

Stay the course

The mining industry in British Columbia 2012

Summary of highlights

PricewaterhouseCoopers (PwC) is pleased to present this summary of our latest edition of the BC Mining Survey.

This is the 45th year of publication for the report, which outlines the financial results and major trends in BC's mineral exploration, development and mining industry.

This year's survey involved 37 participants. They include 19 operating metal and coal mines (including 1 smelter operation), 10 operations in the permitted or active permitting stage, 5 advanced exploration-stage properties and 3 mines in the reclamation stages.

Gross mining revenues were reported as \$9.2 billion in 2012. That is down 7% from \$9.9 billion in 2011, when the price of copper reached a new high and coal was near its peak. Commodity prices slid as a result of slower global economic growth and a deepening debt crisis in Europe. The prices of BC's two largest revenue generating commodities, coal and copper, experienced slides as a result, causing a drop in aggregate BC mining revenues and profits for PwC survey participants in 2012.

Net earnings before taxes fell 51% to \$1.8 billion down from \$3.7 billion the year before. Cash flow from operations decreased to \$2.2 billion in 2012 as compared with \$4 billion in 2011.

Total mining expenditures rose to \$9.2 billion in 2012 as compared with \$8.9 billion in 2011. Mining companies spent more on items such as production materials and supplies, energy and fuels, outward transportation, and machinery, equipment and construction materials.

The BC mining industry made **total payments to governments** and government agencies of \$504 million in 2012, down from \$674 million the year earlier.

Employment in BC's mining industry increased to 10,419 in 2012, up 12% from 9,310 in 2011.

The **average salary and benefits** for each person employed rose to \$121,900 from \$115,700 in 2011. Attracting and retaining skilled labour to mining operations in BC remains a top challenge.

New beginnings

In 2012, New Gold Inc. opened its New Afton mine near Kamloops, BC. This is the second new mine in BC in two years, after the opening of the Copper Mountain Mine near Princeton, BC in 2011.

Looking ahead, the next large mines slated to open are the Thompson Creek Metals Mount Milligan project and the Imperial Metals Red Chris project, which are both currently under construction. There are a number of other projects in the pipeline which are currently in the development stage. Mining projects in the northwest of BC will get a boost from the 344-kilometre Northwest Transmission Line (NTL) currently under construction. Expansion plans at a number of BC's ports, which serve as a gateway to key customers in Asia, are also underway.

“BC’s mining industry faced significant headwinds in 2012, including lower commodity prices as a result of global market jitters and a range of rising costs - labour, raw materials and energy,” said Michael Cinnamon, survey co-author and leader of PwC’s Mining practice at PwC. “Lower capital expenditures, revenues and a drop in operating cash flows resulted.”

Metallurgical coal revenue fell to \$3.5 billion from \$4.7 billion as the prices of the commodity dropped to an average in 2012 of US\$193/tonne from US\$257/tonne in 2011. Shipments of metallurgical coal rose to 24.2 million tonnes in 2012, as compared with 24.5 million tonnes in 2011.

Copper concentrates revenue rose to \$1.5 billion in 2012 from \$1.3 billion in 2011, while copper shipments rose to 787,000 tonnes from 668,000. The rise is due to production increases at Copper Mountain, which commenced production in 2011, as well as the New Afton mine, which began commercial production in the summer of 2012. The price of copper fell in 2012 to an average of US\$3.61/lb, which is down 10% from 2011.

Zinc and zinc concentrates revenue fell slightly to \$685 million from \$693 million in 2011, as shipments inched downwards to 287,000 tonnes from 289,000 tonnes in 2011. Zinc prices dropped 11% to an average of US\$0.88/lb in 2012, down from US\$0.99 in 2011.

Molybdenum revenue was trimmed to \$248 million in 2012 from \$256 million in 2011, as shipments fell to 11,000 tonnes from 13,000. The price of molybdenum fell sharply to US\$12.78/lb in 2012, from US\$15.45 in 2011, down 17%.

Lead and lead concentrate revenue fell to \$194 million in 2012 from \$213 million in 2011, while lead shipments increased to 88,000 tonnes from 84,000 tonnes in 2011. The price of lead declined 14% in 2012, to US\$0.94/lb, as compared with US\$1.09 the year before.

Gold revenues rose significantly to \$275 million in 2012, up from \$154 million the year before, due to increases at the Copper Mountain mine and sales at New Afton. In BC, gold is a byproduct that is primarily derived from copper mining. The price of gold climbed in 2012 to average US\$1,668/oz for the year, up from \$1,572/oz in 2011, an increase of 6%.

Silver revenue fell to \$760 million from \$811 million, alongside silver prices, which dropped 12%. The average price of silver in 2012 was US\$31.16/oz, as compared with US\$35.31 in 2011. Silver is also a byproduct of metals such as copper, gold, lead and zinc.

Interviews with key BC mining executive discussing the 2012 highlights and outlook can be viewed at www.pwc.com/ca/bcminingsurvey

A complete copy of PwC’s The Mining Industry in British Columbia – 2012 is available from PwC’s website at www.pwc.com/ca/bcminingsurvey

Outlook

It was a challenging year for the BC mining industry due to falling commodity prices, rising costs and tight credit markets for companies looking for financing. While 2013 is already proving to be another tumultuous year, it's a reality miners are used to in what has long been a cyclical business. Despite the ongoing volatility in the sector, the mining industry, BC's in particular, has reason to be optimistic in 2013 and beyond.

In its 2013 outlook, the Conference Board of Canada called mining a bright spot that will see decent growth in the long term.¹ Some of this growth will be driven largely by New Gold Inc.'s New Afton mine and the start-up of Thompson Creek Metals Company's Mount Milligan mine, which is set to begin full production in 2014. Other projects forecast to come into operation in the coming years include Avanti Mining Inc.'s Kitsault molybdenum project, as well as Imperial Metals Corporation's Red Chris copper and gold mine and an expansion at Taseko Mines Limited's Gibraltar copper mine.

The completion of the Northwest Transmission Line (NTL), which is expected in 2014, will bring a huge boost to mining activity in that part of the province and is forecast to unlock billions in future revenue.

BC's coal industry is also expected to benefit greatly from plans to increase capacity at its key gateways to Asia and other markets around the world. In addition to the \$100 million expansion completed at Westshore's Roberts Bank facility recently, upgrades and expansions totalling \$265 million are planned at BC's two other major coal ports; Prince Rupert's Ridley Terminals and Neptune Bulk Terminals in North Vancouver harbour.²

2012 summary

(\$CAD millions, except where otherwise noted)

	2012	2011	2010
Gross mining revenues	\$ 9,157	\$ 9,886	\$ 7,905
Net mining revenues	7,844	8,747	6,574
Net income (pre-tax) ¹	1,784	3,690	3,718
Cash flow from operations	2,230	4,013	2,855
Industry spending	9,206	8,921	5,913
Payments to governments ²	504	674	515
Exploration and development expenditures ⁴	680	463	322
Capital expenditures	2,746	2,943	1,252
Pre-tax return on shareholders' investment (%)	22.8	46.0	62.9
Direct employment (number of employees)	10,419	9,310	8,195
Shipments (000s tonnes)	27,327	26,014	24,937
New capital raised ³	94	3,268	2,156

Overall, global demand for resources will continue, driven by countries such as China and India. BC has the ability to meet some of this demand. The province continues to educate and train its existing and future workforce to ensure its long-term competitive position remains strong. BC will also continue to show leadership in environmental management and protection, as well as collaboration and cooperation with communities and government.

While there are challenging times ahead for BC's mineral exploration, development and mining companies – along with the global mining industry – demand for resources is expected to remain steady for the foreseeable future. As a result, BC's mining industry will stay the course, exploring, expanding and building mines to meet growing global demand.

Sources

1. Conference Board of Canada Provincial Outlook Winter Update 2013
2. www.vancouversun.com/Surge+world+demand+coal+spurs+expansion+ports/8262229/story.html

Notes

1. Some of the earnings reported are generated by trusts and joint ventures and do not include income taxes. Consequently, to provide consistency in results, net income has been collated and reported on a pre-tax basis.
2. Includes direct taxes, other levies and payments related to employment.
3. Does not include debt restructuring or capital raised by parent companies that is not directly related to the property in BC.
4. Totals as reported by the Ministry of Energy, Mines and Petroleum Resources.

PwC's mining services

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