Mineral Exploration in B.C.](#) and the [Mining Association of B.C.,](#) PwC invited their member CEOs to complete a short online survey in April 2009. PwC received 33 completed responses by publication time. The results show that 94% of the interviewees are currently focused in BC or the rest of Canada. South America and the U.S. factored in some companies' plans (15%), while a few other companies reported involvement in Western

Europe, Australia (9%), Asia (6%) and Eastern Europe (3%). [Michael Cinnamond,](#) a partner in PwC's mining practice and co-author of the report, said that the study detected a mix of uncertainty and cautious optimism.

"We learned that 27% of the respondents are conserving cash, 39% have implemented either moderate or major spending cuts and 12% are just hanging on. As a contrast, about 15% of the respondents reported they are actively seeking acquisitions and looking to grow," Cinnamond said.

Coal, the King

The performance of the B.C. mining industry amidst a crashing economy in the latter part of 2008 took a few by surprise, since last year the provincial government slapped a [ban on exploration for uranium,](#) outlawed any development of known deposits and imposed a "no registration reserve" to ensure that no future claims include rights to the mineral.

"We are lucky we have coal," said Cinnamond, "but the Province could use a larger mix of commodities, especially if we want to keep B.C. as an attractive place for mining exploration and investment."

The impressive results were, indeed, primarily driven by increased coal prices. They were up 225% to US\$261/tonne over the prior year, with coal representing 86% of total product shipments in 2008.

"However, if you fast-forward to April 2009, the one-year prices announced were in the US\$125/tonne range, a significant reduction from prices realized in 2008, but still high compared to historical averages," said Cinnamond.

Copper concentrates were the second largest contributor of mining revenues during 2008, but were down by 29% in 2008 to \$1.19 billion from \$1.66 billion the previous year. The 2008 copper price averaged US\$3.16/lb, but dropped

to an average of US\$1.56/lb in the first quarter of 2009, reflecting weak global demand.

Zinc and zinc concentrates contributed net mining revenues of \$736 million in 2008, down 40% from \$1.2 billion in 2007. Rising gold prices led to a 13% increase in gold revenues to \$231 million in 2008, up from \$205 million in 2007. Gold prices continued to strengthen in the first quarter of 2009, averaging \$908.71/oz. Silver prices also rose in 2008, pushing revenues from silver up by 10% to \$272 million over the previous year.

Total net mining revenue from molybdenum increased 9% to \$472 million from \$433 million in 2007, while the price dropped 5% to an average of US\$28.42/lb. Molybdenum, primarily used as a strengthening material in the steel industry, saw a significant price decrease in the last quarter of 2008 and prices remain low in the first quarter of 2009, down 69% to US\$8.75/lb.

"Cash flow from operations increased by 78% to \$3.4 billion over 2007—a direct result of earnings growth", said Erfan Kazemi, a manager in PwC's BC mining practice and co-author of the report. "BC's mining industry contributed \$6.1 billion in expenditures to the economy, including payroll and benefits of \$858 million. The average salary and benefits package increased by 11% in 2008 to \$112,800, and employment rose 2% to 7,607 over the prior year."

What it is Next

While performance in the mining industry set records in 2008, the highest earnings in the 41-year history of PwC's annual survey, at the end of last year, some companies moved from an opportunistic stance to a defensive one, in which observation of cash and decreased exploration is priceless.

When asked about the main barriers to the industry, Pierre Gratton, President and CEO of the [Mining Association of](#)

British Columbia, said that First Nations land claims and regulatory processes at the Federal levels remain the main barriers.

“First Nations are questioning certain laws and mining practices that have been in place for many years and which they want reformed. They are also increasingly demanding participation and sharing in resource wealth, which may compromise the viability of projects,” said Gratton.

The industry representatives agreed that there is an urgent need to improve the timeliness of the permitting process and in resolving claim issues. ■

Links and References

- [2008 Another Strong Year for B.C. Mineral Exploration](#)
- [Association for Mineral Exploration in B.C.](#)
- [B.C.'S Miners Ride High Coal Prices to Record 2008 Profits](#)
- [B.C.'s Uranium Ban is Irrational, Economically Irresponsible](#)
- [How Some B.C. Juniors are Getting by During the Downturn](#)
- [Looking for a Solution to the Mining Industry Downturn](#)
- [Olympic Sized Depression Hitting Vancouver](#)
- [PricewaterhouseCoopers \(PwC\)](#)
- [Rewards Go to Those with Courage to Innovate](#)
- [The Mining Industry in British Columbia — 2008](#)

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