

# The System is Broken

## *State of the Junior Exploration Ecosystem*

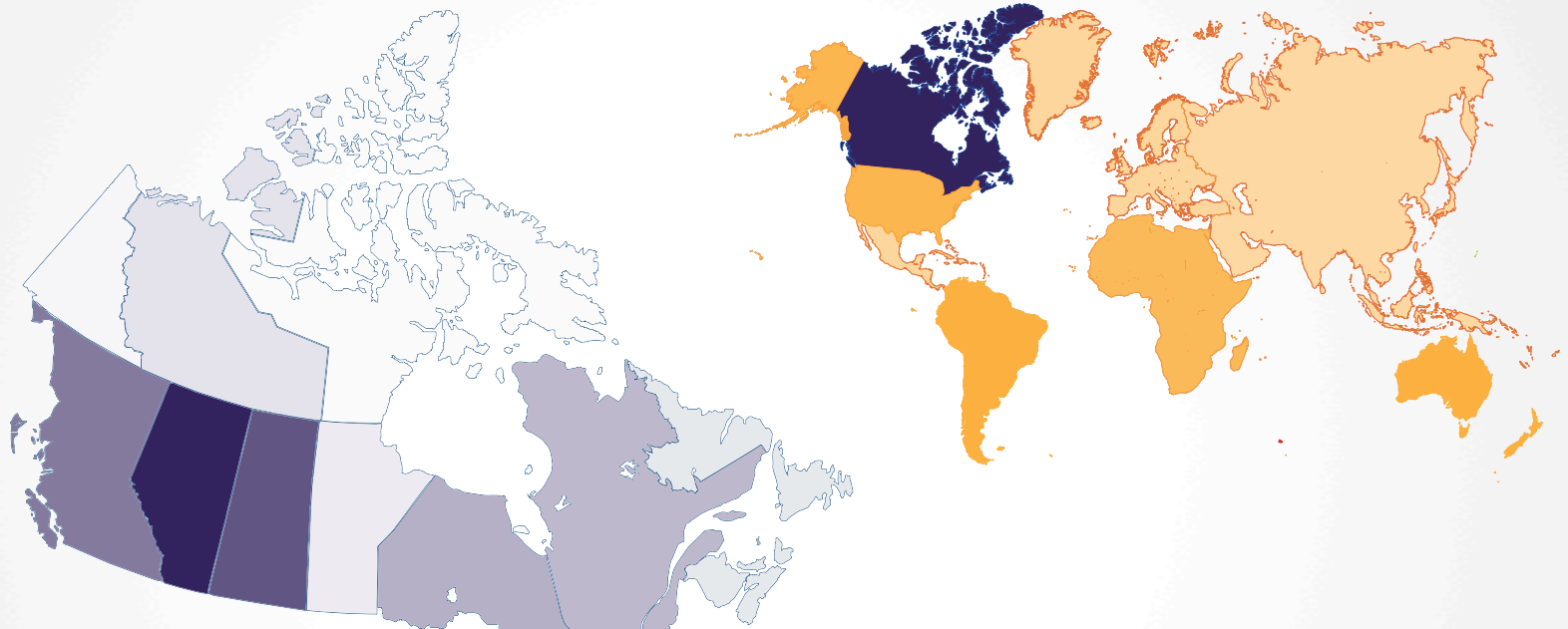
Canadian Institute of Mining Metallurgy & Petroleum  
Management and Economics Society 



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# Global Fundraising by Project Location



Jan. 1, 2013 - Dec. 31, 2014

Province	Dollars Raised
Alberta	\$6,446.97
Saskatchewan	\$2,255.63
British Columbia	\$1,784
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

Continent	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

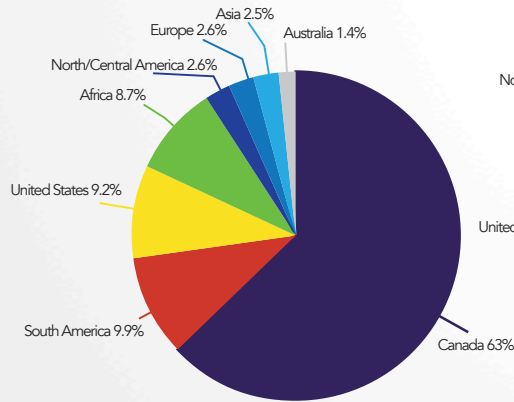
Note: Note: The map represents all 2013 - 2014 financing data. Dollars raised listed in million-dollar units. "Atlantic Canada" includes the provinces of New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland, and Labrador.



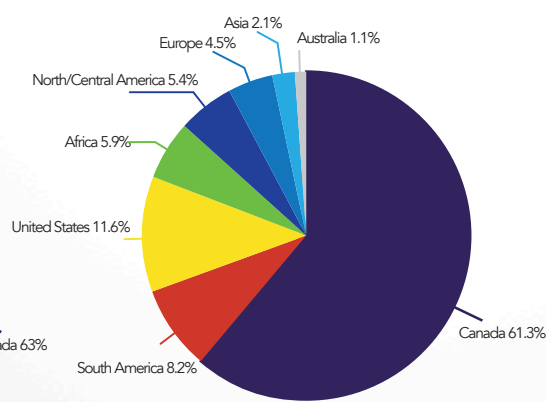
# Property Comparison by Global Region

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

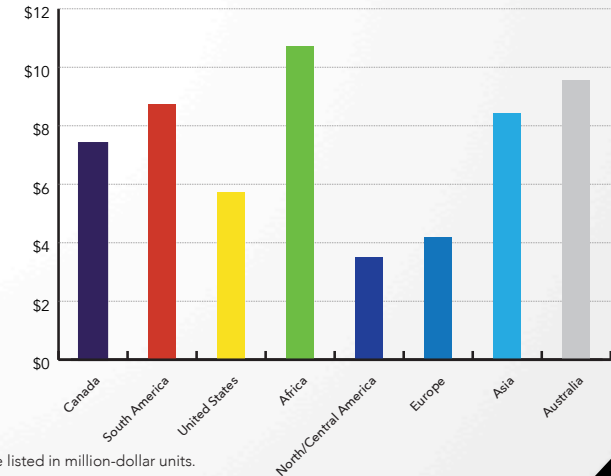
DOLLARS RAISED



NUMBER OF DEALS



AVERAGE DEAL SIZE



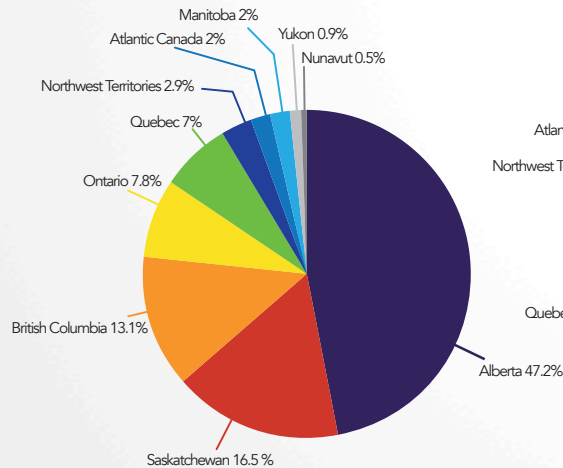
Note: The table and charts represent all deals in all natural resource sectors closed between January 1, 2013 and December 31, 2014. Dollars raised and average deal size listed in million-dollar units.



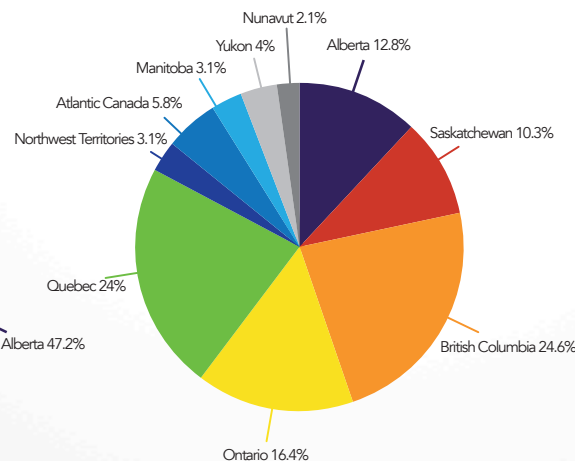
# Property Comparison by Canadian Region

REGION	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

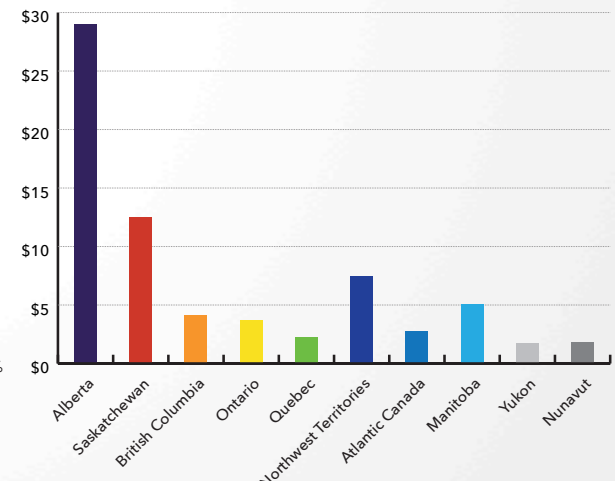
DOLLARS RAISED



NUMBER OF DEALS



AVERAGE DEAL SIZE

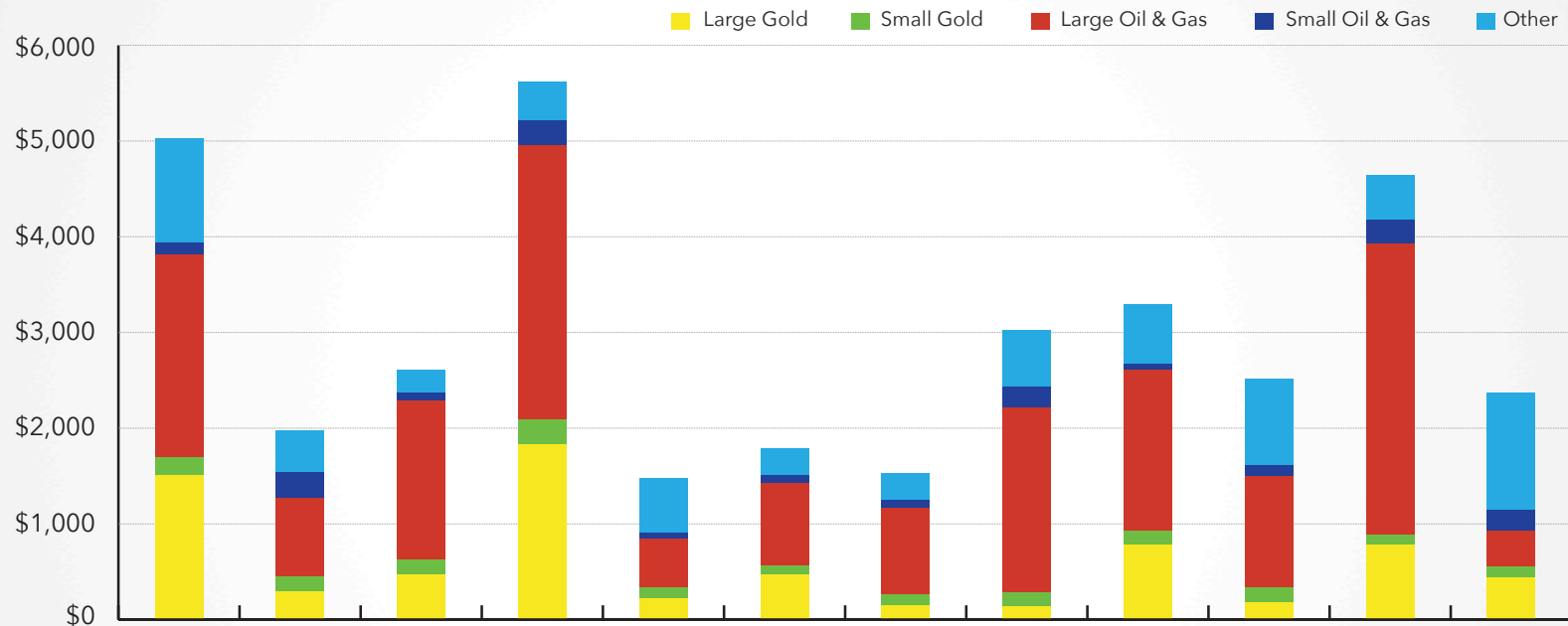


**Note:** The table and charts represent all deals in all natural resource sectors closed between January 1, 2013 and December 31, 2014. Dollars raised and average deal size listed in million-dollar units. Atlantic Canada includes the provinces of New Brunswick, Prince Edward Island, Nova Scotia, Newfoundland,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



# Gold and Oil & Gas vs. Other Sectors

DOLLARS RAISED



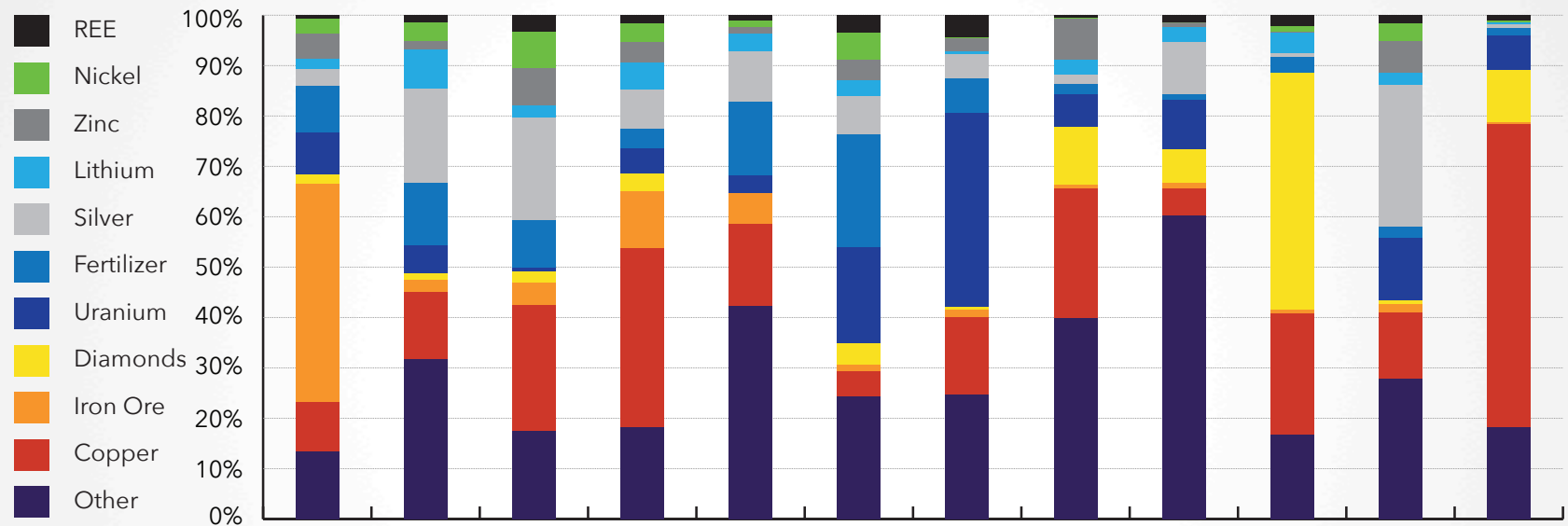
SECTOR	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Large Gold	\$1,518.17	\$298.96	\$478.83	\$1,837.38	\$229.17	\$474.04	\$157.42	\$147.54	\$786.02	\$188.65	\$794.02	\$446.00
Small Gold	\$176.94	\$158.27	\$153.26	\$262.48	\$113.90	\$94.44	\$106.56	\$140.58	\$151.56	\$152.11	\$94.81	\$110.12
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
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	\$216.95
Other	\$1,084.57	\$428.71	\$235.65	\$395.20	\$563.44	\$277.03	\$270.81	\$588.19	\$618.84	\$898.91	\$460.51	\$1,222.77
<b>Total</b>	<b>\$5,025.89</b>	<b>\$1,970.50</b>	<b>\$2,606.18</b>	<b>\$5,613.48</b>	<b>\$1,475.75</b>	<b>\$1,789.12</b>	<b>\$1,532.27</b>	<b>\$3,020.54</b>	<b>\$3,297.21</b>	<b>\$2,521.18</b>	<b>\$4,637.89</b>	<b>\$2,374.64</b>

Note: The chart and table represent all deals in all natural resource sectors closed between January 1, 2012 and December 31, 2014. 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.



# 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
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
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
Iron Ore	\$470.41	\$9.55	\$10.31	\$44.67	\$34.48	\$3.40	\$3.91	\$3.33	\$6.93	\$5.65	\$7.03	\$5.25
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
Silver	\$36.06	\$80.81	\$48.25	\$30.24	\$56.84	\$21.16	\$13.50	\$11.07	\$65.25	\$6.52	\$129.79	\$7.36
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
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
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
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
REE	\$7.51	\$6.03	\$7.74	\$6.43	\$5.25	\$9.52	\$11.81	\$2.57	\$8.80	\$18.84	\$7.26	\$11.67
Other	\$146.20	\$136.13	\$41.29	\$72.38	\$238.72	\$67.38	\$67.04	\$235.13	\$373.44	\$150.77	\$128.85	\$223.07
<b>Total</b>	<b>\$1,084.57</b>	<b>\$428.71</b>	<b>\$235.65</b>	<b>\$395.20</b>	<b>\$563.44</b>	<b>\$277.03</b>	<b>\$270.81</b>	<b>\$588.19</b>	<b>\$618.84</b>	<b>\$898.91</b>	<b>\$460.51</b>	<b>\$1,222.77</b>

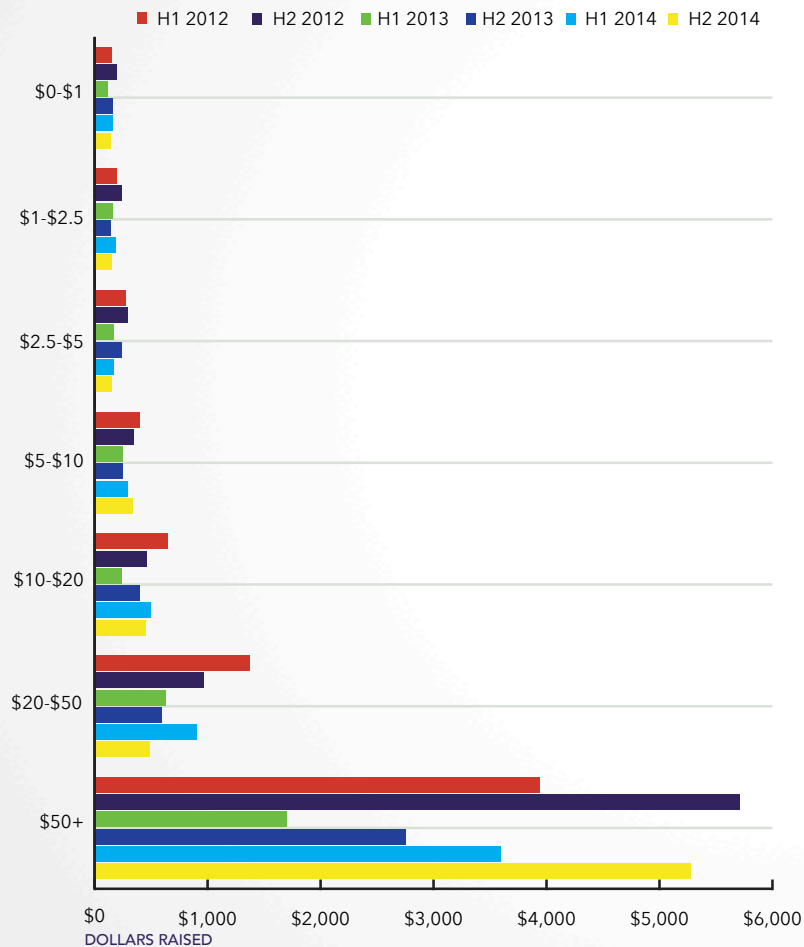
Note: The chart and table represent all deals in all natural resource sectors closed between January 1, 2012 and December 31, 2014. Dollars raised listed in million-dollar units.



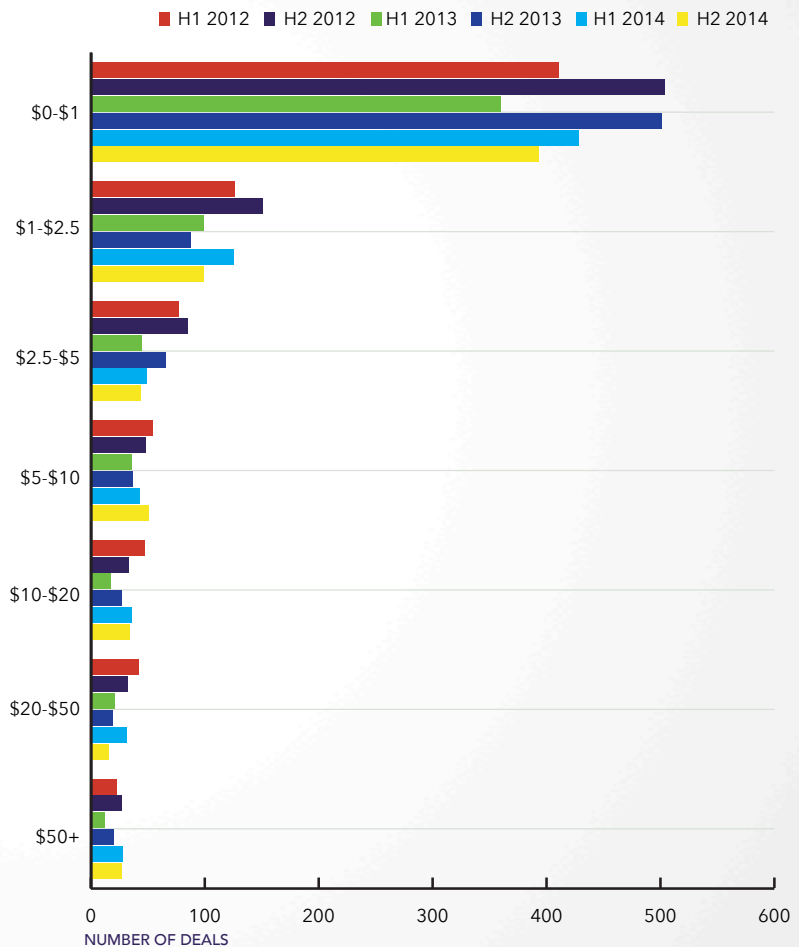


# Number of Deals & Dollars Raised

## DOLLARS RAISED BY OFFER SIZE



## NUMBER OF DEALS BY OFFER SIZE

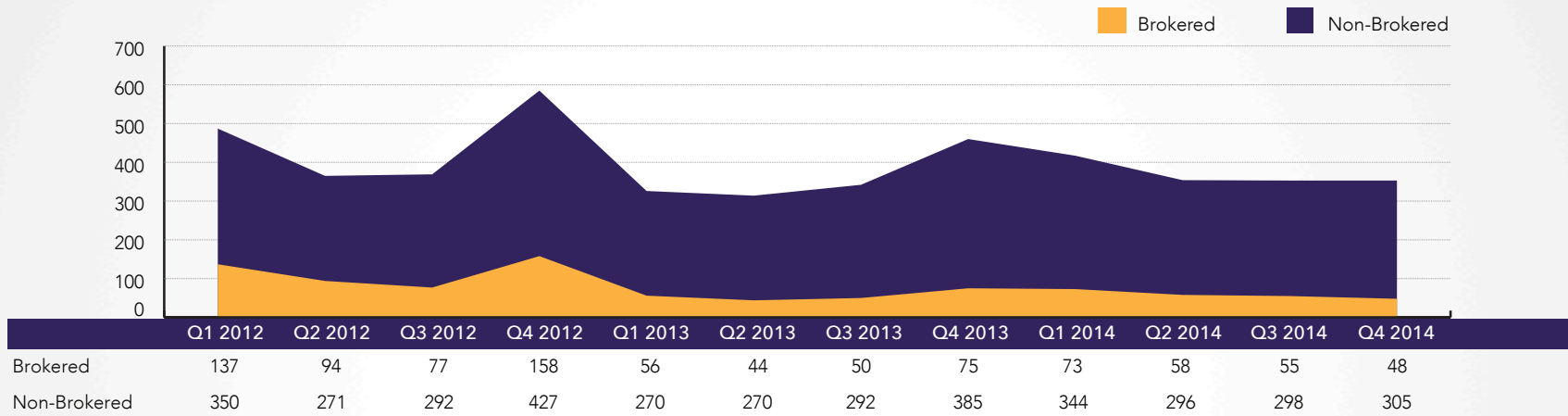


Note: The charts represent all deals in all natural resource sectors closed between January 1, 2012 and December 31, 2014. Dollars raised and offer size listed in million-dollar units.

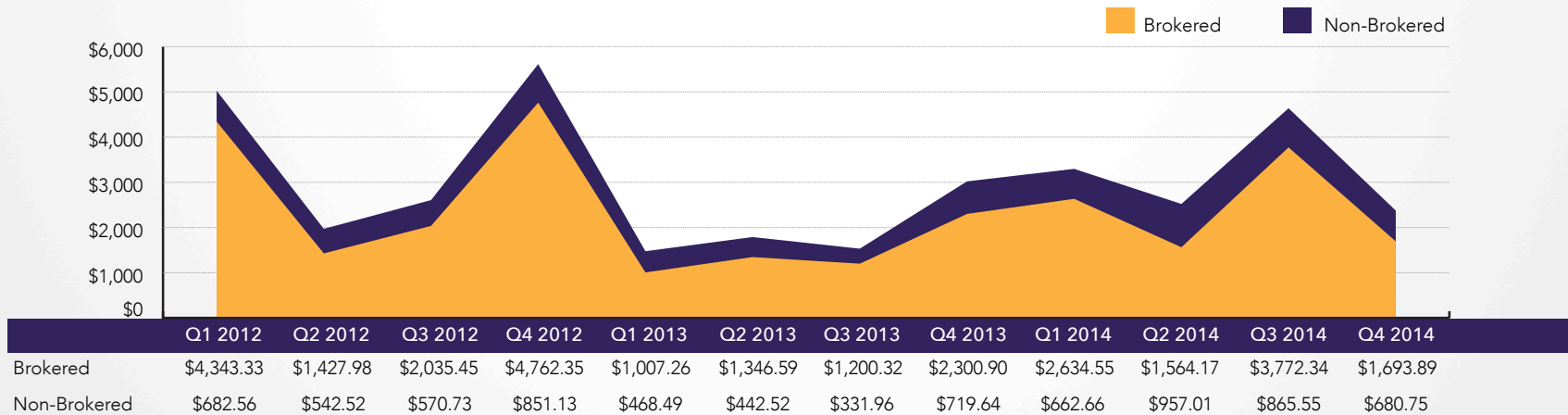


# Brokered vs. Non-Brokered Deals

## BROKERED VS. NON-BROKERED OFFERINGS



## BROKERED VS. NON-BROKERED DOLLARS RAISED



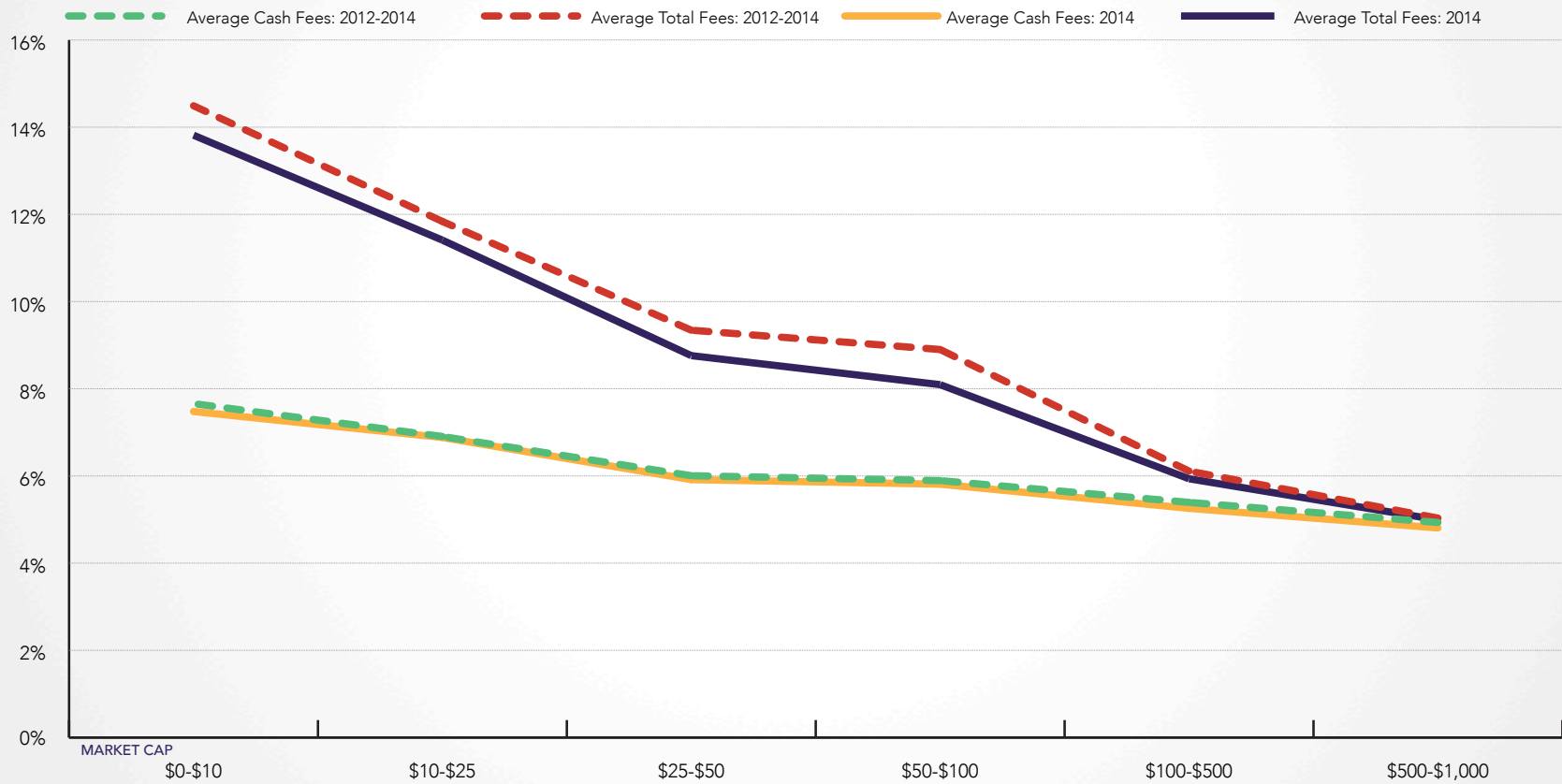
Note: The charts represent all deals in all natural resource sectors closed between January 1, 2012 and December 31, 2014. Dollars raised listed in million-dollar units.





# 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.



# In the past (pre-1990s)

Exploration was done by juniors:

1. They were more cost-efficient (not any more)
  - a. 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 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. A resource statement was what they wanted
3. What do they want today?



# Majors bought crap and now need to clean

1. Majors have an inventory of non-economic projects (non-economic for them)
2. Majors are splitting into 2-3 companies
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:

- a. Bought lottery ticket
- b. Did not mind losing
- c. 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...?)

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







# Public vs. Private

1. Standard pre-approved offering docs, MD&As and all other docs; I want fill-in-the-form websites that spit out the legalese, that the Exchange approves of
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: 43-101 means?

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 the while being broker than broke)?



# Conclusion

1. Juniors have to either partner or kill projects either pre- or post-resource and 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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