GLOBAL BUSINESS REPORTS

Québec Mining 2016

PRE-RELEASE EDITION

Frank Mariage

Chairman of the Board,
Association De L'Exploration Minière Du Québec (AEMQ)

Bill 70 was passed in December 2013, finalizing the long process of reforming Québec's mining regime. What has been the overall effect of this adoption on the mining industry?

Québec went through four legislative attempts to reform the Mining Act in five years. Moreover, during this time, provincial elections occurred as well, where mining was a hot topic in terms of what the industry meant for Québecers, and what economic benefits the population was seeing from it. All these factors created a very difficult environment for our industry in the province. Mining is an industry of risk, and implicitly, risk capital – what we need to understand is that risk capital does not mind risk, because investors can calculate that (it is part of the game). What they cannot calculate, however, is uncertainty. And that is what Québec represented for them from 2009, all the way to December 10, 2013, when Bill 70 passed and the new mining regime was adopted. Now we have certainty; stakeholders know what to expect and we can be sure that no politician will want to touch the mining code for a very long time. So on the one hand, that uncertainty that was so detrimental to risk capital has disappeared, but on the other hand, we are now confronted with an unfavorable global commodity climate. The AEMQ is working with the government to see what it can do together to offset that and create the favorable conditions that will allow investment capital to come back.

In April 2015, Premier Philippe Couillard announced a scaled-down revival of Plan Nord. What has been done so far?

We had a Plan Nord 1.0, and now a revised version, a Plan Nord 2.0. The initial objective was to help out the iron ore mega projects in the Labrador Trough, which needed massive infrastructure investments, but with the downturn of the iron prices, people started looking West in the province, analyzing what else is out there. So now we are happy to see that Stornoway Diamonds is well on its way to become the province's first diamond producer, that Nemaska Lithium is advancing rapidly as a result of the great work that Guy Bourassa has been doing there for many years, and that Arianne Phosphate recently received the green light from the government to go ahead with its Lac a Paul project. We have strategic minerals that will require secondary transformation, which will occur in Québec, and thus generate more jobs and add more value. The challenge for Plan Nord 2.0 will be to create an infrastructure that can be used by all these projects that are scattered throughout the province. The Société du Plan Nord is now active and has a budget, and we are seeing how the government is slowly but surely creating favorable conditions for investors to return to Québec. •

Josée Méthot

President and CEO,
Association minière du Québec (AMQ)

Please tell us more about AMQ's implementation of the Towards Sustainable Mining program in Québec?

Since 2004, the Mining Association of Canada (MAC) has put into place the Towards Sustainable Mining (TSM) program, which is a set of tools and indicators that ensure responsible mining measures are in place for all of its members. Since not all of Québec's companies are part of the MAC, we decided in June 2014 that we were also going to implement the TSM at the provincial level for all of our members. This measure was a clear reflection of the commitment that AMQ has for sustainable development and responsible mining. We established a four-year timeline to fully implement the TSM and are currently working with all our members to achieve that.

What are the current dynamics of Québec's mining industry, and are we seeing more mineral diversification in play?

The diversity of our mineral potential will ultimately carry us through the downturn. When the liberals launched the Plan Nord 2.0, they sent out a clear message that mining is a core business for Québec and that we need projects here. We all know this is a difficult time for iron ore-focused companies and predictions are that the downturn has not reached bottom yet, but the situation is not great for zinc or nickel either. Thankfully, there are several factors that offset this. First of all, we have strong gold production in Québec, which, at the moment, is greatly benefiting from the advantageous U.S. dollar-Canadian dollar exchange rate. We are getting good news in apatite, with Arianne Phosphate recently receiving their environmental permits, and we are also looking forward to Stornoway Diamond's diamond mine, the first of its kind in Québec. Another element that is making life easier for some companies is the low cost of petroleum, which is bringing operating expenditures down in some cases.

Ultimately, what makes Québec a great mining jurisdiction today and what are the AMQ's plans for 2016?

The quality of our manpower in Québec, the excellence of our universities and research centers; these are core strengths that we have here. Furthermore, even though political changes have occurred quite often lately, we are still a very stable and predictable jurisdiction as compared to the large majority of our global competitors. Québec has an excellent support system for its mining industry that is engrained in its culture. For 2016, the AMQ is targeting a strong campaign meant to improve communication and dialogue with the First Nations. Otherwise, another important event will be the incorporation of Minalliance, an organization meant to promote mining to the general public within our structure. Looking forward, the AMQ will continue to offer all the support that it can to Québec's mining industry, which has numerous established and experienced responsible companies. •

Introduction: Québec's Political Improvements, and Legislative Stabilization

At this point in time, saying that the global mining industry is experiencing a downturn does not constitute news for anyone, anywhere, anymore. Every commodity has had its ups and downs. We remember gold companies starving for cash when the extravagant \$2000-per-ounce (oz) prices started plummeting in 2013, but we must also not forget that back then, iron ore producers were expanding operations around the world, based on high demand from China and a price point of around \$150 per metric ton (mt). Keeping these facts in mind, we arrive in present-day Québec, a mining jurisdiction traditionally known for its exceptional gold and iron ore reserves situated in the north of the province in regions such as Abitibi-Témiscamingue (gold), and the Labrador Trough (iron ore); gold is trading at roughly \$1,200/oz, while iron ore prices are hovering at \$ 40/mt. So is it all doom and gloom for "La Belle Province" and its miners? Quite simply put: no, not at all.

Many developments have been occurring within Québec's internal structure since 2013. The accomplishment with the biggest impact was probably the adoption of Bill 70, "An Act to amend the Mining Act," which cleared the waters for many potential investors. "With Bill 70 finally being passed in December 2013, the whole legislative uncertainty is now gone. The actual amendments are quite subtle, so there were little changes to the daily operations of mining companies," stated Eric Levy, partner at Osler, Hosking, & Harcourt LLP.

Normand Champigny, president and CEO of Sphinx Resources, an exploration company with several Ni-PGE projects in Québec, added: "It is no surprise that investors are looking for stability: the new mining regime brought that in December 2013. The industry was not happy with all the measures approved but, to a large extent, it can live with them. The fact that we have a stable legislation now, one that will not change for many years to come, is a very positive thing. […] The exploration process largely continues to work today as it did before Bill 70 came into play, with the exception of a few added administrative tasks."

As always, politics also played a major role in the metamorphosis of Québec's attractiveness as a mining jurisdiction. On April 7, 2014, the Liberal Party won a provincial majority government of 70 seats in the National Assembly of Québec, with the conservative Parti Québecois coming in second, with 30 seats. "The election of a new provincial government has had a good impact. The dialogue between the industry and the authorities has improved, there is a better general mood within the sector, and investors now view Québec as once again being open for business," said Levy.

Communication and investor perception were not the only elements of the equation that improved as a result of this political change. One year later, in April 2015, Premier Phillipe Couillard announced the revival of Jean Charest's "Project of a Generation," the development of 72% of Québec's land surface, covering 1.2 million square km in the north of the province: the Plan Nord. However, this new version would be a scale-down of its 2011 original predecessor – Couillard called for public and private investments totaling C\$50 billion over 20 years through to 2035, a significant change from Charest's initial plan, of C\$80 billion over 50 years. Breaking that down further, C\$20 billion would come from Hydro-Québec's new projects, C\$2 billion from the government as public infrastructure, while the other C\$28 billion would be constituted by private-sector investments.

Consequently, the Société du Plan Nord was created in 2015 to implement this major endeavor. Over its intended timeline, the organization will benefit from a total estimated budget of C\$2.7 billion, which is generated by tax-money coming from the extractive industries operating within the Plan Nord area, and yearly Hydro-Québec contributions. Furthermore, a special fund, the Capital Mines Hydrocarbures (CMH), worth C\$1 billion, was also included within the initiative. This was entrusted to Ressources Québec, Investissment Québec's natural resource subsidiary, with the amendment that at least C\$500 million of it would be dedicated to Plan Nord deals. "The CMH fund is fully operational now. Out of that, C\$500 million will be exclusively dedicated to Plan Nord projects; the rest will cover all the province of Québec. Ressources Québec has made several investments in the market over the past years and in 2014-2015 we had seven interventions over a broad scope of companies at different development stages of their projects. The two main companies we supported were Stornoway Diamonds (Project Renard's construction phase), and Canadian Royalties (Project Nunavik Nickel's operational scale-up)," explained Denis Williams, general manager of Ressources Québec.

Leaving legislation and politics aside and diving deeper into the operations of mining companies across Québec, we see numerous, rather surprising, and overall positive developments. From favorable U.S. dollar-Canadian dollar exchange rates dramatically improving gold producer profits, to non-traditional mineral projects such as Nemaska Lithium, Stornoway Diamonds, or Arianne Phosphate marching strongly to operation, Québec is visibly rallying up forces and moving in the right direction. •

Downturn Resourcefulness: Québec's Increasingly Diversified Mining Scene Counters Iron Slowdown, and Uranium Moratorium

Iron Ore's Harsh Present

Over the past two years, press headlines largely covered the rather negative aspects related to Québec's mining industry. Iron ore prices steadily descended throughout 2014, and 2015 towards the $40/mt mark, making the life of iron ore producers and explorers extremely difficult in Québec, a jurisdiction with tremendous potential for this commodity, especially in its Labrador Trough region. While there is no doubt that iron is facing a severe downturn at the moment, these market conditions also provide a realm of opportunity for those players that have good financial backing at the moment.

Cliffs Natural Resources, the top iron ore producer in the United States, decided to divest its Canadian interests in 2014 as a result of poor market conditions and lack of profitability. Among these assets were its Wabush mine in Western Labrador and its Québec Bloom Lake Mine, which, combined, accounted for 15 million mt/y of iron ore. At the peak of its operation, Bloom Lake employed 600 people and produced 6 million mt/y. Cliffs had acquired the mine at the top of the iron market in 2011 in a $ 4.9-billion takeover deal of Consolidated Thompson Iron Mines. Fast-forwarding the situation a few years later, in December 2015, Cliffs entered an agreement with Champion Iron Ore, a Canadian iron ore junior with several proprieties in Québec and Canada, to sell its Bloom Lake mine. The price of the deal? C$10.5 million for the propriety, and roughly C$41 million in reclamation liabilities – you do the math. While it is unlikely that Champion Iron Ore will restart production in the near future, the tremendous deal it completed is a resounding success in its own and proof that good business can be achieved even in this troublesome environment.

"The Saguenay-Lac-Saint-Jean region needs a project like Lac à Paul badly. The logging, and the pulp and paper industries were once the economic drivers there, but that is not the case anymore – many of these businesses are shutting down."

- Jean-Sébastien David, Chief Operating Officer, Arianne Phosphate

Another eye-catching move came from Indian giant Tata Steel, through its Canadian subsidiary, Tata Steel Minerals Canada (TSMC), a company in which it has a 94% stake with the rest of the 6% belonging to New Millennium Iron, a Canadian mining company with taconite projects in Québec and Newfoundland. On the 20th of January, at the World Economic Forum, in Davos, Switzerland, Québec's Premier Philippe Couillard announced an agreement-in-principle with TSMC for a continued investment of C$ 400 million on the part of the company into the its Québec/Newfoundland-Labrador DSO Project, over the next two years. The operation includes mining, crushing, washing, screening, and drying the run-of-mine ore within a state-of-art facility near Schefferville, in Québec, with the sinter and pellet fines being transported by rail to Sept-Îles and onward to Tata Steel's European steel facilities. The agreement-in-principle should lead to a decision before the end of March 2016, and while this announcement clearly represented good news for Québec, and its mining industry, it is important to note that in January 2016, TSMC also scaled down current DSO operations due to poor market conditions.

Uranium Controversy

"The recently published Bureau d' audiences publiques sur l' environnement (BAPE) report compels me to write to you. It is very troubling to have the BAPE present your government with conclusions and recommendations that lack scientific basis and rigor," reads the introduction of Michael Binder's July 2015 letter to David Heurtel, Québec's Minister of Sustainable Development. Binder, the president and CEO of the Canadian Nuclear Safety Commission (CNSC), addressed the letter as a counter-response to BAPE's July 2015 report, which advised Québec's authorities against uranium exploration and mining in the province. The 626-page study, which was conducted over a timespan of a year, stated that uranium developments were "counter-indicated" because of "limitations and uncertainties" within the existing technologies. A moratorium had already been in place since 2013, when Yves-Francois Blanchet, the Environment minister at the time, had ruled on the matter, entrusting the BAPE to create the detailed report. Thus, Québec joined Nova Scotia and British Columbia on the list of uranium-banning provinces, an antithetic position to that of Saskatchewan's, the world's second largest producer of uranium with a total of 16% of the global share. Binder used Saskatchewan as a counter argument to BAPE's report, saying: "Furthermore, to suggest that uranium mining is unsafe is to imply that the Canadian Nuclear Safety Commission (CNSC) and the Government of Saskatchewan have been irresponsible in their approval and oversight of the uranium mines of Canada for the last 30 years."

"It really does seem to be an emotion-versus-science battle here in the case of Québec's uranium moratorium. Before all of this happened, the AMQ had approached the government with the idea of establishing the best practices through which we could explore and exploit uranium in Québec; after all, this is done very successfully in Saskatchewan already. We were surprised to see, however, that the government was still deciding whether uranium exploration and mining should even happen in the province," said Josée Méthot, the president and CEO of the Association Minière du Québec (AMQ).

A final ruling on the matter is still not out. Québec's government has put an inter-ministerial committee in place to study the report, but there is no specific timeline for its decision. In the meantime, Québec's Strateco Resources, a uranium junior that had invested C$123 million into its high-grade Matoush uranium project, saw its operations being put to a halt because of these developments. Strateco, which was once a key part of Jean Charest's Plan Nord 1.0, is now consequently suing Québec's government for C$190 million in investment losses.

"There is a spillover effect across all resources and the industry. International financiers know what is happening in Québec and they quickly dismiss any projects, no matter the commodity or resources, if they are in the proximity of Strateco's propriety. From an investment point of view, it transmits a negative message and again, it creates uncertainty. The AEMQ filed a memoire related to uranium exploration with the BAPE, and strangely enough the document was not even accepted," added Frank Mariage, the Association De L'Exploration Minière Du Québec's (AEMQ) chairman of the board.

Québec Mining's Unexpected Beacons of Hope

A depressed global mining environment, a severe iron ore crisis, commodity moratoriums, all within a climate of scarce financing sources does not paint a beautiful picture for La Belle Province's mining scene. Yet somehow, within this scenery, several companies, with a line-up of non-traditional minerals for Québec, are fighting their way through production and onto success.

Stornoway Diamonds is building Québec's first diamond mine and is doing so ahead of time and below its initially planned budget. Its Renard mine, which will employ close to 500 people, is now expected to produce its first ore in September 2016, with total costs of construction coming up to C$775 million – five months ahead of schedule and C$36 million less than its original expected cost. Stornoway Diamonds boasts Indicated Mineral Resources of 30.2 million carats (ct), with a further 13.35 million ct as inferred mineral resources, which should enable the company to produce 1.6 million ct/y over the initial 11 years of Renard's mine life.

"It is very encouraging to see mineral diversification happening in Québec, a province traditionally known for its iron ore and gold resources. More and more, new discoveries of rare earths, graphite, lithium, apatite, and even diamonds are making the headlines, strengthening Québec's brand as a mining industry, while offsetting the risks of being too focused on one or two commodities," said Denis Williams of Ressources Québec, which financed C$240 million of Renard's costs.

Subsequently, Investissment Québec now has a stake of roughly 25% in Stornoway Diamonds Corp., but they are not the only Québec Inc. financial player involved in this up-and-coming success story. Caisse de dépôt et placement du Québec, another traditional and long-standing finance player in the province, contributed C$105 million, for an ownership of 11%.

Another unsuspected positive development came from of Arianne Phosphate and its Lac à Paul apatite project, located in Québec's Saguenay-Lac-Saint-Jean region. With reserves of 472 million mt of 6.9% P_2O_5, and an expected 72 million mt of high-off grade concentrate at 38.6% P_2O_5, which will assure a 26 year mine-life, Lac à Paul will create more than 1,000 direct, and indirect jobs during its operation. Additionally, the project, which holds a C$1.9 billion net present value, is expected to only need 4.4 years for its capital payback. And there could not have been a better way for Arianne to end the year 2015 than it did, by receiving the ministerial decree from Québec's government to go ahead with its C$1.2 billion phosphate project, for which it is now actively looking for financing.

Elsewhere, having just topped the 2016 OTCQX Best 50, a ranking of the best performing companies traded on the OTCQX Best Market, Nemaska Lithium is in a prime position to profit from the favorable dynamics of the global lithium market, which is expected to need up to 100,000 mt of new lithium compounds by 2021. Nemaska's Whabouchi project recently received a big vote of confidence from Canadian authorities mid-February 2016, when it secured a C$12.87 million grant from Sustainable Development Technology Canada (SDTC), the institution's largest grant to date. The funds will be used for phase 1 of Nemaska's hydroxide hydromet plant, which will produce 500 mt/y of high-purity lithium hydroxide. Whabouchi contains the world's second largest lithium reserve and the project is expected to have a life of 26 years. •

Bonus Points: Gold's Favorable Canadian Context

Throughout recent years, gold miners have been struggling with high operating expenditure, low ore prices, and tough financing conditions, leading producers around the world to decrease capacity and reassess strategies, and juniors to fiercely fight for the little exploration financing still available in the market. During all this time, gold prices steadily decreased all the way to a seven-year low of $1050/oz, in December 2015. Therefore, in this context, it should come as no small surprise to hear that Québec's gold producers are currently having somewhat of a field day. But why is that?

The first factor of the equation is related to the C$/US$ exchange rate. On July 4, 2014, the two currencies were almost at par, with C$1.06 buying $1. However, on January 20, 2016, the situation looked dramatically different, with $1 being valued at C$1.46. Translating that into Canadian gold mining operations where costs are incurred in Canadian dollars, and revenues are obtained in U.S. dollars, we see a very positive change in these companies' margins. Moving forward, the second factor is one which gives hope to the entire gold mining value chain: on February 18, 2016, gold was worth $1239/oz, a significant increase from the prices of December 2015, and yet another profit amplifier for those producing the precious commodity.

In other words, companies such as Agnico-Eagle (LaRonde, Lapa, and Goldex mines), Goldcorp (Éléonore mine), Canadian Malartic (Agnico-Eagle and Yamana JV), Richmont Mines (Beaufor mine), and IAMGOLD (Westwood mine) are going through a very favorable period, despite gold's still precarious global profile. However, this state of well-being is not yet shared by the vast majority of Québec's gold juniors, that are still finding it very difficult to procure financing.

"As a junior, it is almost impossible to find financing in the market at the moment. That said, we are finding it encouraging that gold prices are going up again. It was about time. This is definitely helping out the producers here in Québec and, if the trend continues, the junior segment of the market will eventually benefit from it as well. This is the way things are supposed to go: the producers recover first, and then they help carry and lift the exploration companies," said David Grondin, president and CEO of TomaGold Corp., a success story among Québec's gold juniors.

During difficult market conditions, TomaGold successfully entered into an agreement with IAMGOLD for its Monster Lake project near Chibougamau. IAMGOLD acquired 50% of the project for C$3.22 million cash, while holding an option to add another 25% interest by spending C$ 10 million in exploration work over a seven-year period, with a minimum of C$500,000 per year.

With gold juniors having such a hard time, the market context clearly favors mergers and acquisitions (M&A) activity and sustained consolidation campaigns from the part of those strongly financed players. Osisko Gold Royalties is perhaps the prime example of that in Québec and the company wasted no time by financially backing Oban Mining. Oban completed several deals over the last 18 months, including the acquisitions of Eagle Hill, Corona Gold, Ryan Gold, Northern Gold, and has now made a recent a bid for NioGold. "Lavery has been very busy since the beginning of the year due to high M&A activity in the market. We expect this trend to continue throughout the entire first half of 2016. We are working with some of the biggest companies in the Province, like Osisko Gold Royalties, which created Oban Mining, a company that has already acquired several exploration firms," said René Branchaud, partner at Lavery, one of Québec's established law-firms with a strong mining expertise.

Yet every rule has its exceptions, so when it comes to Québec's gold juniors and their progress towards production, Integra Gold ($160-million market cap), and Falco Resources ($50-million market cap) stand out from the crowd. While their strong financial positions are impressive, their projects also share a different key characteristic that truly enforces their positions as gold junior leaders. Both Integra Gold (Lamaque South gold project) and Falco Resources (Horne project) have their proprieties at the outskirts of two of the world's most revered gold mining towns, true symbols of Québec's mineral industry: Val D'Or and Rouyn-Noranda.

"We have to do things differently nowadays, we cannot mine the old, conventional way anymore. We have to innovate and also make operations more efficient, while minimizing costs. There are so many elements that compose a company's operating and capital expenditures, and all of those are opportunities for us. Falco's Horne project is right next to Rouyn-Noranda, which gives us a tremendous advantage. We will tap into the town's power, water, and sewage systems directly. We will collaborate with the exceptional service providers that were born in that town, who now are mining all over the world. Rouyn-Noranda stands as a global reference point for gold mining; we could not be positioned in a better place," said Luc Lessard, president and CEO of Falco Resources.

With an international career of more than 25 years in the industry, during which, among other accomplishments, he oversaw the design, construction, and commissioning of Canadian Malartic's gold mine, Lessard is confident and hopeful about Québec's mining future: "There is strong support for mining in this province, and Falco Resources is proud to be here – that is why our headquarters are in Montreal. The people are on board, the government is on board, and we have a longstanding tradition of mining excellence: I strongly believe in Québec as a mining jurisdiction. The day I will stop believing, I will move away and give my tax-money to another jurisdiction." •

Conclusion: Leading by Example

In no way can the global mining downturn be overlooked or minimized. The situation is still dire and there are few signs out there that 2016 will mark a spectacular comeback of the industry. But the planet will continue to eat more, build more, and innovate more and, from cloud-breaking skyscrapers to burgers to the lithium ion cells that power electrical cars, everything in the value chain is dependent on mining, whether we are considering iron, phosphate, or lithium.

Québec is one of the most mature and experienced mining jurisdictions in the world and this fact, just like any other, comes with a trade-off; but in this case, the positives vastly outweigh the negatives. Yes, La Belle Province is not a cheap place in which to mine, but its service providers, like those from Val D'Or and Rouyn-Noranda are some of the best in the world, and they will get the job done right from the outset, generating long-term cost efficiency. Yes, Québec has more regulations and is more sensitive to community relations than most other jurisdictions out there, but no coup d'etat will endanger a project here. Furthermore, authorities, when feasible, will put in a real shift to help miners see their projects become reality (just ask Agnico-Eagle, Stornoway Diamonds, or Nemaska Lithium). And yes, Québec still needs an infrastructural network to develop its far north, but, at the same time, companies like Integra Gold and Falco Resources are reviving important historical mining sites that are adjacent to fully developed and serviced municipalities.

So what can Québec achieve during this mining downturn? Well, what it has been doing already – to innovate and to lead the world's miners by example, across the various layers of its industry supply-chain. From Dundee Sustainable Technologies developing solutions that could change the world of mining by eliminating cyanide usage from gold processing, to Falco Resources planning a project with virtually zero environmental surface impact, Québec is in the sector's driving seat. As it should be.

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Our full 2016 Québec Mining Report will delve deeper into the ways through which companies across the industry's value chain are finding new and resourceful methods to advance their technology and projects, which ultimately might influence the global mining industry.

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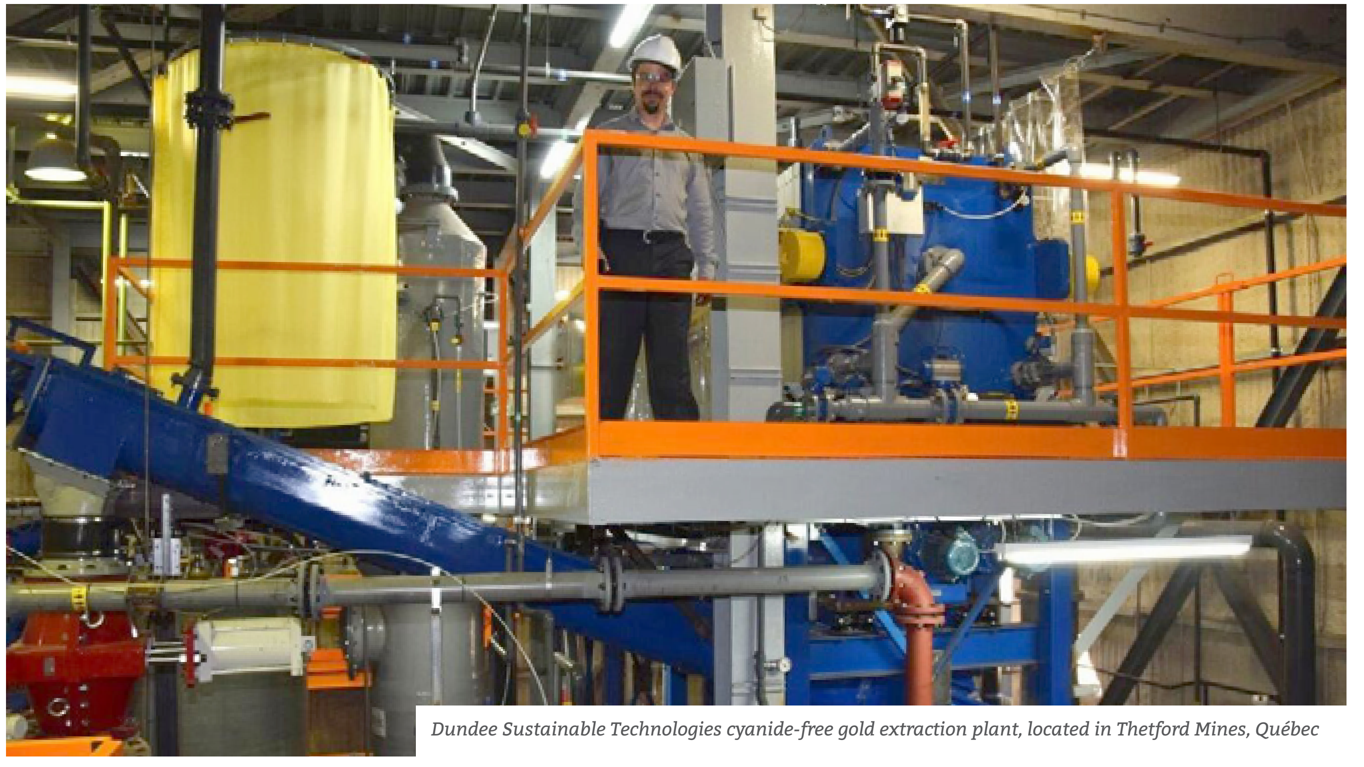

Dundee Sustainable Technologies cyanide-free gold extraction plant, located in Thetford Mines, Québec

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