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BC Junior Mining at a Crossroads - Executive Management's Perspective

Commissioned by the BC Securities Commission

17th October 2013

Study Overview

- **KPMG was retained by the British Columbia Securities Commission to engage in a dialogue with a number of junior mining firms to gather their thoughts with respect to the current state of financing.**
- **Over the summer of 2013, KPMG met with 15 BC-based junior mining firms to determine:**
 - **Their success or lack thereof with financing over the past three years**
 - **What they saw as being the principal causes for current problems in the market**
 - **If the scope and cost of current regulation of the industry was a major factor in the accessibility of financing**
 - **The implications of the current situation**

Financing Demographics of the Participants

- The fifteen companies interviewed were engaged in various levels of financing over the last three years:
 - No significant financing (under \$100,000): 1 firm
 - Minimal financing (\$100,000 to \$600,000): 5 firms
 - Significant financing (over \$600,000): 9 firms
- The amount raised by individual firms ranged from \$300,000 to \$30,000,000. One firm reported raising no financing.
- Many of the firms were raising ‘survival capital’ while the others (with much larger financings) were advancing projects.
- The estimate of the cost to “survive” for a year ranged from \$75,000 to \$150,000 per year.

“Many of the junior mining companies are in survival mode, trying to find the cash just to keep their listing active.”
Survey Participant

Ability to Access Financing

- **Financing activity was relatively healthy in 2010, but tapered off significantly over the following three years.**
- **Retail and institutional investors have become risk averse and are seeking stable investments with more predictable returns.**
- **The ability to raise finance, particularly through stock offerings, has become problematic for a number of reasons:**
 - **Dilution considerations**
 - **Lack of market interest**
 - **The cost of raising finance**
 - **The demographics of the typical investor**

“Retail and institutional markets have virtually disappeared for the financing of junior mining companies.”

Survey Participant

Ability to Access Financing

- **Junior mining firms have had to turn to alternative sources of financing to survive or to advance projects. New tools have included:**
 - **Royalty arrangements**
 - **Lines of credit**
 - **Debentures**
 - **Further equity injections by principals**
 - **Private placements**

- **In the absence of being able to access financing, firms are:**
 - **Sharing offices to reduce costs**
 - **Going dormant and doing the minimum to maintain a listing**
 - **Merging or being acquired**
 - **Going out of business**

Causes of the Current Situation

- **General economic conditions were typically identified as the major contributing factor to the current situation and it was noted that much of this issue relates to fear.**
- **Specific economic considerations included:**
 - **Metals prices**
 - **Slow economic growth**
 - **Global financial issues**

“Fear and greed drive the markets, and fear is currently in control.”

Survey Participant

Other Factors

- **State of the general mining industry**
 - Toxic assets/poor balance sheets
 - Reduced earnings
 - Problematic projects
- **Senior mining firms need to recover first**
- **Demographics**
 - Company principals
 - Investors

"We have gone from a foolish market to a bearish market."

Survey Participant

The Impact of Regulation

- **Mining companies were split on the impact of regulation:**
 - **Some noted that the current regulatory requirements are often onerous and costly for Juniors**
 - **others noted that existing regulation is necessary to focus investment in potentially viable companies and weed out the “bad apples”.**
- **The key irritants were seen to be:**
 - **Quarterly reporting**
 - **High transaction costs**
 - **Consistency of enforcement**

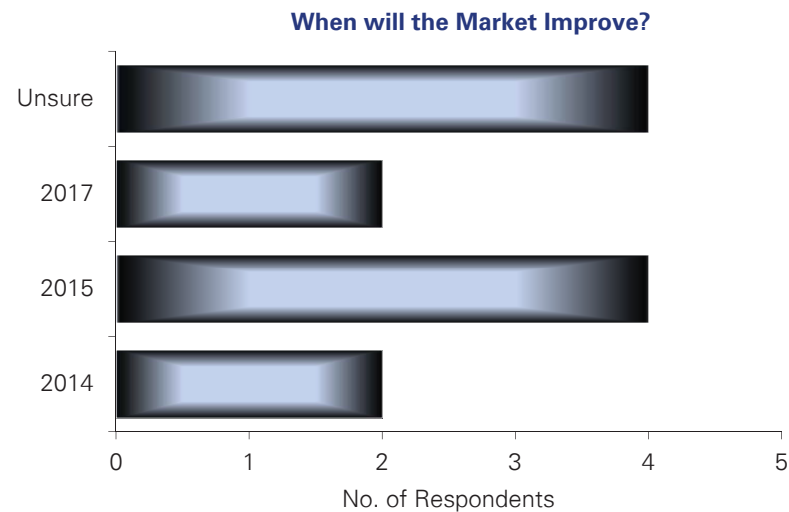
*“BCSC securities
regulation is not a
significant
consideration in terms
of the availability of
financing”
Survey Participant*

Provincial Government Considerations

- **Participants made a number of observations of the influence of the Provincial Government on the mining industry**
 - **The existing regime of tax credits has been beneficial to industry, and need to be continued**
 - **Provincial efforts to facilitate the development of new mines have been beneficial to the industry and the province**
 - **A provincial strategy to promote the continued development of a healthy junior mining sector is missing**
 - **Regulation of exploration activities by the Ministry of Energy and Mines is seen as being heavy handed and perhaps meant more for development and operation of mines**
 - **The Provincial Government needs to modify its hands-off approach to the junior mining company – First Nations interface**

Outlook

- Virtually all of the companies noted that we are in a market cycle, though it may be a prolonged one.



The root causes of the current situation are the cyclical nature of the mining industry and current economic/market conditions.

Survey Participants

Outlook

- **The company's thoughts on the short and long term outlook were:**
 - **Over the next few years there will be a culling of the number of junior mining firms – this was seen by many of the companies to be necessary**
 - **Large mining companies will shed their toxic assets, improve their earnings and once this has been demonstrated, investors will return to the market**
 - **The junior mining sector will lag that of the senior mining sector in terms of investor interest, level of activity and access to financing**
 - **Vancouver may lose some of its reputation as a mining centre of excellence, due to a loss of some of the infrastructure (geologists, lawyers, brokerage houses, accountants, etc.)**

“Between 30% and 50% of the Juniors are not expected to survive. 30% is fine, and perhaps required, but 50% is not.”

Survey Participant

What Can be Done?

- The basic message is **“Wait it out – the market will come back”**
- The companies were unanimous that there is no silver bullet and no single party that can significantly affect the current situation
- Over the longer term, as the industry recovers, two themes emerged in terms of regulatory change that should be considered and examined:
 1. Facilitate an even playing field – consistent review and enforcement of regulations, policies, etc by all parties involved in a regulatory role in the industry
 2. Examine the potential for flexibility in reporting and other matters – perhaps a “one size fits all” approach is not appropriate when there is such a disparity in the size and nature of activities of the companies in the mining sector

Thank You.

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