

Downturn in Mineral Financing:

A Mid-year Review

BY SAMAD UDDIN

The exploration sector continues to face a challenging capital raising environment with no signs of a turnaround. As of June 2015, 30% (or almost \$4 billion) of TSXV market capitalization in mining was wiped off the market compared to the same period in the previous year. The senior exchange, the TSX, fared only marginally better—market capitalization in mining fell by 18%, but by a larger amount, or \$48 billion. While total financing on Canadian exchanges (TSX, TSXV and CSE) fell by 27% for metals and mining issuers, exploration financing fell by 33%, which has also seen more dramatic declines in previous periods. Mining finance has been on a steep decline since reaching its peak in 2010 and may not yet have bottomed out.

In addition to a sharp drop in financing activity, the number of listings continues to decrease (see Figure 1). Of the 128 drop in listings on the TSXV between January to June 2015, 93 were from the mining sector.

The outlook for the remainder of the year is bleak, as metal prices are expected to remain flat, according to SNL Metals & Mining. Any support for commodity prices, which impacts investor interest in the exploration sectors, is clouded by weak growth prospects for major commodity consuming economies such as the emerging and developing economies. The IMF expects these economies to struggle at 4.2% this year, whereas in the past they grew by over 6% annually, which fueled demand for raw materials. A case in point is China, a major importer of commodities whose growth is well

below historical averages. On the bright side, the weaker Canadian dollar (relative to the U.S. dollar) is helping to improve margins for Canadian producers as most commodities are priced in U.S. dollars. However, it is yet to be seen if this will in turn improve exploration financing.

HOW TO SURVIVE?

As these statistics show, the junior mining industry in Canada is currently suffering one of the worst downturns in history. Companies conducting grassroots (early-stage) exploration are finding it particularly challenging to attract investments. This is why PDAC is advocating for governments to enhance fiscal incentives for mineral exploration in order to sustain capital flows so that companies can continue to find the next generation of mines. One key incentive is the federal Mineral Exploration Tax Credit (METC), which combines with the flow-through shares system to create “super flow-through financing.”

A key way to cope with this difficult financing environment is for exploration companies to issue flow-through shares that provide a life-line to many companies. PDAC analysis of exploration financing data has shown that flow-through financing makes up a larger share of overall financing during downturns. In other words, as overall financing levels for exploration fell, the proportion of financings using flow-through shares went up. Given its documented effectiveness as a counter-cyclical financing incentive, PDAC is calling for the federal government to double the METC for a period of three years to re-ignite investor interest in this nation building industry.

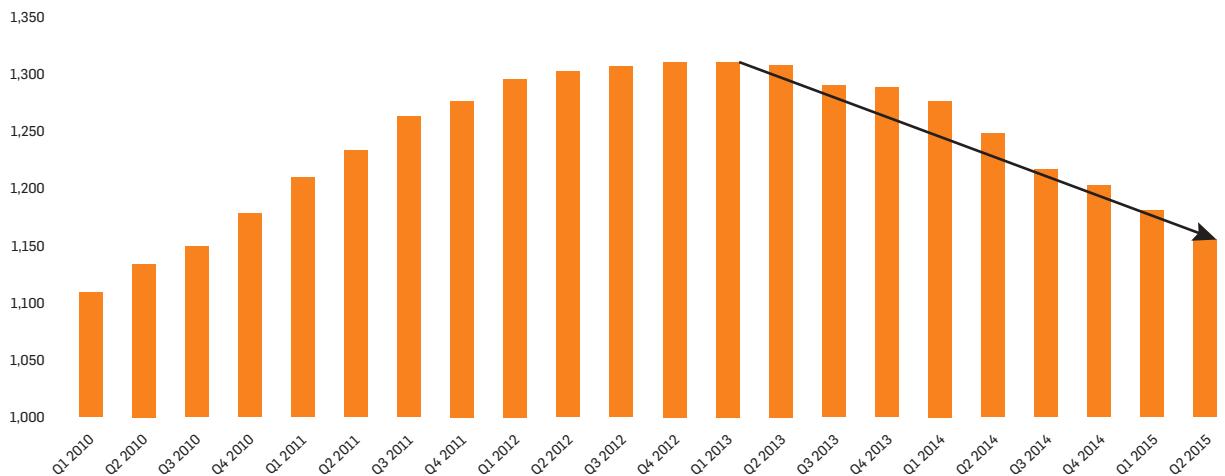
RECENT FLOW-THROUGH SUCCESSES

Companies have used flow-through financing to achieve significant exploration success, discovering a variety of deposit types across Canada. For example, many of the projects featured on Natural Resources Canada's Map of the Top 100 exploration and deposit appraisal projects of 2014 used flow-through financings over the last twelve months, including:

- Fission Uranium Corp., is developing the Patterson Lake South Uranium Project in Saskatchewan, where the Triple R deposit was discovered in 2012. This deposit is said to be the largest undeveloped deposit in the Athabasca Basin with an indicated resource of 79.6 million pounds, including 44.3 million pounds indicated at 18.2% U3O8 and a large inferred resource. Ross McElroy, the current President and COO, received the PDAC's Bill Dennis Award in recognition of the discovery. Fission Uranium recently entered into an agreement to combine its business with Denison Mines Corp.
- Peregrine Diamonds Ltd. is currently conducting a resource development program at its Chidliak Diamond Project in Nunavut. The exploration is designed to increase the inferred mineral resource of 8.6 million carats of diamonds contained in 3.3 million tonnes of the CH-6 kimberlite and to confirm diamond resources in other kimberlites. The project is located 120 km from Iqaluit, the capital of Nunavut, where it first discovered kimberlite in 2008. In 2016, Peregrine expects to initiate a Preliminary Economic Assessment of the Project.
- Pure Gold Mining Inc. intersected high grade gold zones at its Madsen Gold Project near Red Lake, Ontario, during its 2014 and 2015 exploration programs. The Madsen project has mining infrastructure from past producers and a significant indicated mineral resource of 928,000 ounces gold in 3.2 million tonnes grading 8.9 grams/tonne, and an inferred mineral resource of 297,000 ounces gold in 0.8 million tonnes grading 11.7 grams/tonne. The Madsen Project is said to be one of the highest grade undeveloped gold deposits in North America. The mineral resource reported, is based on current and historical data and only considers gold mineralization accessible from the historic Madsen Mine underground workings.
- Seabridge Gold Inc. found a new deposit in 2013 at the KSM Copper-Gold Project in northern B.C. This new deposit, the Deep Kerr, has the highest metal values discovered at KSM to date. The Kerr deposit is said to be one of the largest undeveloped gold projects in the world with proven and probable reserves totalling 38.2 million ounces of gold and 9.9 billion pounds of copper. An initial resource estimate for Deep Kerr released in early 2014 confirmed an inferred resource of 515 million tonnes grading 0.53% copper and 0.36 g/T gold (6.1 billion pounds of copper and 5.9 million ounces of gold).
- Avalon Rare Metals Inc.'s Nechalacho Rare Earth Elements Project in the Northwest Territories is an advanced stage project with a completed feasibility study, an approved environmental assessment and a refining solution in place. The Nechalacho Project is positioned to bring a new supply of critical rare earth materials to the marketplace. Exploration work included a bulk sampling program of the basal zone material in 2014. **c**

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Figure 1: TSXV Number of Mining Companies



Source: TMX Group