

The Role of Juniors in a Changing Market



CURRENT TRENDS IN MINING FINANCE

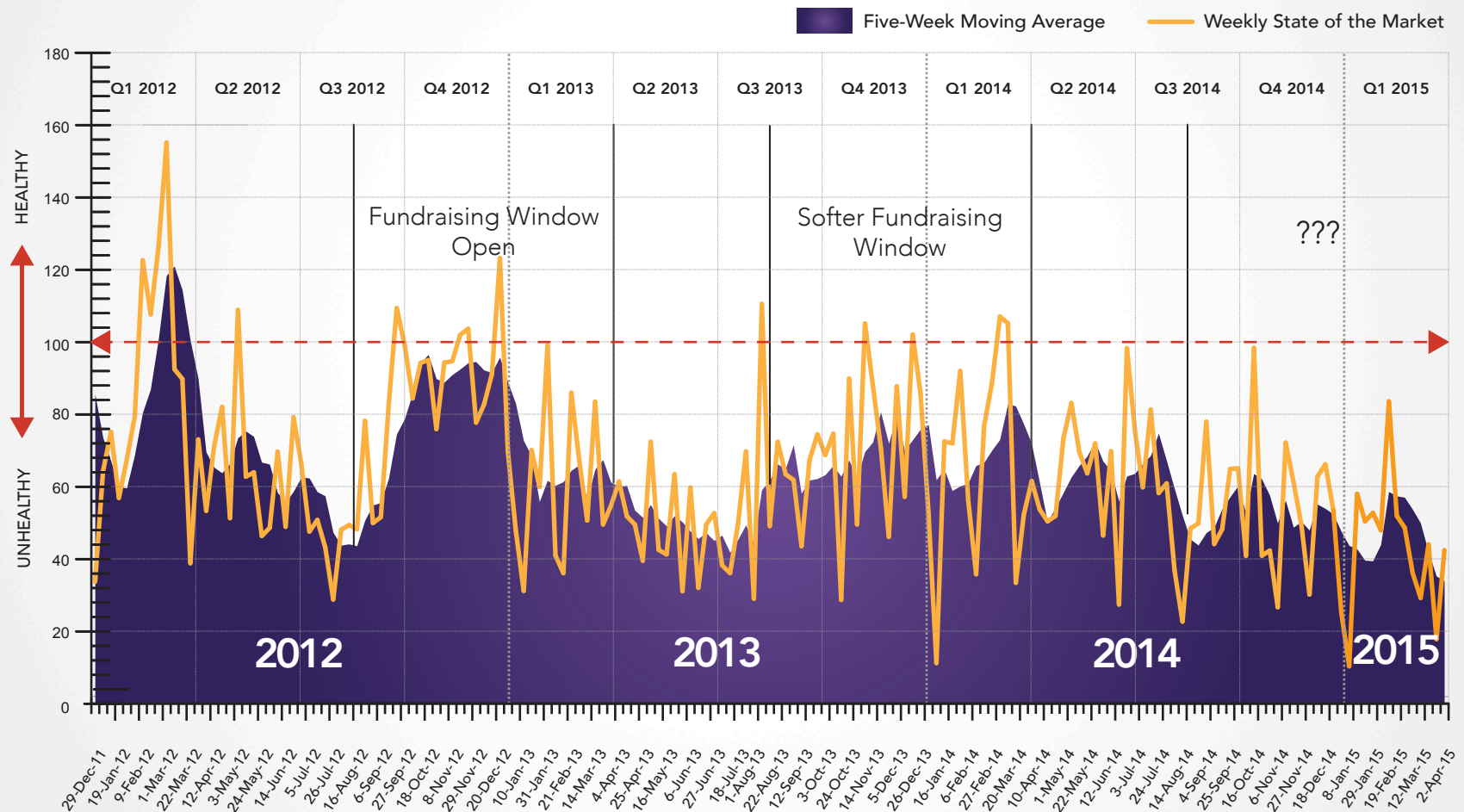
SME's Third Annual Mining Finance Conference, New York, April 2015

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Oreninc Index

CANADIAN RESOURCE FINANCING INDEX: JAN. 1, 2012 - APR. 2, 2015



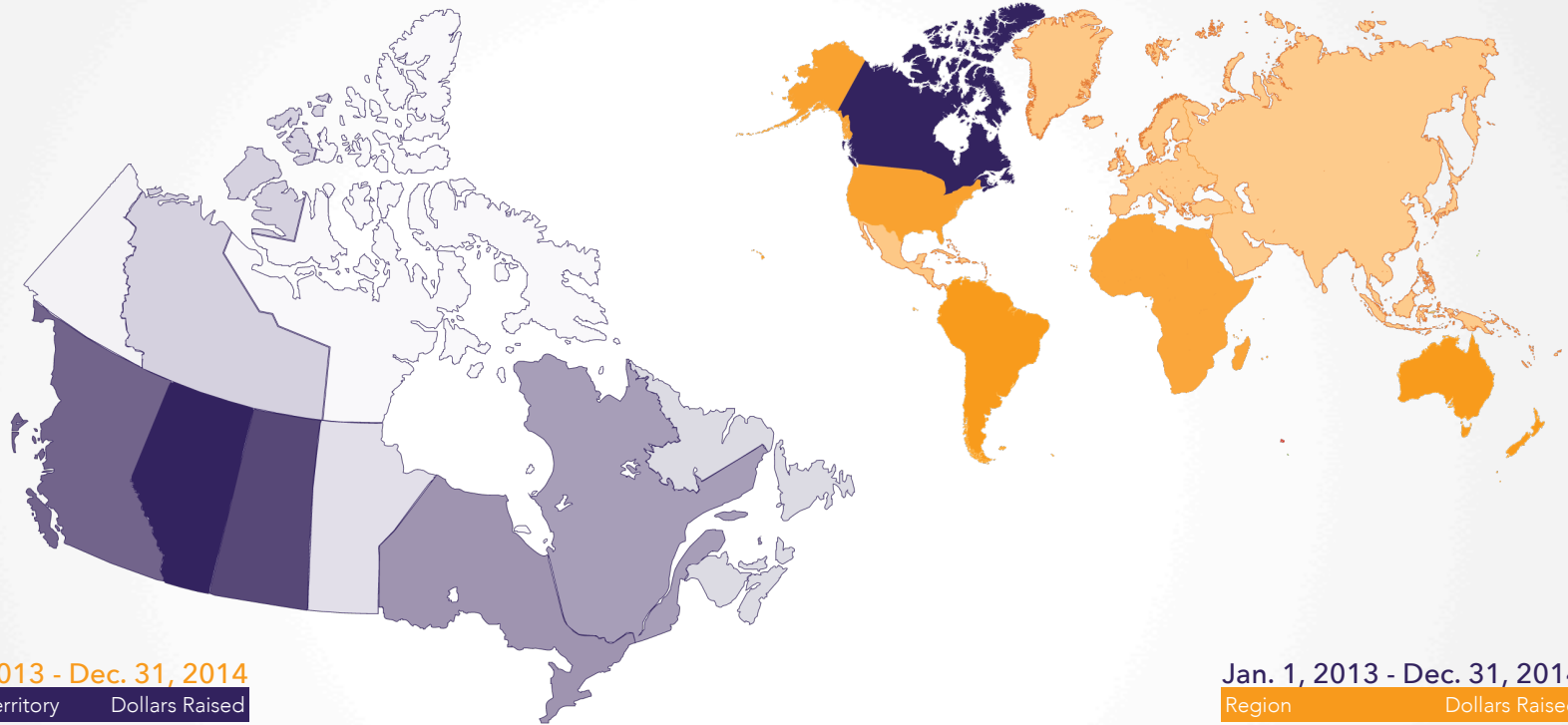
Note: The Oreninc Index tracks the state of the Canadian junior natural resource financing market and gives readers a snapshot of fundraising confidence in a given week. A sustained market above 100 is considered healthy.

SME's Current Trends in Mining Finance Conference, April 2015

The role of juniors in a changing market – What financing structures work and what are the key issues?



Global Fundraising by Project Location



Jan. 1, 2013 - Dec. 31, 2014

Province/Territory	Dollars Raised
Alberta	\$6,446.97
Saskatchewan	\$2,255.63
British Columbia	\$1,784.00
Quebec	\$958.66
Ontario	\$1,071.83
Manitoba	\$269.46
Northwest Territories	\$400.75
Atlantic Canada*	\$277.93
Yukon	\$125.05
Nunavut	\$66.35

Jan. 1, 2013 - Dec. 31, 2014

Region	Dollars Raised
Canada	\$13,656.62
South America	\$2,154.91
United States	\$1,990.33
Africa	\$1,893.58
North America	\$567.47
Europe	\$565.56
Asia	\$538.57
Australia	\$308.32

Note: The map represents 2013-2014 financing data. Dollars raised listed in million-dollar units. *Atlantic Canada includes the provinces of New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland, and Labrador.

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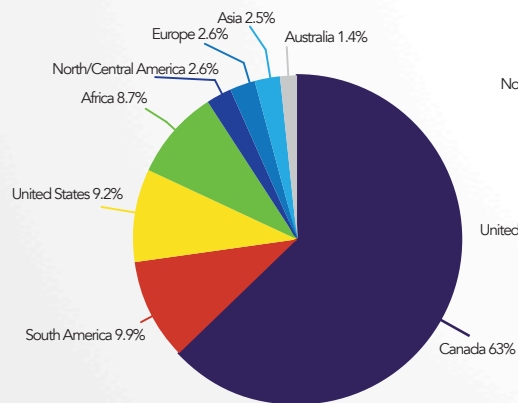
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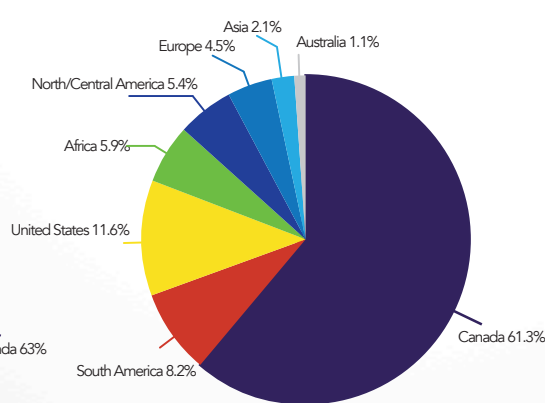
Property Comparison by Region: 2013-2014

REGION	DOLLARS RAISED	NUMBER OF DEALS	AVERAGE DEAL SIZE
Canada	\$13,656.63	1,846	\$7.40
South America	\$2,154.91	246	\$8.75
United States	\$1,990.34	348	\$5.72
Africa	\$1,893.58	177	\$10.72
North/Central America	\$567.48	162	\$3.51
Europe	\$565.56	135	\$4.18
Asia	\$538.57	64	\$8.44
Australia	\$308.32	32	\$9.54

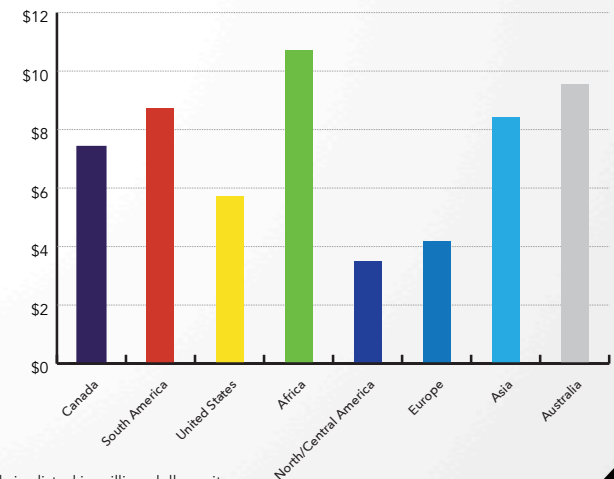
DOLLARS RAISED



NUMBER OF DEALS



AVERAGE DEAL SIZE



Note: The table and charts represent all deals in all natural resource sectors closed between January 1, 2013 and December 31, 2014. Dollars raised and average deal size listed in million-dollar units.

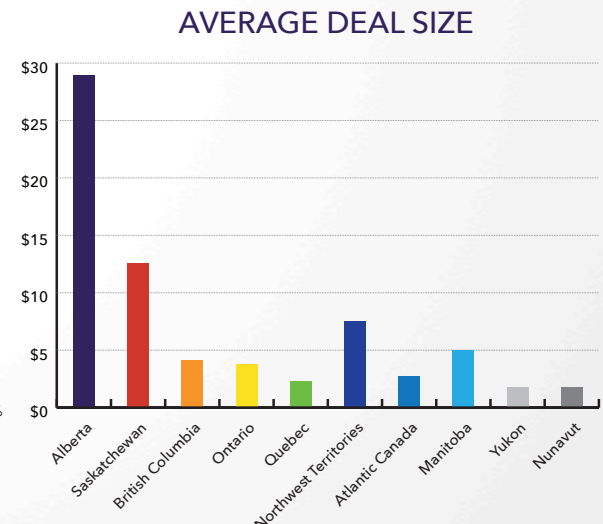
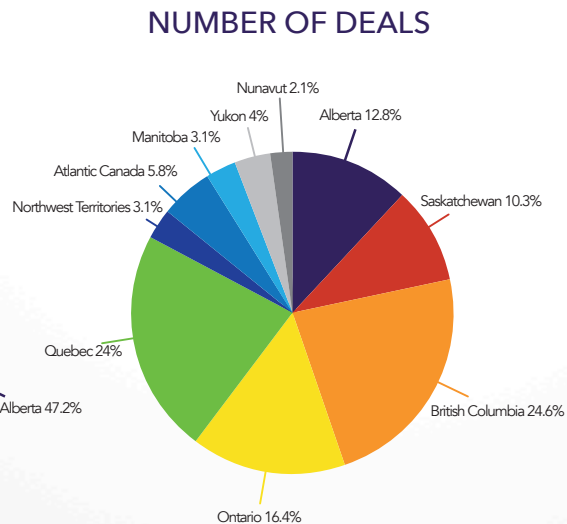
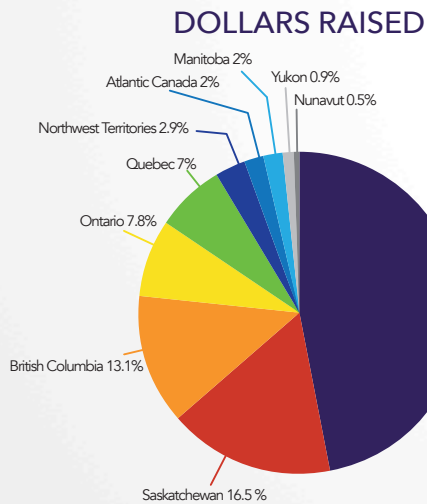
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Property Comparison by Province/Territory: 2013-2014

PROVINCE/TERRITORY	DOLLARS RAISED	NUMBER OF DEALS	AVERAGE DEAL SIZE
Alberta	\$6,446.97	223	\$28.98
Saskatchewan	\$2,255.63	180	\$12.54
British Columbia	\$1,784.00	428	\$4.17
Ontario	\$1,071.83	286	\$3.75
Quebec	\$958.66	417	\$2.30
Northwest Territories	\$400.75	53	\$7.51
Atlantic Canada*	\$277.93	100	\$2.77
Manitoba	\$269.46	53	\$5.05
Yukon	\$125.05	70	\$1.79
Nunavut	\$66.35	37	\$1.81



Note: The table and charts represent all deals in all natural resource sectors closed between January 1, 2013 and December 31, 2014. Dollars raised and average deal size listed in million-dollar units. "Atlantic Canada" includes the provinces of New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland, and Labrador.

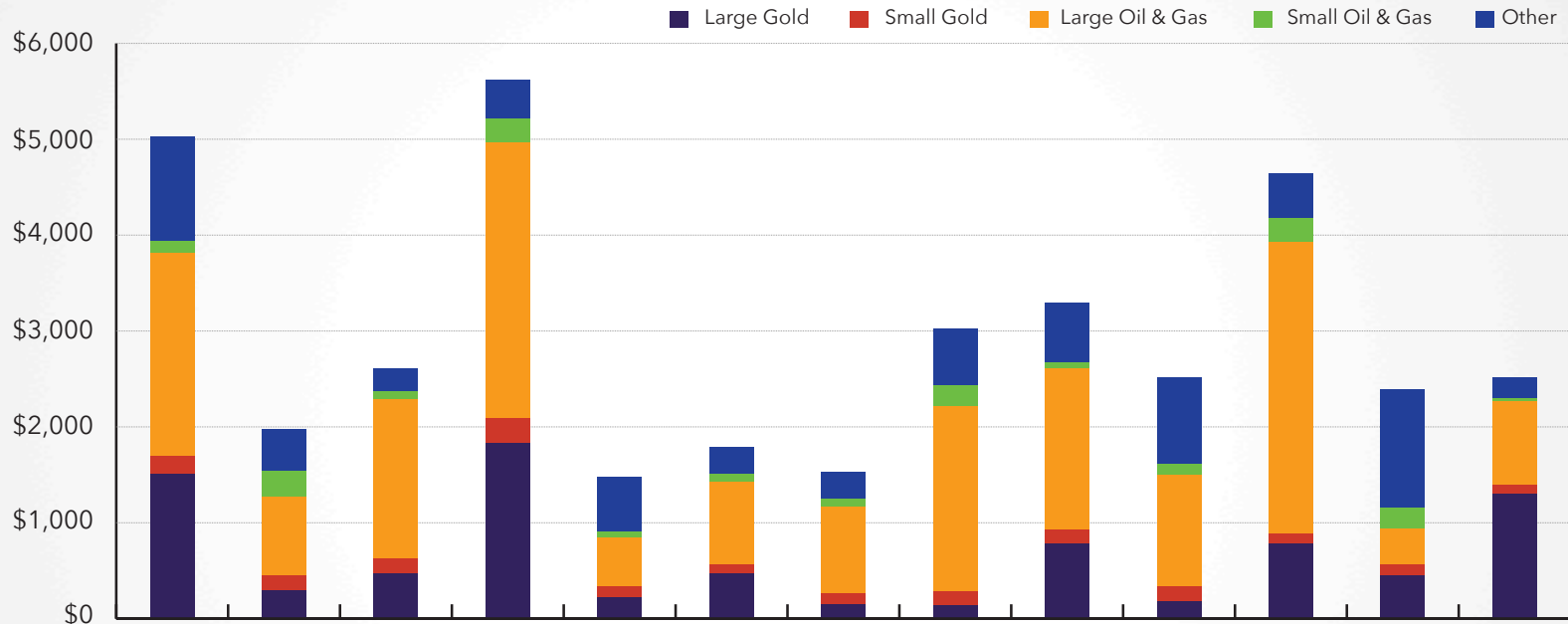
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Gold and Oil & Gas vs. Other Sectors

DOLLARS RAISED



SECTOR	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Large Gold	\$1,518.17	\$298.96	\$478.83	\$1,837.38	\$229.17	\$474.04	\$157.42	\$147.54	\$786.02	\$188.65	\$794.02	\$454.05	\$1,306.50
Small Gold	\$176.94	\$158.27	\$153.26	\$262.48	\$113.90	\$94.44	\$106.56	\$140.58	\$151.56	\$152.11	\$94.81	\$111.52	\$93.36
Large Oil & Gas	\$2,126.69	\$817.07	\$1,661.07	\$2,866.94	\$502.53	\$862.77	\$907.95	\$1,926.38	\$1,676.19	\$1,161.27	\$3,045.21	\$378.80	\$870.61
Small Oil & Gas	\$119.52	\$267.49	\$77.36	\$251.48	\$66.71	\$80.83	\$89.53	\$217.85	\$64.61	\$120.24	\$243.34	\$218.54	\$35.41
Other	\$1,084.57	\$428.71	\$235.65	\$395.20	\$563.44	\$277.03	\$270.81	\$588.19	\$618.84	\$898.91	\$460.51	\$1,231.65	\$216.53
Total	\$5,025.89	\$1,970.50	\$2,606.18	\$5,613.48	\$1,475.75	\$1,789.12	\$1,532.27	\$3,020.54	\$3,297.21	\$2,521.18	\$4,637.89	\$2,395.55	\$2,522.41

Note: The chart and table represent all deals in all natural resource sectors closed between January 1, 2012 and March 31, 2015. Dollars raised listed in million-dollar units. "Large Gold" includes companies with market caps greater than \$40 million, "Small Gold" includes companies with market caps under \$40 million, "Large Oil & Gas" includes companies with market caps greater than \$90 million, and "Small Oil & Gas" includes companies with market caps under \$90 million.

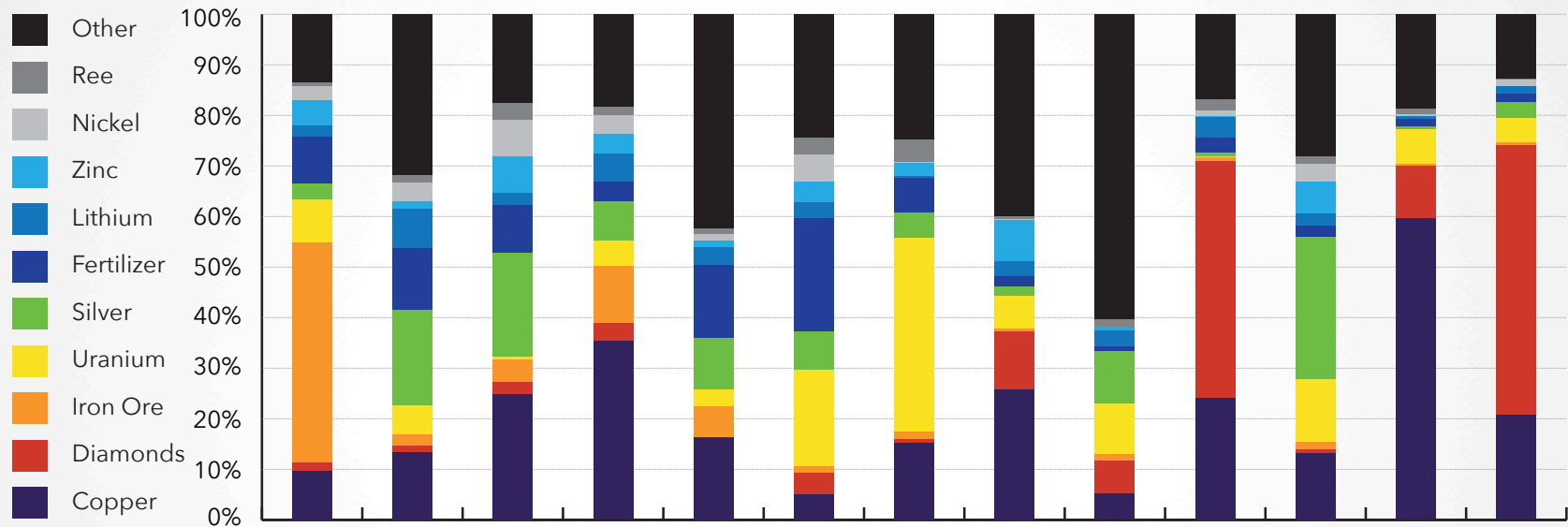
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Other Sector Breakdown

DOLLARS RAISED



SECTOR	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Copper	\$106.62	\$57.71	\$58.81	\$140.39	\$92.22	\$14.18	\$41.73	\$151.86	\$33.15	\$217.43	\$60.70	\$736.32	\$45.25
Diamonds	\$18.39	\$5.54	\$5.63	\$13.69	\$0.00	\$11.89	\$1.70	\$67.70	\$40.50	\$421.89	\$3.86	\$126.19	\$115.40
Iron Ore	\$470.41	\$9.55	\$10.31	\$44.67	\$34.48	\$3.40	\$3.91	\$3.33	\$6.93	\$5.65	\$7.03	\$6.11	\$1.24
Uranium	\$91.48	\$24.56	\$1.59	\$20.08	\$18.88	\$52.93	\$103.99	\$38.33	\$61.73	\$1.66	\$56.66	\$83.22	\$10.34
Silver	\$36.06	\$80.81	\$48.25	\$30.24	\$56.84	\$21.16	\$13.50	\$11.07	\$65.25	\$6.52	\$129.79	\$7.52	\$6.76
Fertilizer	\$99.52	\$52.54	\$22.28	\$15.56	\$82.36	\$61.87	\$18.47	\$12.07	\$5.85	\$27.63	\$10.23	\$19.40	\$3.61
Lithium	\$23.64	\$33.43	\$5.70	\$21.69	\$19.60	\$8.74	\$1.16	\$17.48	\$18.55	\$36.22	\$11.33	\$5.04	\$3.07
Zinc	\$54.55	\$6.49	\$17.11	\$15.57	\$6.86	\$11.35	\$6.91	\$47.02	\$4.64	\$1.25	\$29.00	\$0.00	\$0.30
Nickel	\$30.18	\$15.91	\$16.95	\$14.51	\$8.23	\$14.62	\$0.59	\$1.63	\$0.00	\$11.05	\$15.80	\$5.24	\$2.74
REE	\$7.51	\$6.03	\$7.74	\$6.43	\$5.25	\$9.52	\$11.81	\$2.57	\$8.80	\$18.84	\$7.26	\$14.10	\$0.36
Other	\$146.20	\$136.13	\$41.29	\$72.38	\$238.72	\$67.38	\$67.04	\$235.13	\$373.44	\$150.77	\$128.85	\$228.50	\$27.45
Total	\$1,084.57	\$428.71	\$235.65	\$395.20	\$563.44	\$277.03	\$270.81	\$588.19	\$618.84	\$898.91	\$460.51	\$1,231.65	\$216.53

Note: The chart and table represent all deals in all natural resource sectors closed between January 1, 2012 and March 31, 2015. Dollars raised listed in million-dollar units.

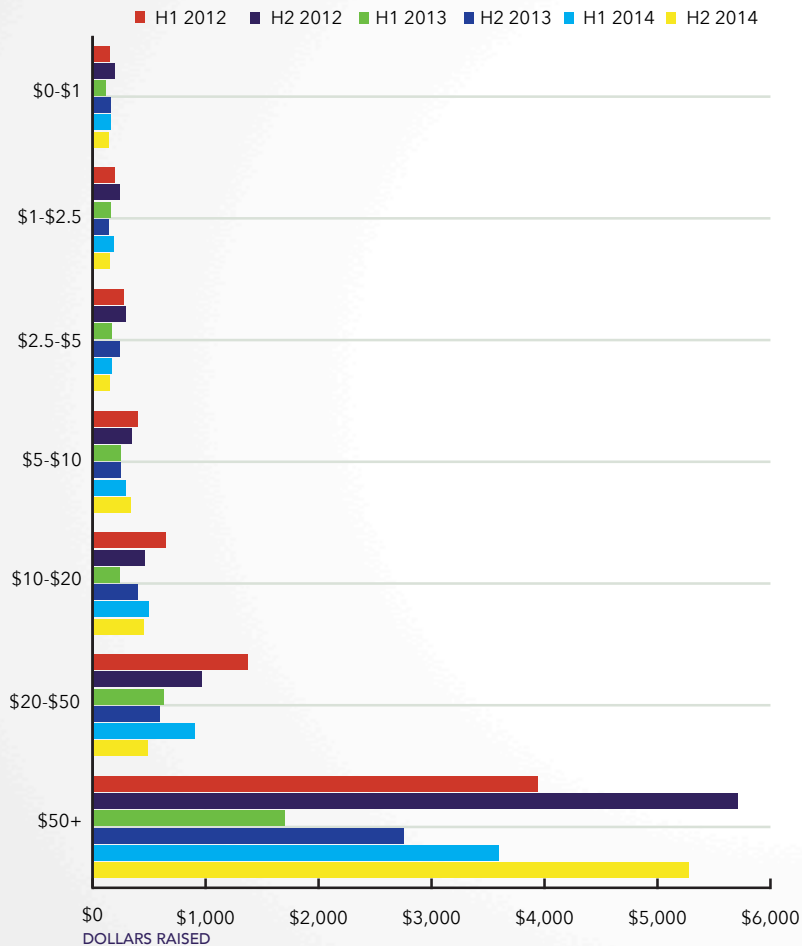
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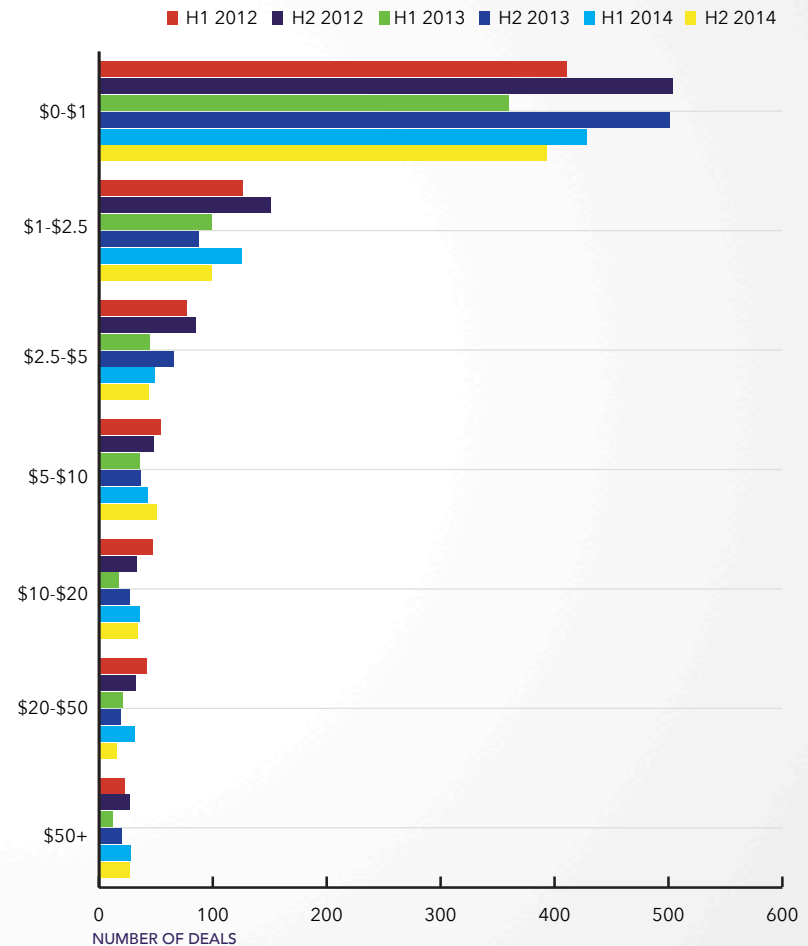


Number of Deals & Dollars Raised

DOLLARS RAISED BY OFFER SIZE



NUMBER OF DEALS BY OFFER SIZE



Note: The charts represent all deals in all natural resource sectors closed between January 1, 2012 and December 31, 2014. Dollars raised and offer size listed in million-dollar units.

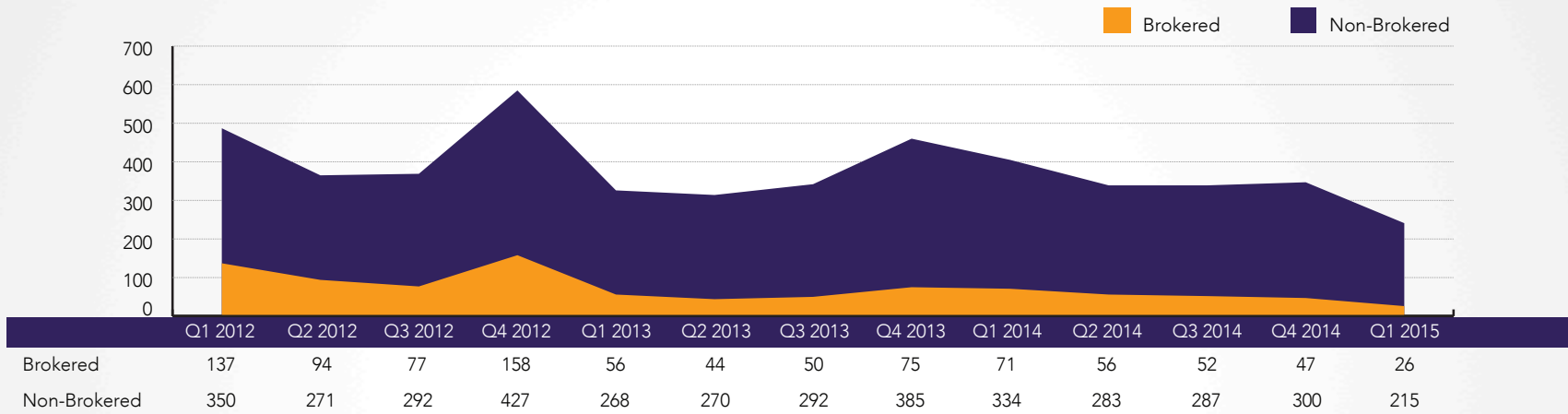
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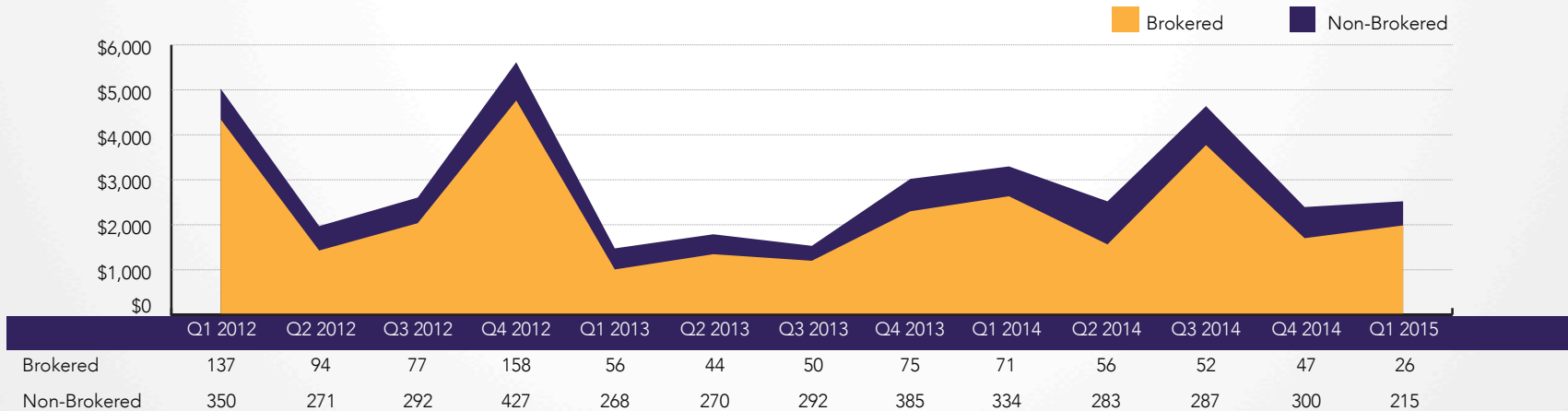


Brokered vs. Non-Brokered Deals

BROKERED VS. NON-BROKERED OFFERINGS



BROKERED VS. NON-BROKERED DOLLARS RAISED

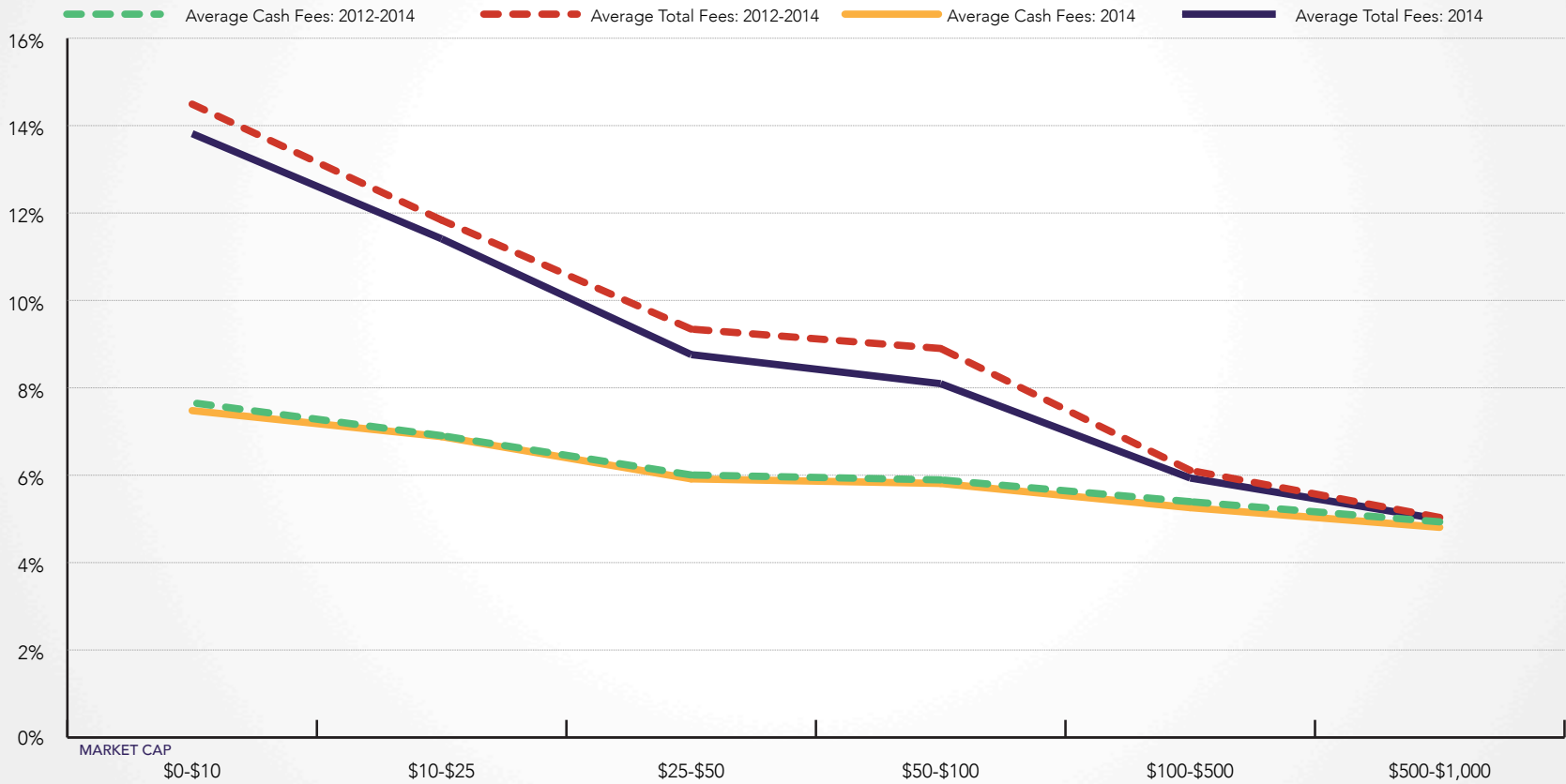


Note: The charts represent all deals in all natural resource sectors closed between January 1, 2012 and December 31, 2014. Dollars raised listed in million-dollar units.



Average Fees on Brokered Deals: 2012-2014

ALL SECTORS 2012 - 2014: BROKERED FEES BY COMPANY MARKET CAP



Note: The chart represents all brokered deals in all natural resource sectors closed between January 1, 2012 and December 31, 2014. Market-cap listed in million-dollar units.



Brokered Deals Across All Sectors: 2014

SECTOR	BOOK				AVERAGE FEES			STRUCTURE			EXECUTION	
	% OF TOTAL BOOK	DEAL SIZE*	TOTAL DEALS	TOTAL RAISED	CASH	WARRANT	TOTAL	SHARE PRICE PREMIUM+	% OF DEALS BOUGHT	% OF DEALS WITH WARRANTS	DAYS TO CLOSE*	SUBSCRIPTION RATE*
Large Oil & Gas	58.3%	\$104.31	54	\$5,632.94	4.1%	0.0%	4.1%	-3.8%	85.2%	1.9%	21.2	108.3%
Small Oil & Gas	3.4%	\$13.81	24	\$331.54	6.2%	1.7%	7.8%	-5.3%	33.3%	29.2%	38.1	90.5%
Large Gold	18.6%	\$40.85	44	\$1,797.29	4.5%	0.2%	4.7%	-6.9%	68.2%	34.1%	18.5	113.0%
Small Gold	1.3%	\$3.81	32	\$122.04	6.2%	3.2%	9.4%	-4.8%	6.3%	75.0%	50.3	81.0%
Copper	8.6%	\$139.07	6	\$834.44	4.2%	0.0%	4.2%	-8.0%	66.7%	33.3%	19.2	83.2%
Base Metals	1.8%	\$57.83	3	\$173.50	4.0%	0.0%	4.0%	-3.2%	33.3%	66.7%	37.7	110.3%
Silver	1.6%	\$19.11	8	\$152.92	5.4%	1.1%	6.5%	-8.9%	62.5%	50.0%	26.8	106.3%
PGM	1.4%	\$69.48	2	\$138.96	5.0%	0.2%	5.3%	-8.7%	100.0%	50.0%	17.5	110.0%
Uranium	1.1%	\$7.00	15	\$105.02	5.7%	3.6%	9.2%	-8.5%	33.3%	60.0%	15.9	107.8%
Diamonds	1.1%	\$20.80	5	\$104.00	5.0%	0.3%	5.3%	-4.8%	60.0%	40.0%	14.0	104.3%
Diversified	0.7%	\$65.00	1	\$65.00	5.0%	0.0%	5.0%	-0.1%	0.0%	0.0%	15.0	100.0%
Lithium	0.5%	\$9.04	5	\$45.22	5.7%	1.3%	7.1%	-6.9%	40.0%	60.0%	22.4	115.2%
Fertilizer	0.3%	\$8.09	4	\$32.36	5.4%	1.8%	7.2%	0.0%	25.0%	100.0%	41.5	92.0%
Graphite	0.2%	\$2.76	7	\$19.31	6.9%	6.3%	13.3%	-8.9%	14.3%	100.0%	16.4	141.1%
Zinc	0.2%	\$5.89	3	\$17.68	6.2%	6.2%	12.4%	26.7%	66.7%	33.3%	14.7	105.0%
Sand	0.2%	\$17.44	1	\$17.44	5.0%	5.0%	10.0%	-10.1%	100.0%	0.0%	18.0	144.4%
Nickel	0.2%	\$5.23	3	\$15.68	6.4%	3.9%	10.2%	-3.2%	33.3%	66.7%	15.3	110.8%
REE	0.1%	\$2.20	6	\$13.18	5.0%	4.7%	9.7%	-7.2%	16.7%	83.3%	24.0	90.5%
Vanadium	0.1%	\$6.42	2	\$12.84	5.7%	5.7%	11.4%	-11.5%	0.0%	50.0%	33.5	97.3%
Niobium	0.1%	\$10.59	1	\$10.59	6.5%	6.5%	13.0%	-0.2%	0.0%	100.0%	49.0	64.2%
Precious Metals	0.1%	\$10.01	1	\$10.01	6.0%	0.0%	6.0%	-9.7%	100.0%	0.0%	28.0	100.0%
Industrial Metals	0.1%	\$5.75	1	\$5.75	6.0%	6.0%	12.0%	-6.5%	100.0%	100.0%	27.0	115.0%
Iron Ore	0.1%	\$1.67	3	\$5.01	6.0%	6.0%	12.0%	-7.4%	33.3%	66.7%	29.0	86.7%
Chromite	0.0%	\$2.00	1	\$2.00	8.0%	8.0%	16.0%	-4.2%	0.0%	100.0%	195.0	87.0%
Molybdenum	0.0%	\$0.21	1	\$0.21	10.0%	10.0%	20.0%	-23.3%	0.0%	0.0%	49.0	68.8%
Tungsten	0.0%	\$0.06	1	\$0.06	8.5%	5.0%	13.5%	5.3%	0.0%	100.0%	48.0	30.0%
All Sectors: 2014	--	\$41.30	234	\$9,664.95	4.3%	0.3%	4.6%	-5.2%	50.4%	41.0%	27.7	102.2%
All Sectors: Q1 2015	--	\$76.40	26	\$1,986.31	4.4%	0.0%	4.4%	-5.2%	76.9%	19.2%	22.2	110.4%
All Sectors: 2013	--	\$26.02	225	\$5,855.07	4.6%	0.4%	5.0%	-3.2%	41.8%	38.7%	32.9	95.0%
All Sectors: 2012	--	\$26.97	466	\$12,569.11	4.7%	0.4%	5.1%	-4.3%	32.6%	43.6%	32.1	88.7%



In the past (pre-1990s)

Exploration was done by juniors:

1. They were more cost-efficient (not any more)
 - Majors are doing cost-benefit analyses earlier, reducing the cost per discovery
2. Juniors on the net (theoretically) returned capital via buyouts from majors (not any more)
3. Juniors (used to) kill projects if they did not interest majors



What is changing, post-2011?

1. Not all commodities are the same
2. Brokers/investors are aging out of the market
3. Online trading has broken IR relationships
4. Companies are dying, and no one is willing to discuss why
5. Industry is shrinking
6. PE/other capital is not yet optimally structured
7. Majors are restructuring



Majors (used to) build mines

1. Big mines, little mines, medium mines
 - a. They did not want juniors to permit (it was simpler back in the day)
 - b. They did not want (expect) junior economic studies
 - c. They did not want (expect) juniors to build mines
2. They wanted advanced exploration projects and were willing to pay for them
 - A resource statement was what they wanted
3. What do they want today?



Majors bought some crap and now need to clean house

1. Majors have an inventory of non-economic projects (non-economic for them)
2. Majors are splitting into two or three companies, after a period of consolidation.
3. Majors are changing the model (some are now PE funds; look at Mick and X2).
4. Majors now need to define what works in the future (for them)
5. The rest of us have to figure out how to work around them



Investors used to:

Fund exploration:

1. Bought lottery ticket
2. Did not mind losing
3. Tickets were cheap and payouts were good

Now investors:

1. Fund exploration + 10 years of development
2. Still do not mind losing
3. Tickets are not cheap, and payout is lousy



Today

Exploration companies do not:

1. Kill bad projects
2. Sell to majors at rational points (majors have been trained to abuse juniors)
3. Do things cheaply (Standalone VP IR=\$150k/y versus shared IR of \$25-60k/y)
4. Do exploration



What has to change?

Cost structures: everything that was expensive has to get cheap (how cheap...?)

1. Exploration has to be done on a dime
2. Corporate overhead has to be reduced
3. Head offices have to look like engineering offices, not law offices (even lawyers do not work from their board rooms)



Administrative Costs

1. Standard pre-approved offering docs, MD&As and all other docs; I want fill-in-the-form websites that spit out the Exchange-approved legalese
2. Rational legal/regulatory costs
3. One national regulator
4. Fees that do not kill small companies



Investors need a fair kick

Public junior companies:

1. Should they be issuing convertible debt?
2. Blow wealth out the back door

However, more regulation is not the solution:

1. It increases costs
2. It reduces return
3. It changes focus



Case in point: NI 43-101

1. It is structurally challenging to publicly look at economics before you have an ore body
2. But if you do not know what makes an ore body without economics, how much money is wasted on bad ore bodies that will never be economic?
3. 43-101 means that MONEY is wasted chasing DEAD projects



Simplify

1. What is your company?
2. What is an **economic** ore body (and how do you find it)?
3. What is a **viable** project (and how do you find it)?
4. What is a major?

How are you going to make it all work (all while being broker than broke)?



Conclusion

1. Juniors have to either partner or kill projects, either pre- or post-resource, and should not do advanced studies
2. Investors should not fund PEAs and advanced studies
3. Market/regulation should be looked at and changed to make the field rational and cheaper
4. Investors have to have a seat at the table



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