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## Economic Perspective for the Mining Sector 2013 Introduction

The past four years have been turbulent, to say the least, for the global economy, and particularly so for the mining sector. The outlook for 2013 is still very much unpredictable. In the wake of PDAC 2013, the general climate seems to be one of very cautious optimism, however very recent events in Europe have caused great deal of concern in the sector.

There is clear indication that there will be an increase in M&A activity in the sector and that the major players will increase divestitures to focus on core commodities. This in turn should benefit some of the mid-tiers, which are in a position to make some acquisitions. This is supported by the recent survey conducted by Pedersen & Partners, for which nearly 80% of the mining companies surveyed suggested that M&A activity will likely be part of their 2013 strategy.

Looking back over the last few years, it is highly reasonable to see some level of hesitation on the market, the global recession beginning in the second half of 2008 sent commodity prices, stock prices, and market caps in the mining sector into a tailspin, which continued through the first half of 2009. The sector responded through restructurings and production cuts as well as expenditure reduction, and by the second half of 2009, the sector as a whole was rallying and continued to rebound through 2010. Market caps returned to almost the same levels as 2007 and there was increased optimism that the sector would continue its upward momentum due to the growing demand for commodities from emerging markets.

2011 proved the expectation of continued growth to be overly optimistic as, although commodity prices were rising and there was considerable merger and acquisition activity, market caps began to drop considerably toward the end of 2011. Shareholders were not seeing their expected return on investment, particularly among the juniors, and confidence in the mining sector began to flag due to lowering of ROI for investors in the sector.

Increasing optimism that the market would rally marked the first half of 2012, with some predicting a banner year for mining M&A, driven by large companies with a surplus of capital and opportunistic mid-tier companies. However, the US Fiscal cliff and the European Economic Crisis in addition to increased capital cost caused resulted in fewer financings and less capital raised, and the during the second half of 2012 the outlook for the market became much bleaker. To exacerbate matters, demand for resources and capital coming in from the BRIC economies began to flag as their economies began to decelerate.

Returning to 2013, increased M&A may facilitate some growth in the industry, particularly among the mid-tiers. Many of the small mining firms with market caps less than 10 million USD, will not survive through the next year. Those with proven projects and strong management reputations may be subject to acquisitions or find more fluid funding through private equity, streaming, flow through shares and eventually, some institutional financing.

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## Highlights of Survey Results

We have surveyed some 160 companies across the sector regarding issues of concern in predicting the economic outlook for the mining sector in 2013. We are pleased to present to you a summary of this year's survey.

- Survey opened December 15, 2012 and closed February 2013
- Increasing number of companies with market caps below 25 million the last two years
- Overall perspective appears to be one of cautious optimism with most respondents predicting that 2013 will be very similar to the situation of 2012 or improving somewhat, with only 24% expecting further contraction of economic conditions.
- The perception is that this is an auspicious time in the market cycle to make acquisitions, but a difficult time to secure capital for acquisitions, however we have recently seen an increase in M&A, and according to respondents 47% expect M&A to be a part of their growth strategy this year, 31% saying it would be a possibility for the right opportunity and only 22% ruling it out.
- Securing Financing, Commodity Values, and Skills Shortages are the highest concerns moving forward in 2013.
- Surprisingly, 59% of respondents expect to see an increase in market capitalization through 2013, and only 8% expect to see a decrease.
- Respondents indicate that the strength of emerging markets, even in light of a slowing growth rate, will provide greater access to financing and increase the odds of being the object of an acquisition.
- Although regulatory requirements are increasing globally in the exploration and mining sectors, 54% of respondents do not expect it to affect their operational strategy, while 26% do, and 20% are unsure.
- In spite of the fact that market caps and share prices are down across the board, 28% indicate they will be hiring new employees, 5% indicate they will be bringing back staff that were laid off, 50% will maintain their current staffing levels, and only 15% suggest they will be restructuring.
- Many of the junior companies with the lowest market caps will disappear or seek mergers in order to increase capital. As a result, the number of publically traded companies in the sector will be greatly reduced over the next year, which should in turn benefit some of the larger juniors with strong projects and healthy market caps.

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## Pedersen & Partners

Pedersen & Partners Executive Search is a leading international executive search firm focused on finding top talent for our clients across Europe, Asia, Africa, the Middle East and the Americas. We pride ourselves on being discrete and precise, offering our clients the complete package both in terms of industry expertise and reach. Our executive search team comprises nearly 60 nationalities across 50 offices around the world bringing our clients the best of both local and internationally sourced talent.

At Pedersen & Partners Executive Search we are aware that accurate knowledge of specific industries and functional verticals is the key in placing top executives for our clients. We have developed cross-border, industry practice groups to ensure our executive search team members have the requisite experience from specific sectors to guide them throughout the executive search process.

As part of our Industrial Practice group, our global Mining and Metals sector search consultants exhibit strong industry experience and in-depth knowledge of the sector's key business drivers. With our wholly owned offices around the world, we are able to leverage both our international and local knowledge to quickly identify and locate qualified candidates irrespective of location.

We have built an extensive network of contacts and a global database of mining specialists. We recruit across all areas of the mining industry for exploration and production companies as well as service providers. We have wide-ranging expertise in recruiting for varying sized companies, across many commodities, from exploration through to feasibility, construction, and production.

We have executed successful searches spanning most senior executive and functional leadership positions within the mining industry. Our goal is to build long-term advisory relationships with our clients, with an understanding of the unique requirements the company, their corporate culture, and the prevailing climate within the market.

We are obsessed with quality and follow a strict executive search process with every new search mandate. We begin by defining business needs and search context, the role and candidate profile description, and we devise a detailed search plan which will include direct search, expert recommendations, database search, social media and integration of internal candidates. We assess the candidates through a series of interviews until we achieve a mutually acceptable short list of candidates. We provide detailed assessment reports, arrange client interviews and complete references and provide reports. We assist in the process by facilitating contract negotiation and provide follow up consultations with both the client and the candidate.

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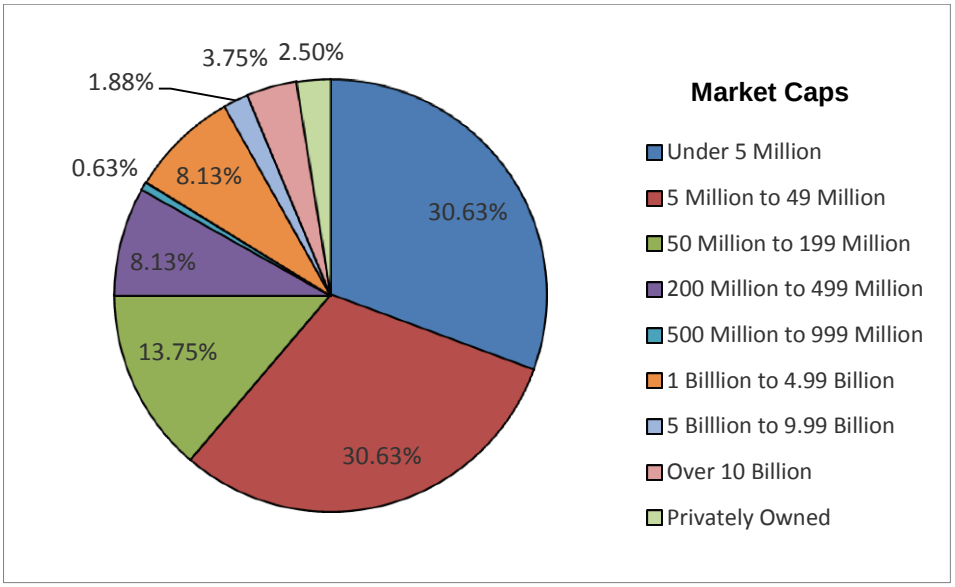
# Economic Perspective on the Mining Sector 2013

## Survey Results

| Market Capitalization | Percentage of Respondents |
|---|---|
| Under 5 Million | 30.63% |
| 5 Million to 49 Million | 30.63% |
| 50 Million to 199 Million | 13.75% |
| 200 Million to 499 Million | 8.13% |
| 500 Million to 999 Million | 0.63% |
| 1 Billion to 4.99 Billion | 8.13% |
| 5 Billion to 9.99 Billion | 1.88% |
| Over 10 Billion | 3.75% |
| Privately Owned | 2.50% |



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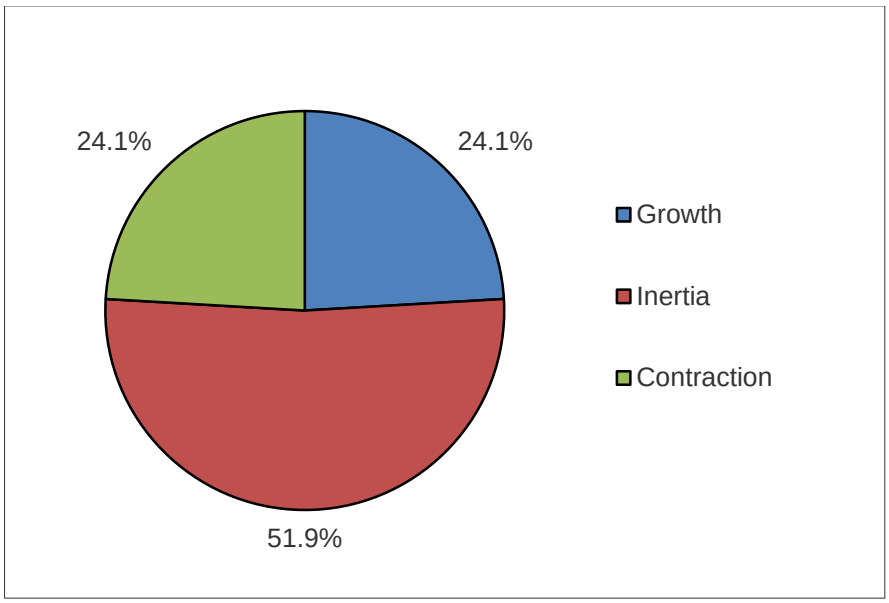
## Question 1

| What do you expect for the economic state of the mining sector over the next quarter? | |
|---|---|
| **Answer Options** | **Response** |
| Growth | 24.1% |
| Inertia | 51.9% |
| Contraction | 24.1% |



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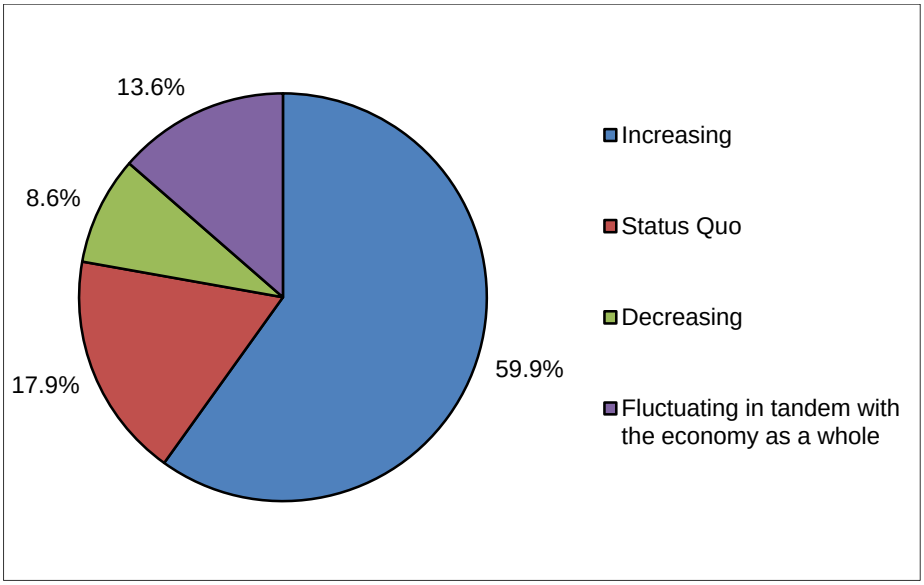
## Question 2

| What are your expectations for your market capitalization going into 2013? | |
|---|---|
| **Answer Options** | **Response** |
| Increasing | 59.9% |
| Status Quo | 17.9% |
| Decreasing | 8.6% |
| Fluctuating in tandem with the economy as a whole | 13.6% |



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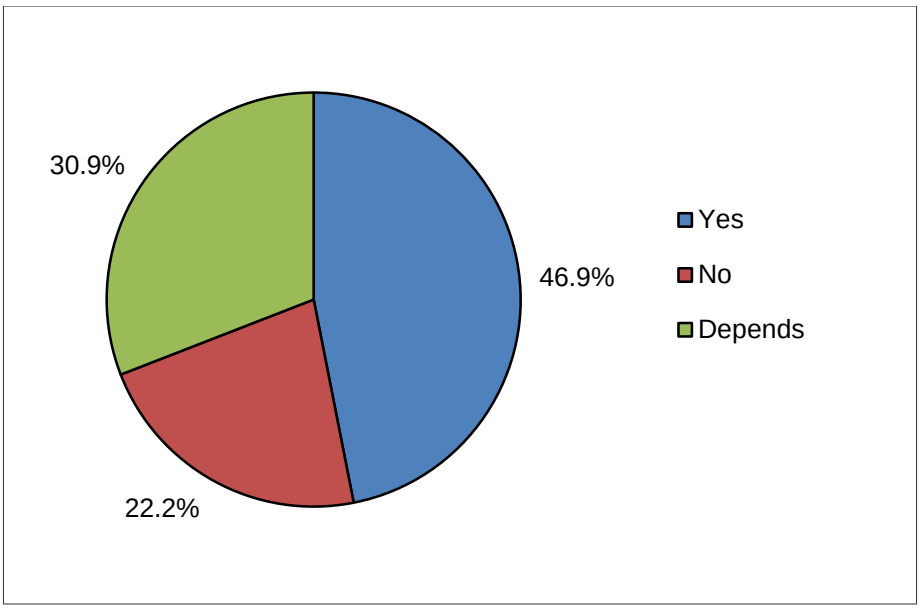
## Question 3

| Does your company plan on incorporating mergers or acquisitions into your business growth strategy over the next year? | |
|---|---|
| **Answer Options** | **Response** |
| Yes | 46.9% |
| No | 22.2% |
| Depends | 30.9% |



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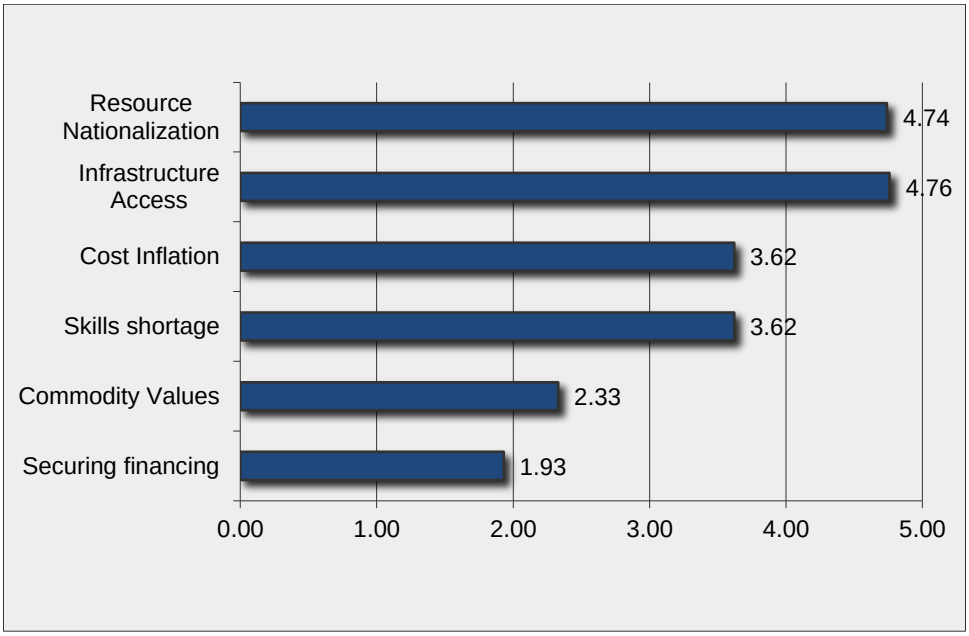
## Question 4

| What are some of the major risks affecting growth moving forward in 2013? | |
|---|---|
| **Answer Options** | **Rating Average** |
| Securing financing | 1.93 |
| Commodity Values | 2.33 |
| Skills shortage | 3.62 |
| Cost Inflation | 3.62 |
| Infrastructure Access | 4.76 |
| Resource Nationalization | 4.74 |



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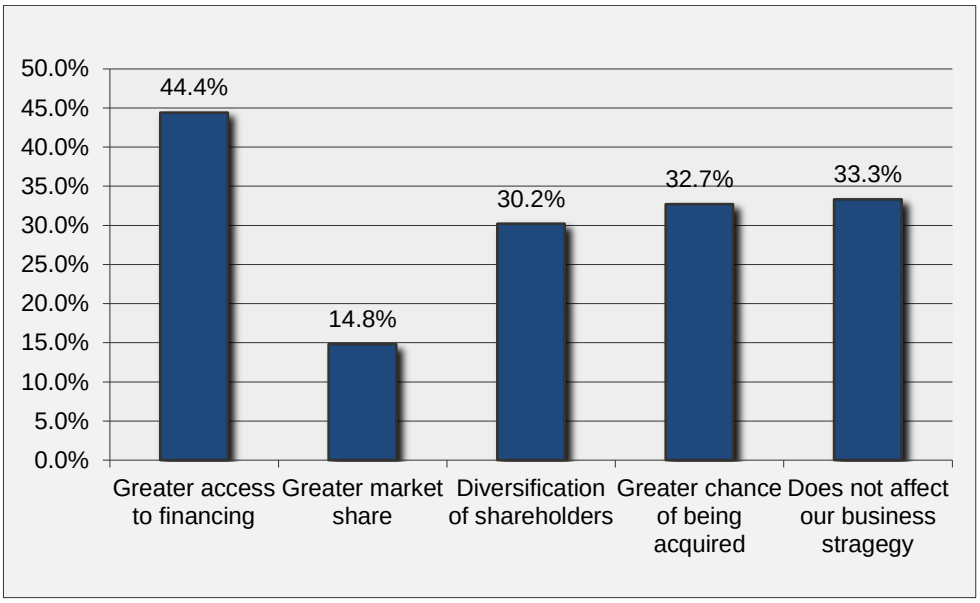
## Question 5

| How will the strong growth in emerging markets affect your current business strategy? (Check any that apply) | |
|---|---|
| **Answer Options** | **Response** |
| Greater access to financing | 44.4% |
| Greater market share | 14.8% |
| Diversification of shareholders | 30.2% |
| Greater chance of being acquired | 32.7% |
| Does not affect our business strategy | 33.3% |



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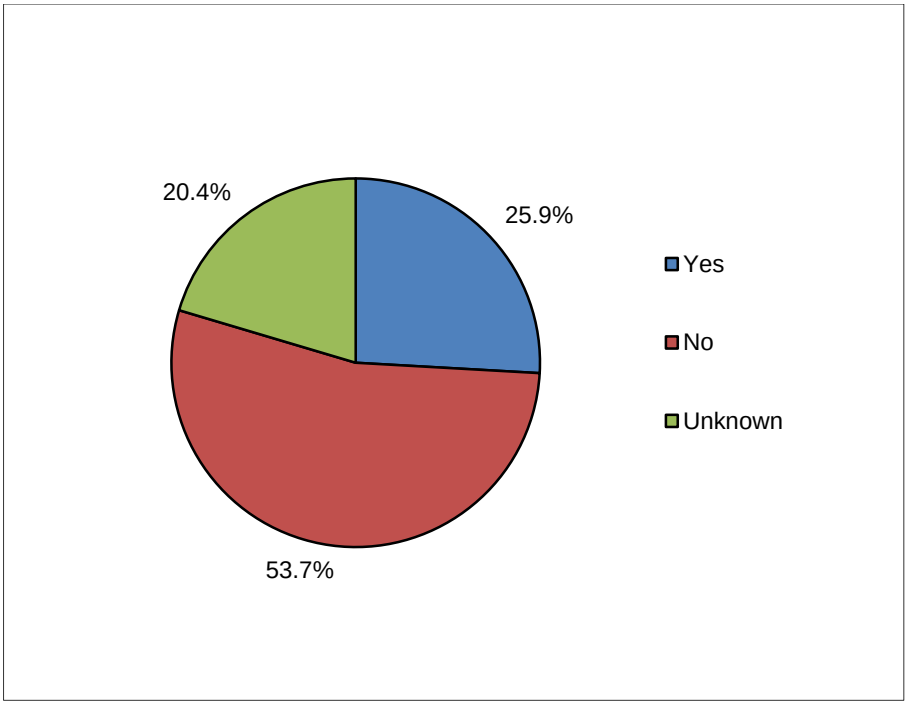
## Question 6

| Will environmental regulations negatively impact your company's operational strategy for 2013? | |
|---|---|
| **Answer Options** | **Response** |
| Yes | 25.9% |
| No | 53.7% |
| Unknown | 20.4% |



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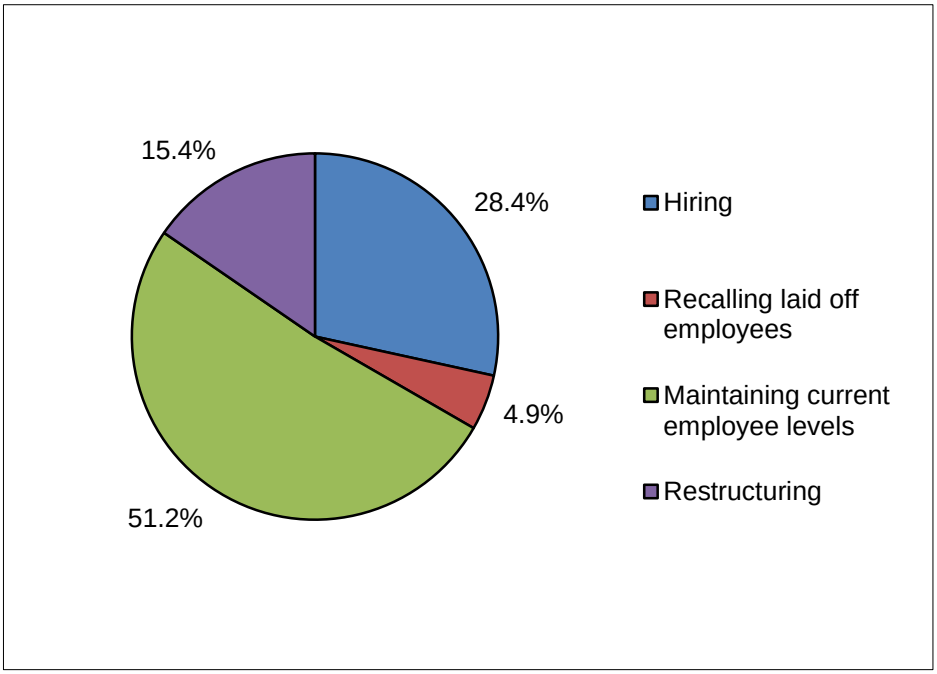
## Question 7

| What is your company's plan in terms of headcount going into 2013? | |
|---|---|
| **Answer Options** | **Response** |
| Hiring | 28.4% |
| Recalling laid off employees | 4.9% |
| Maintaining current employee levels | 51.2% |
| Restructuring | 15.4% |



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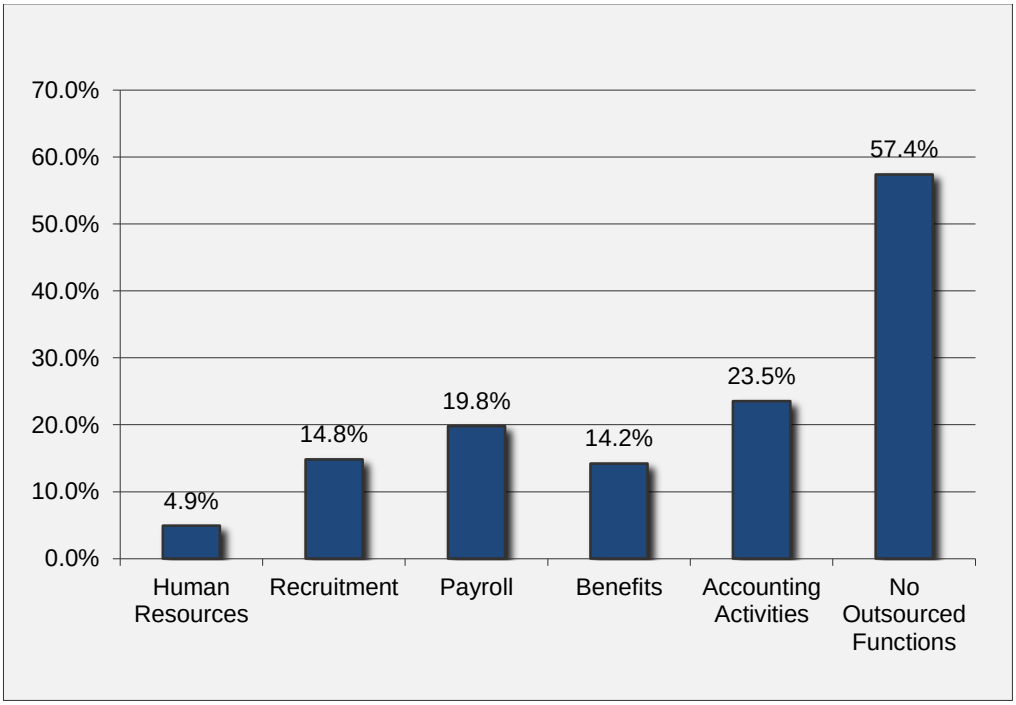
## Question 8

| Has your company outsourced any of the following organisational functions in order to reduce costs? (Select any that apply) | |
|---|---|
| **Answer Options** | **Response** |
| Human Resources | 4.9% |
| Recruitment | 14.8% |
| Payroll | 19.8% |
| Benefits | 14.2% |
| Accounting Activities | 23.5% |
| No Outsourced Functions | 57.4% |