

The Mining Lifecycle: Immutable or Changing?

By Christopher Ecclestone

The traditional model of [mining lifecycle](#) is a useful guide to the way companies evolve over the first years of their existence.

The lifecycle is rather cheery and leads onward and upward, but sudden death, backward regressions and falls from grace are the unseen snakes in this game of mineral snakes and ladders.

The model does not account for those companies that deliberately or unwillingly end up perpetually in the same part of the lifecycle. Like riders on an exercise bike, they are constantly pedalling but never going anywhere.

With the [economic turnaround](#), the mining finance market has recovered and good projects are getting funded. Despite this improved environment, however, companies must be responsible in their financings and move towards a position in which they can be self-financing if turbulence returns to the market.

The Moods of the Markets

Investors have been speculating on how “this time around” might be different from previous up-ticks in the mining equity markets. Curiously, some companies are behaving as if it is just a case of “business as usual.”

The big gold producers ([Newmont](#), [Kinross](#) and [Goldcorp](#), among others) moved up with gold after the yellow metal hit its bottom in October 2008. Financings were not possible even though the outlook was good for those stocks due to an absolute absence of liquidity in those apocalyptic days. However, the first part of 2009 allowed this group to tap markets. Then things improved for the likes of smaller producers as they could show cash flow and, finally, large market-cap explorers, such as [U.S. Gold](#), joined the financing fray. Smaller gold explorers did not get any traction pricewise until after the middle of the year. Any move before

that was a dead-cat bounce. Finally they could do raisings when gold moved into its crazy phase (powered by the dollar-carry trade) in October and November. However, this was still nothing like the indiscriminate financings from the bottomless well of money that had been seen pre-July 2008 when junior explorers were rattling their begging bowls.

Big base metals only moved up from the second quarter of 2009 and were available to attract funding from strategic partners ([Teck](#), [Xstrata](#)). Real market interests only revived when the Chinese waded in and were finally identified as the massive sponge soaking up whatever base metals supplies were coming to market. Smaller players such as [Quaterra](#) that were getting no traction in May suddenly found themselves loved in financing circles in July.



The Lifecycle of Miners

The moods of any market period are transitory and do not reflect the longer-term immutables. But are some of the assumptions of the mining community

immutable? As mining booms are usually not repeated in quick succession (as we have seen from 2003-2008 and mid-2009 onwards) but are sometimes separated by decades of disinterest and lassitude, not everyone can say that they have lived through a few cycles and attest to the veracity of mining lifecycle assumptions.

- The explorer starts out small with a micro market cap and price to match (promoters and their friends are the only ones on board). Trading is “by appointment”.

- The company gets some publicity, announces grab samples or historic numbers. (Some retail investors enter the picture and newsletter writers get seeded with stock.) The price can make quantum leaps as sentiment and expectation are the main drivers;

- Price and volumes climb. A few savvy institutions enter through highly favourable (to them) financing terms to give the company money to actually do something substantial in its explorations program. More assets are bolted on to give the company the look of diversification.

- [N 143-101](#) or JORC statements hit the markets, which may or may not excite the story. Some may be the kiss of death if the stock has been over-hyped and disappoints; The price may now move sideways for a while as initial seeding investors make their exit for greener pastures (They will know whether there is any real meat to expectations of “better 43-101s to come.”);

- More drilling means more financings with attendant dilution and share price stasis in anything except the most rollicking of markets. Companies start to talk of the financing after the financing to come.

- In the conventional wisdom, this is now a transitional phase in ownership with founders and newsletter touts exiting and institutions upping their stakes.

However, this can also be the phase in which stocks permanently lose credibility. This might happen through management mishaps, bad relations with locals, increased analyst focus or if the

metal which the company is pursuing falls from favour.

The latter fate is what happened to the uranium boomlet of 2007 and seems likely to happen to the lithium wannabes of 2009-10. These companies head back to GO. They either furiously diversify into another metal, attempting to make this change look seamless and not lose fans along the way, or they revert to shell status and pass to another group of promoters that “wash and rinse” the company back with a new name and a new niche.

- Now commences the “getting real” phase, which can be a “minefield” in itself.

At this phase companies generally start work on the economic assessments, mine plans or scoping studies; This is where the “fakers” or the “sellers” become apparent. The fakers are those who talk the talk to try to keep investors’ interest but are either trying to spin out the game for their own profit or are really awaiting a buyer. The sellers are those that make it clear that they have hung out the “for sale” shingle and are just doing infill or step-out drilling and endless N 143-101 reports.

The problem for the sellers is that if a buyer does not appear, investors lose interest and the stock languishes (*Seabridge* being a good example of this malaise). A sure sign of a “faker” is having a mineplan/scoping study and then turning around after a few months and talking of more drilling when plainly there is enough resource to build a mine. This phenomenon is quite common in Canada. It is death to a stock in Australia or London.

- Financings are needed to keep the show on the road, although the money spent may not add much to the resource or the potential value of the mine. Institutions have either latched onto the stock or not. If not, it is going to be hard to raise the money required for the mine build. Eventually a point comes when “push comes to shove” and ground must be broken or even the institutions lose interest. A quite large-cap company can start to shrink at this stage on unrealized expectations.

In conclusion, the mining lifecycle —as popularly imagined— is less like an assembled movie and more like the shreds of film on the cutting room floor. The shreds can be put together in many different ways, can be run backwards or may consist of extremely short bursts of action after which the show fizzles into obscurity. Some of the shows are better if you get up and leave while the going is still good. Waiting for the action may be an unprofitable climax indeed. Some of the shows may be stereoscopic (two mines or at least projects) or even 3D, although you may not be given the glasses and “shows” may just look like a mish-mash.

Still there is a formula to it. Almost a Darwinian process of life, death and rebirth is at work. The stock markets that host these companies are like petri dishes swarming with amoebae combining, dividing and recombining eternally. However we are yet to hear of advanced life-forms coming out of a petri dish. Still there are few other industries in which companies can go from a standing start to market capitalizations of hundreds of

millions of dollars in a couple of years and still not have any sales or bottom line to speak of. Such is the miracle of life in mining. ■

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Links and References

- [Goldcorp](#)
- [Kinross](#)
- [Metal Cycles](#)
- [Newmont](#)
- [N 143-101](#)
- [Quaterra Resources](#)
- [Seabridge Gold](#)
- [Signs of an Economic Turnaround](#)
- [Teck](#)
- [U.S. Gold](#)
- [Xstrata](#)

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