

Investment Opportunities in the Mining Mid-Cap Market



Reconstruction of a copper mine in Cyprus - brownfield development

Summary

In the mining sector, public attention is mostly focused on the large international players, on their industry-shaping mega-deals and large mine development projects. However, there is a very large number of smaller and mid-sized mining companies which, although small by global standards, provide most supplies in most metals markets.

These smaller producers are sailing below the radar of public attention, but offer, nevertheless, vast opportunities for commercial partnerships, for M&A and for individual investments.

1. Small and Mid-sized Mining Companies

Next to the large and well-known mining companies like Rio Tinto, BHP, Vale, Anglo American and Glencore, there are, worldwide, thousands of small and mid-sized mining companies. These companies are the risk takers and project generators for the mining industry, and they guarantee the continuous adjustment of production to the growing demand by end-users. They can be sub-divided into the following categories:

- **Explorers:** This category is the most prolific, with countless public and private enterprises which are driven by a true entrepreneurial spirit. These companies are generally owned and run by geologists on the hunt for a major discovery, or to drive historical exploration activities into a commercial business plan. Risk is high at this stage, and capital attracted is generally “hoping for the best but expecting the worse”. The potential upside for investors is very attractive: Outcomes range from 10x returns to 1000x returns in the most successful cases. These companies typically have a valuation of under \$100 million.
- **Developers:** These companies have enjoyed exploration success and now have to re-tool to study the project, define feasible mine development concepts, raise the necessary finance, and then build the project and set up production. This phase is challenging, as it requires a range of skill sets, a flexible approach, and a focus on commercially feasible outcomes. Major risks include over-confidence in a team’s ability or in the project assumptions, or driving for perfection, allowing the perfect to become the enemy of the good. Risk remains high at this stage, with many examples of excellent discoveries being left standard because of physical and management challenges that cannot be overcome. Return on capital during this period generally ranges from 5x to 10x.
- **Operating mid-sized mining companies:** There are hundreds of companies worldwide with a market capitalization from US\$ 500m to some billions of dollars. These range from highly successful mining operations with a long-life cycle, producing high quality products with operating margins in excess of 50%, to marginal assets that eek out meagre annual profits and no return on capital investment.



Reconstruction of a copper mine in Cyprus - brownfield development

Small and mid-sized mining companies play a crucial role in the continuous development of the global mining industry and, hence, in closing the supply gap of critical raw materials. They often rely on equity financing, partnerships, early-stage offtake agreements, and joint ventures to fund exploration and development activities. Although most are listed on specialized exchanges such as TSX, TSXV and ASX, many are privately owned, and information on their operations is limited.

2. Raw Materials

Small and mid-sized mining companies typically target the following raw materials:

- **Base Metals:** Copper, zinc, nickel, and lead - crucial for industrial applications, including construction, electronics, and transportation.
- **Precious Metals:** Gold and silver - traditional targets due to their value and demand for both investment and industrial uses (e.g., in electronics).

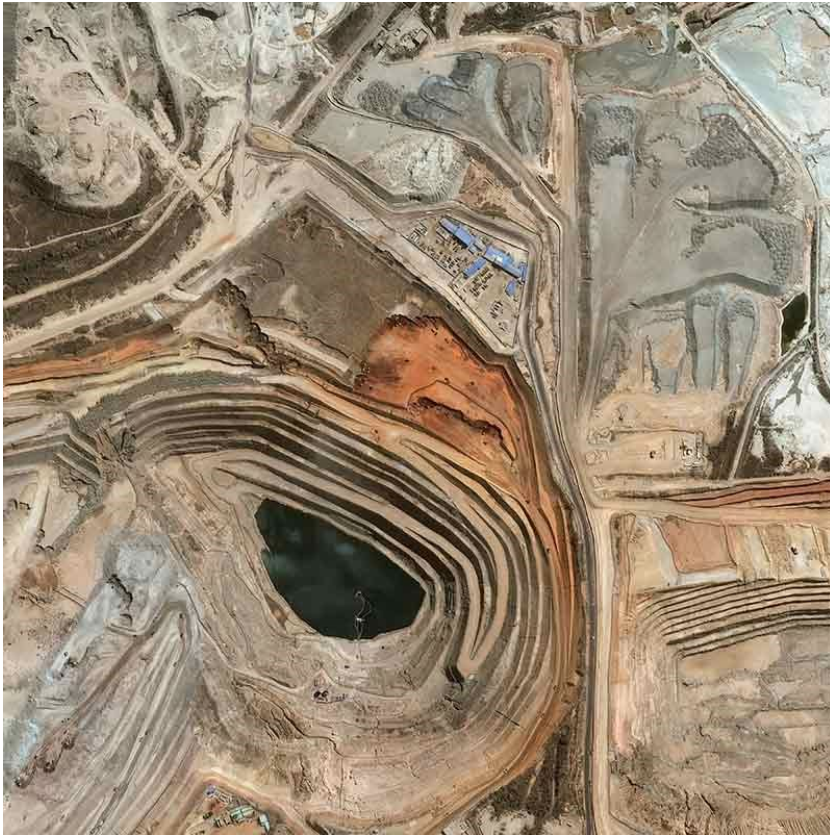
- **Critical Minerals:** Lithium, cobalt, graphite, and rare earth elements - increasingly important for batteries, electronics, and renewable energy technologies.
- **Industrial Minerals:** Potash, phosphate, gypsum, and boron, which are vital for agriculture, construction, and other industrial uses.

Their operations are generally scalable, can commence small and grow organically over time. Unlike bulk commodities, their minimum first investment is usually lower, as these operations generally have a smaller footprint.

Geography

Small and mid-sized mining companies operate on all continents, often focusing on emerging or frontier markets where large deposits remain underexplored:

- **Latin America:** Peru, Chile, Brazil, and Mexico are significant for their rich deposits of copper, gold, silver, and lithium. They offer high potential for exploration and new mine developments, although political and regulatory risks need to be taken care of.
- **Africa:** Important are minerals like cobalt, copper, gold, diamonds, and rare earth elements; countries like the Democratic Republic of Congo (DRC), South Africa, Ghana, Tanzania, Zambia and Botswana are notable, though with varying political and infrastructural challenges.
- **Canada:** Home to many small and mid-sized mining firms, particularly strong in gold, copper, nickel, and uranium exploration. Known for its stable political and legal environment.
- **Australia:** Another key player, with a strong focus on gold, iron ore, and lithium, with a well-developed mining infrastructure and regulatory environment.
- **Central Asia:** Countries like Kazakhstan, Kyrgyzstan, Mongolia and Uzbekistan are increasingly attractive for mining exploration, particularly for uranium, gold, and copper.
- **Europe:** While Europe is less prominent in mining compared to other regions, countries like Sweden, Finland, Norway, Spain, Serbia and the Balkan countries in general are seeing renewed interest in mining activities, especially for battery metals like lithium and cobalt.



*Kolowezi copper mine
in the Democratic Republic of Congo*



3. Challenges and Opportunities

For M&A and investment projects in the mining small to mid-cap market the main challenges are

- the meticulous **technical and economic assessment**
- a customized **finance strategy**
- the legal assessment and handling of **regulatory conditions**
- the satisfactory coverage of **environmental and social issues**
- a **fair valuation**, assessing the true value of the business and aligning of expectations on buy and sell side
- the **identification of projects with true potential** and **sufficient substance for sustainable upgrading**

Alongside to these challenges, there are tailwinds that help Junior Miners to succeed:

- **Technological Advancements:** Innovations in exploration and extraction technologies will reduce costs and improve success rates.
- **Innovative Mine Development Concepts:** Commercial-driven mine development concepts will help to improve early cash flow generation and support sustainable finance strategies.

- **Green Energy Transition:** The global shift towards renewable energy and electric vehicles offers new opportunities for new partnerships, joint ventures and early-stage offtake arrangements.
- **Multiple Financing Options:** Small mine finance options are now deeper and more sophisticated than in previous cycles.

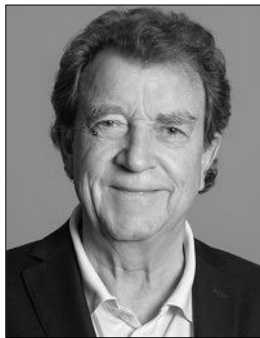
4. Outlook

The future of small and mid-sized mining companies looks promising. Junior Miners – Explorers and Developers – are essential for meeting the increasing demand for critical raw materials, and they play a key role in the transformation process to a zero-carbon economy. To be successful, they need to navigate the complexities of financing, regulation, and sustainable practice with great care.

By CBA Associates and partners:



John Sestan
CBA Associate, Engineer



Jürgen Schlichting
CBA Associate, Banker



Georg Kahle
CBA Associate, Lawyer