

Diggers & Dealers conference

6-8 August 2018

Hogan Lovells was an active participant in this year's Diggers & Dealers conference, attended by lawyers from our Australian offices.

Introduction: Emergence of 'green shoots'

Australia's leading annual mining conference, Diggers and Dealers, took place in Kalgoorlie, Western Australia between 6 and 8 August 2018. The conference is attended by various industry stakeholders, including major and junior miners, exploration businesses, upstream and downstream suppliers, bankers, consultants, and industry groups.

This year saw the largest turnout since 2012, reflecting improvement in the Western Australian mining industry and confirmation of the 'green shoots' narrative being spoken of (unofficially) by industry participants over the past twelve months. Sentiment was positive with improving commodity prices and a strong belief that significant investment is needed over the next five to ten years in order to maintain current production levels.

Key Themes

As anticipated, key themes from the conference were the continued positive outlook for precious and battery metals as well as improved prices and positive sentiment in a variety of locally important commodities. Other themes included:

- WA's lithium mining industry has taken full flight as a result of rapid growth from one to seven mines across WA over the past two years. There is a continued, strong interest in battery metals including lithium, cobalt, and graphite. Global demand for these metals, especially for high-grade product, is expected to increase sharply with the growth in the electric vehicle market with movements in lithium prices already taking play. Comments by Tawana Resources surrounding the State Government's push to develop the new "lithium valley" in Kwinana as well as infrastructure upgrades around existing mines to ensure their sustainability.
- Suppliers of long lead items (yellow goods) reporting increased orders, sales, enquiries as well as increased stock levels being arranged in order to meet actual and anticipated demand over the next twenty four months.
- Due to the Australian dollar exchange rate, significant activity remains in the gold sector, which is expected to continue- allowing for future opportunities. At present, the Australian

gold sector is leading the world in terms of value and profile. Gold company share prices were doing well despite a slide in the prices for gold. That said, the outlook for most commodities, including gold, were positive.

- Strong belief that brownfields development will not be sufficient to meet demand. This obviously presents opportunities in greenfields development, though with the consequent challenges of securing finance. Even so, better access to equity markets is expected as industry figures embrace the latest upturn and take an optimistic view of the next twelve months.
- M&A activity is expected to increase through 2018 and beyond as miners look for growth and asset diversification. Currently, there is more activity in mergers and acquisitions than previously seen. This is especially so at the established and top end of the market and follows generally favourable returns on exploration activities amongst junior gold miners. Also attracting attention is the emerging line of producers in cobalt and, predominantly, in lithium.

Money flooding back into the rest of the mining sector as the WA's big iron ore miners such as BHP Biliton, Fortescue Metals Group and Rio Tinto, contemplate \$25.5 billion in expenditure to extend the life of their Pilbara operations over the next five years. Likely continuation of the current industry upturn, with the key figures causing a positive flow-on effect to the economy, inflationary pressures and difficulties with shortage of staff. Many professionals who exited the sector during the last downturn and lower young entrants into mining careers have contributed to a skills shortage.

Other noteworthy matters

Australian mining investment in Africa also seems to be on the rise. This year, Australia will become the biggest international miner on the African continent, doubling its investment to more than \$40 billion over a decade. Notably, Lithium Consolidated was granted seven new lithium projects in the Mutare Greenstone Belt in eastern Zimbabwe. Further, Latitude Consolidated made its first foray into Zimbabwe through its purchase of the Mbeta lithium project in south Zimbabwe. Meanwhile Prospect Resources received the mining lease for its Arcadia lithium mine after completing a \$10m placement and USD\$557m lithium supply deal.

Importantly, South Africa aims to publish a mining charter by November 2018. Drafts of the law contained regulations stipulating rules for miners and could have an effect on taxes, levies and property rights in relation to mining in Africa. Positive political moves in Zimbabwe and Tanzania are providing hope for ASX-listed miners looking to get projects off the ground.

Worthy award recipients at the annual gala dinner were: G.J. Stokes Memorial Award: Ron Sayers; Digger Award: Kirkland Lake Gold; Dealer Award: Kidman Resources Limited; Media Award: Stuart McKinnon, The West Australian; Best Emerging Company: Metro Mining Limited.

Overall, the atmosphere in Kalgoorlie from participants across the duration of the event was

buoyant and representatives of Hogan Lovells enjoyed the opportunity to be able to meet with clients, liaise with industry participants and report back on key themes.

Contacts



Matthew
Johnson

Partner

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