

# State of Mineral Finance 2018: Gaining Momentum



PROSPECTORS &  
DEVELOPERS  
ASSOCIATION  
OF CANADA



## Forward

The following report provides a detailed retrospective of financing dynamics for the mineral exploration and mining industry since 2011. Based on analysis of a broad set of financial metrics, the report outlines how available funding for, and activity levels within, the mineral industry have improved in recent years from low points in 2015. However, the apparent industry recovery has not been evenly distributed, and both financing opportunities and activity levels remain well below peaks realized in 2011.

## About the organizations

**The Prospectors & Developers Association of Canada (PDAC)** is the leading voice of the mineral exploration and development community. With 8,000 members around the world, PDAC's mission is to promote a globally-responsible, vibrant and sustainable mineral sector that encourages best practices in technical, operational, environmental, safety and social performance. PDAC is known worldwide for the annual PDAC Convention—the premier international event for the industry. It has attracted over 25,000 people from 135 countries in recent years and will next be held March 3-6, 2019 in Toronto. Please visit [www.pdac.ca](http://www.pdac.ca)

**Oreninc.com** is North America's leading provider of relevant financing information in the junior commodities space. Since 2011, the company has been keeping track of financings in the junior mining as well as oil and gas space. Logging all relevant deal and company information into its proprietary database, called the Oreninc Deal Log, Oreninc quickly became the go-to website in the mining financing space for investors, analysts, fund managers and company executives alike. Please visit [www.oreninc.com](http://www.oreninc.com)

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## Executive Summary

- ▶ Following a prolonged downturn in mineral industry activity, 2016 and 2017 were characterized by rising commodity prices that sparked increased financing opportunities and exploration expenditures, both in Canada and globally. A cyclical upswing in global economic activity, coupled with USD depreciation and low interest rates, has driven an improvement in the commodity complex. However, improvements in financing and exploration activity has not spread evenly across the mineral industry.
- ▶ International Monetary Fund (IMF) estimates for global economic growth—measured by GDP (Gross Domestic Product)—have rebounded from a low of 3.2% in 2016 to 3.7% in 2017, and is expected to increase to 3.9% through 2018-2019.<sup>1</sup> A rebound in global GDP combined with increased expectations for growth in China and other advanced economies, as well as U.S. domestic infrastructure spending, are likely drivers behind increased demand for industrial commodities. As a result, monthly average prices of key base metals improved significantly over the past two years (36%-110%), while monthly average prices for precious metal have experienced more modest increases (6%-15%) over the same period.<sup>2</sup>
- ▶ Global mineral sector investment deteriorated from a peak in 2012 through to 2016 as funds raised globally for the mineral sector declined by 56% compared to 2012 levels. This trend reversed in 2017 as total global financing increased 61% year-over-year. The relative increase is largely attributed to increased debt financing, which doubled between 2016 and 2017.<sup>3</sup> Given that debt is not a typical financing vehicle for non-revenue generating exploration companies, debt expansion may suggest that a shift in market dynamics for the mineral industry is underway.
- ▶ Global equity financing peaked in 2011 at US\$53 billion and fell sharply to reach US\$24 billion in 2013. Global equity financing has subsequently stabilized but with a moderate decreasing trend, declining from US\$37 billion in 2014 to US\$27 billion in 2016, and slightly improving to US\$29 billion in 2017. Canadian stock exchanges continue to be a material source of equity financing for the global mineral industry, with TSX and TSXV contributing on average 19% of the funds raised from 2011-2017. **Due to the focus on Canadian markets, all monetary figures in this report are expressed in Canadian Dollars (CAD) unless otherwise stated.**
- ▶ Mineral industry financing via Canadian stock exchanges in 2017 expanded 83% from a 2015 low. Total financing activity was more prominent on the TSXV, with a 243% increase over two years, compared to 64% on the TSX. Most of the increases occurred in 2016 and, similar to the global trend, the majority of funding expansion is attributed to an increase in debt financing, which rose from \$0.5 billion in 2015 to \$6.6 billion in 2017 or roughly 52% of total funds raised.<sup>4</sup>
- ▶ Data provided by Oreninc on junior mineral industry financing in Canada shows a mixed picture for 2017.<sup>5</sup> Equity raises by junior companies listed on the TSXV increased by 18% compared to 2016, whilst the CSE recorded a 123% increase in funds raised. Conversely,

the value of financing for junior companies on the TSX declined 32% from 2016 levels. In 2017, bought-deal transactions became more significant, with their value increasing 12%, while the value of best-efforts transactions fell by 21% and 15% for brokered and non-brokered transactions, respectively. Lastly, while the value of equity financing for projects targeting minerals associated with battery-technology grew 200% in 2017, the same fund flow for both precious and base metals fell by 12% and 11%, respectively. Notably, over 85% of funds generated via equity financing for junior companies was by those with a market capitalization of less than \$500 million.

- ▶ Global financing explicitly for mineral exploration from 2012 to 2015 was negatively impacted by reduced overall investment in the mineral industry, and declined by 85% from US\$19.4 billion to US\$2.9 billion over this period. Between 2015 and 2017 financing for exploration nearly tripled to reach US\$4.8 billion in 2016 and US\$8.9 billion in 2017. In Canada, similar trends are observed with a 75% decline in financing for exploration between 2012 and 2015, followed by an increase of nearly 200% between 2015 and 2016 (from \$1.02 billion in 2015 to \$3.0 billion in 2016), and a further 7% increase in 2017.<sup>6</sup>
- ▶ Global exploration expenditures from 2012-2017 followed exploration financing trends, declining over 65% from a peak of US\$20.5 billion in 2012 to US\$6.9 billion in 2016. The trend reversed in 2017 as expenditures increased approximately 15% compared to 2016 (to US\$7.9 billion). Canada and Australia continued to lead global activity in 2017, accounting for 13.8% and 13.5% of expenditures, respectively. Noteworthy is a long-term decline in Canada's share of global exploration spending, from 20.5% in 2008 to 13.8% in 2017.<sup>7</sup>
- ▶ The profile of Canadian exploration expenditures followed global trends, peaking in 2012 at \$3.2 billion, declining by nearly 60% to \$1.3 billion in 2016 and rebounding by 10% in 2017. Analyzing expenditures based on the stage of project development highlights a somewhat alarming long-term trend of grassroots exploration representing a decreased share—from 45% of exploration expenditures in 2008 to 21% in 2016, before slightly improving to 28% in 2017.<sup>8</sup>
- ▶ The flow-through share (FTS) regime continues to be a critical source of exploration financing in Canada. From 2011-2017, funds raised in Canada for domestic exploration via FTS financing averaged 68% of the total funds generated.<sup>9</sup> A notable development in fiscal policies related to the FTS regime is the expansion of Canadian Exploration Expenses (CEE) to include certain expenses on community consultation and certain environmental studies.
- ▶ New prospectus exemptions were adopted or amended in various provinces in 2015-2016, which may have contributed to the rebound in mineral industry financings. According to data gathered from the Ontario Securities Commission (OSC), the most relevant exemption for mineral sector was the *friends, family and business associates*. However, the scale of use in the new exemptions has been immaterial relative to the total market size, according to OSC data.

# Table of Contents

<b>Executive Summary</b> .....	3
<b>Table of Contents</b> .....	5
<b>Introduction</b> .....	6
Sources of Information .....	6
Assumptions and Limitations .....	7
<b>SECTION 1: The Macroeconomic Environment and Commodity Prices</b> .....	8
The Macroeconomic Environment .....	8
A Prolonged Commodity Price Decline Reverses in 2016 .....	10
<b>SECTION 2: Financing Trends</b> .....	13
Global Financing Trends Show Signs of Recovery .....	13
The Financing Landscape in Canada .....	14
The Junior Mineral Sector in Canada .....	17
<b>SECTION 3: Exploration Trends</b> .....	26
Financing for Mineral Exploration Begins to Rebound .....	26
Global Exploration Expenditures .....	27
Exploration Expenditures in Canada .....	29
Exploration Expenditures by Commodity Type .....	31
<b>SECTION 4: Fiscal Incentives and Capital Markets Reforms</b> .....	33
The Flow-through Share (FTS) Regime .....	33
Regulatory Developments in Canadian Capital Markets .....	35
<b>ENDNOTES</b> .....	38

## Introduction

As the leading voice of Canada's mineral exploration and development industry, the Prospectors & Developers Association of Canada (PDAC) undertakes numerous initiatives to support industry's efforts to raise capital and to invest such funds in exploration and development. *This State of Mineral Finance 2018: Gaining Momentum* report highlights the financial aspects of mineral exploration up to the end 2017. The report was produced by PDAC in collaboration with Oreninc, a data provider focused on junior mining companies that are listed on Canadian stock exchanges.

This report is divided into four key sections:

1. The macroeconomic environment and commodity prices
2. Financing trends
3. Exploration trends
4. Fiscal incentives and capital market reforms

**Section 1** includes a macroeconomic overview and provides background on key factors that impact the business environment under which the mineral sector operates, including fluctuations in the demand for raw materials that significantly affect commodity prices. Due to the strong correlation of commodity prices to the level of activity in the mineral sector, it also includes a brief overview of the prices of key commodities.

**Section 2** addresses financing trends, beginning with an overview of global and Canadian financing trends, followed by a focused overview of financing trends among junior mining companies in Canada that was provided by Oreninc.

**Section 3** provides an overview of trends for exploration expenditures, disaggregated by commodity, region, stage of exploration and company type. This section begins with some information on the state of financing, specifically for exploration activities.

**Section 4** of the report provides updated information about the flow-through share regime, a leading fiscal policy that Canada has in place to support a vibrant exploration sector. The section also includes an update on securities regulation in Canada, such as new exemptions, and attempts to improve the efficiency of securities regulation for smaller issuers, such as mineral exploration companies, while maintaining investors' confidence by improving the transparency of the disclosure aspects.

### Sources of Information

This report analyses data on financing undertaken by mineral industry participants and on exploration expenditures from several recognized industry sources. The definitions used in this report are taken directly from the sources and have not been altered by the authors.

The data collected in the report is primarily sourced from the following:

- ▶ S&P Global Market Intelligence (Formerly SNL Metals & Mining)
- ▶ Oreninc
- ▶ TMX Group
- ▶ International Monetary Fund's World Economic Outlook
- ▶ Ontario Securities Commission's report on the exempt markets

Specifically, financing data is taken from the TMX group, S&P Global Market Intelligence and Oreninc, which all use different methodologies and definitions in collecting data. In relevant places, references identify the source of the data and clarifications are provided in endnotes.

Additional information is collected from various sources for which the reference is made in the appropriate text, tables and charts.

## Assumptions and Limitations

The report examines trends from a 2011-2012 peak in mineral industry activity to the end of 2017 and has been prepared for the purpose of informing readers about recent developments in financing and exploration expenditures, as well as to provide a backdrop for work undertaken by the PDAC on behalf of its members.

**This publication focuses on the Canadian landscape with all monetary figures stated and analyzed in Canadian Dollars (CAD). Exceptions include global figures and commodity prices, which are presented in United States Dollars (USD) to enable global comparisons, and such figures are clearly marked by a “US\$” sign.<sup>10</sup>**

Stated figures in this report for exploration expenditures refer only to non-ferrous exploration.

**The data used in the report is considered to be accurate as of March 19, 2018.**

Assumptions and estimates used to produce the data are taken from the sources. For further information about data in this report, please contact Ran Maoz ([rmaoz@pdac.ca](mailto:rmaoz@pdac.ca)), Jeff Killeen ([jkilleen@pdac.ca](mailto:jkilleen@pdac.ca)) or for specific information on Oreninc's data, contact Kai Hoffmann, the CEO of Oreninc at [hoffmann@oreninc.com](mailto:hoffmann@oreninc.com).

## SECTION I: The Macroeconomic Environment and Commodity Prices

Following a peak in commodity prices in 2011-2012, a long period of price decline led the mineral sector into a period of stagnation. A rebound in activity within the mineral and exploration sector has been supported by a cyclical upswing in global economic activity since mid-2016. It is important to note that the increase in financing and exploration expenditures has not spread evenly among the entire mineral sector. Moreover, key financial indicators continue to demonstrate volatility in terms of the amount of financing available for the mineral sector. Therefore, it is likely too early to determine whether recent increases in financing for the mineral sector will be sustained.

### The Macroeconomic Environment

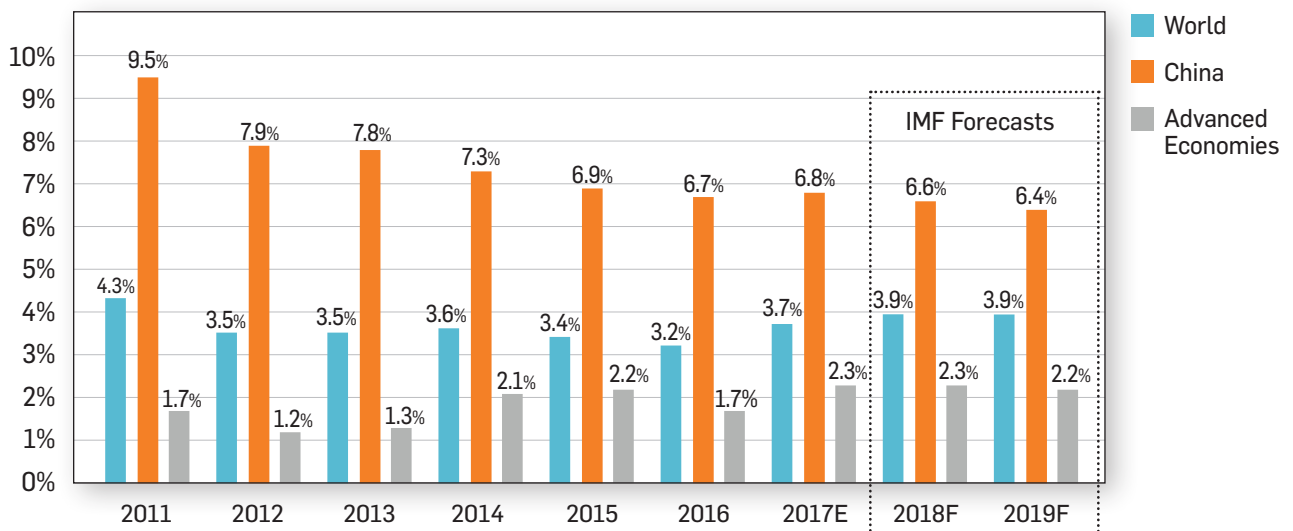
According to the International Monetary Fund (IMF) in its January 2018 update, global economic activity has improved significantly since mid-2016, and is more robust than previously expected. This section will focus on some of the key macroeconomic factors that impact the activity of the mineral sector.

#### Solid Growth of Gross Domestic Product (GDP)

The global economy improved significantly in 2017, with an estimated 3.7% growth in global GDP, compared to 3.2% in 2016. This growth reflects the improved performance of China and other advanced economies since mid-2016, and contributed to an increase in the demand for various industrial commodities over the past 18 months.<sup>11</sup> Increased activity was observed in Canada, with an estimated 3% growth in GDP during 2017, doubling the 2016 figure of 1.5%. In China, the world's biggest consumer of commodities, GDP growth was estimated at 6.8% in 2017 (Chart 1.1).<sup>12</sup>

IMF projections for global GDP growth through 2018 and 2019 are at 3.9% in both years. For advanced economies, the IMF projects 2.3% and 2.2% GDP growth for 2018 and 2019, respectively. In China, the slowdown in growth rates continues, but at a more moderate pace with 6.6% and 6.4% annual growth rates estimated for 2018 and 2019, respectively.

Chart 1.1: Real GDP Growth (% per Annum) China vs. Advanced Economies vs. the World



Source: IMF



**Low Inflation and Interest Rate Environment Supports Demand for Industrial Metals**

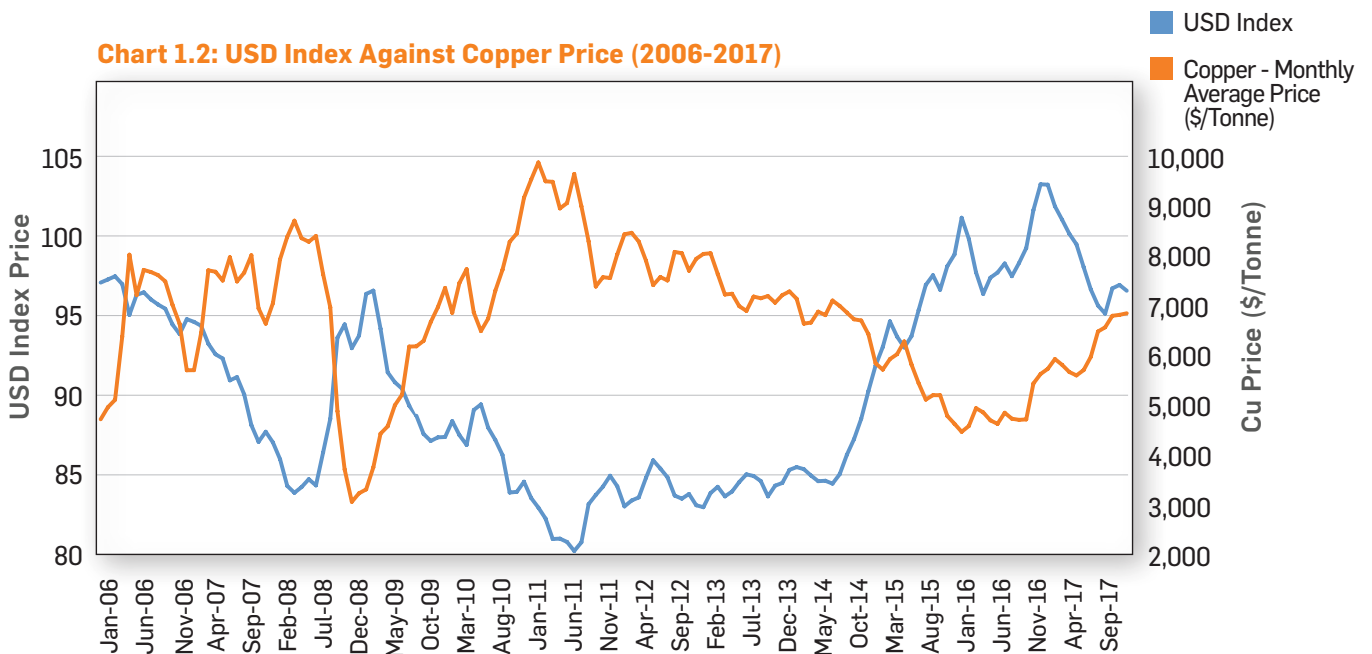
Following the 2008 global financial crisis, and over the last decade, central banks of key economies (e.g. Federal Reserve, European Central Bank (ECB), and the Bank of Japan) have shifted attention from maintaining price levels (i.e. implementing measures against inflation) to steps aimed at spurring growth and preventing the global economy from sinking into a prolonged recession. Despite implementation of such policies, inflation pressures have remained muted in most advanced economies since 2008, which has enabled central banks around the world to keep interest rates at historically low levels (with negative interest rates in some economies) for a prolonged period. Increased global economic activity since mid-2016, combined with historically low interest rates, has resulted in new investments that have supported demand for various industrial metals and consequently, pushed respective prices higher.

**USD Depreciation in 2017 Supported Higher Commodity Prices**

A key factor that contributed to the increase in prices of many commodities is the recent depreciation of the USD. Since commodities are generally traded in USD, a negative correlation typically exists between moves in USD and the price of commodities. USD depreciation typically results in a traded commodity becoming less expensive in other currencies, which can spark demand and push the price of the commodity higher.

Chart 1.2 shows the monthly average of the USD index against the price of copper (further explanation on the USD index is found in endnote 13).<sup>13</sup> The USD index indicates relative USD strength against a weighted average of the U.S. trade partners' currencies. Previous notable low points for the index (2008 and 2011), corresponded with the last two times that commodity prices peaked. Conversely, increased USD strength from 2011 through 2016 coincided with a period of price decline of most commodities. The trend reversed in 2017 with USD depreciation aligning with price increases of most commodities, further reinforcing the inverse relationship. Chart 1.2 exemplifies the negative correlation between the USD index and commodity prices, as they relate to copper.

**Chart 1.2: USD Index Against Copper Price (2006-2017)**



Sources: www.macrotrends.net, S&P Global Market Intelligence and PDAC analysis

### Electric Vehicle (EV) Revolution Boosts Prices of Battery-Technology Metals

Another aspect that significantly supported the price of several metals has been expansion of the Electric Vehicle (EV) market. Significant growth of EV production since 2010 has resulted in increased demand for certain metals, such as cobalt, lithium and vanadium, which are essential components of electric batteries and other components of EVs. For example, the price of lithium, which ranged from US\$4,000-US\$5,000 per tonne for the bulk of 2011-2015, increased in January 2016 to US\$7,250 per tonne, and since then has more than doubled to reach US\$14,750 in 2017. The increase in cobalt price has been even more dramatic with prices increasing from US\$24,300 per tonne at the beginning of 2016, to US\$75,500 at the end of 2017.<sup>14</sup>

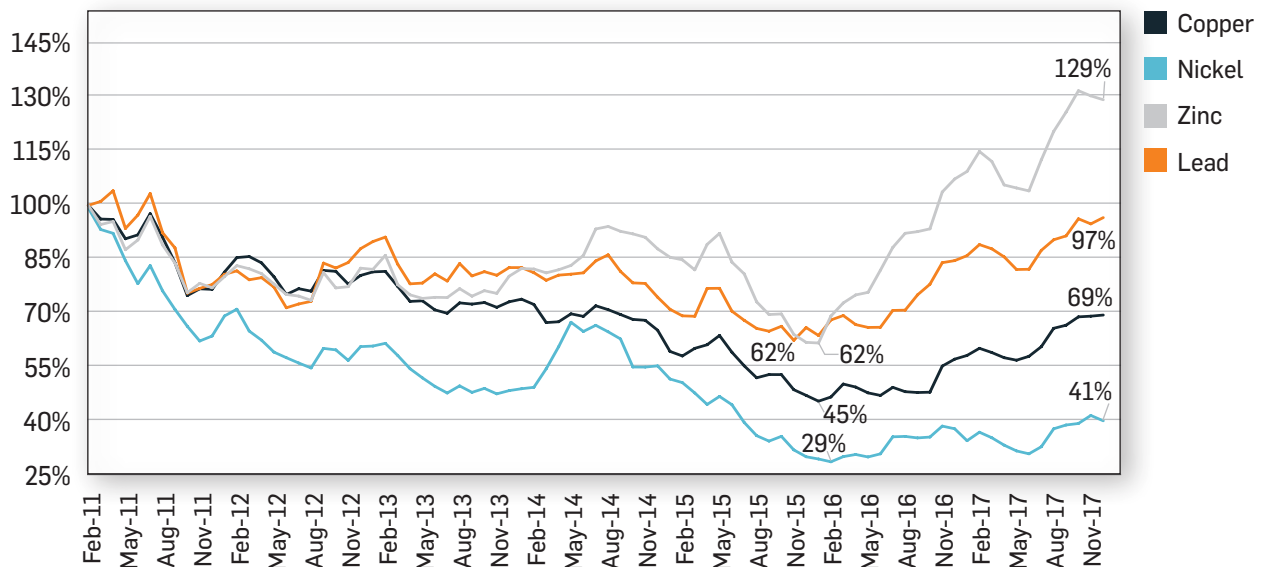
### A Prolonged Commodity Price Decline Reverses in 2016

From a broad perspective, commodities prices peaked in 2011-2012 after a “super cycle” that began in the early 2000s. Following the 2008 global financial crisis, and during the recession in Europe and the U.S., demand for commodities was primarily supported by the continuous double digit growth of China’s economy. However, China’s growth slowed sharply in 2012, leading to a decline in the demand for many commodities until 2016 when China’s growth outlook improved and expectations for increased infrastructure spending in the U.S. led to commodity price appreciation.

#### Base Metals

Chart 1.3 outlines the relative change in the average monthly prices of key base metals compared to their peak in 2011.<sup>15</sup> It also illustrates improvement in key base metal prices after bottoming at different points in time.

Chart 1.3: Base Metals Price Change (2011-2017)

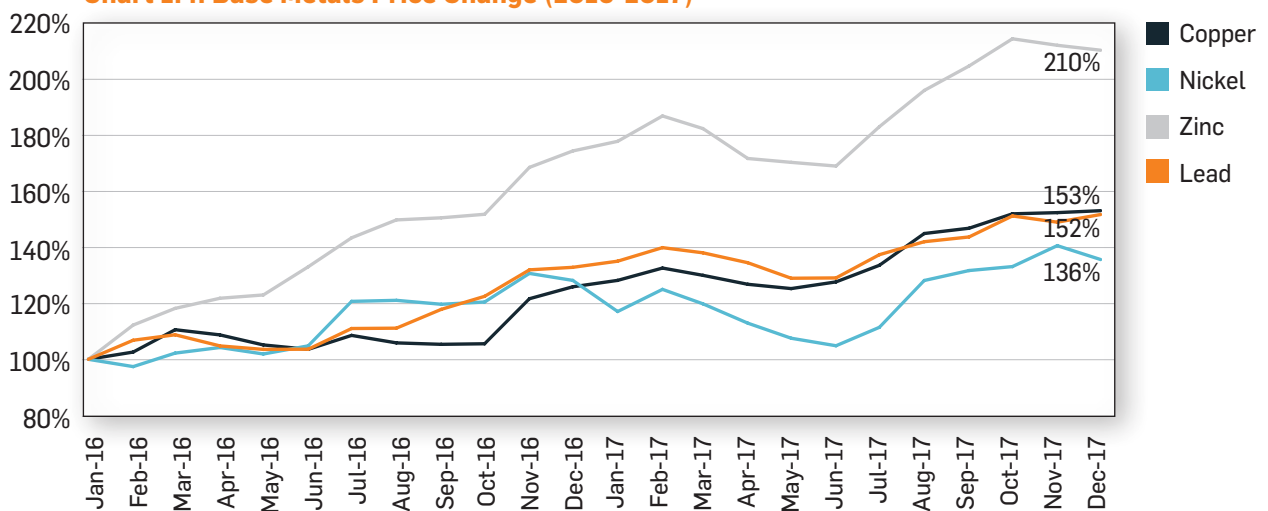


Source: S&P Global Market Intelligence and PDAC analysis

Notable in the chart above is the price increase of zinc, which surpassed its 2011 peak by nearly 30%. Also, the price of lead has rebounded nearly to 2011 levels. Copper, despite a significant price increase in 2017, is still traded far below its historical peak price. While nickel prices have improved from a trough in early 2016, the upswing has been far less pronounced versus the group.

Chart 1.4 provides a closer look at the increase in base metals' prices through 2016 and 2017. There have been significant increases in average monthly prices, from 36% and up to 110%. The increase in zinc prices may be partly attributed to a supply deficit caused by a significant reduction in zinc concentrate production by major producers over the last two years.

**Chart 1.4: Base Metals Price Change (2016-2017)**

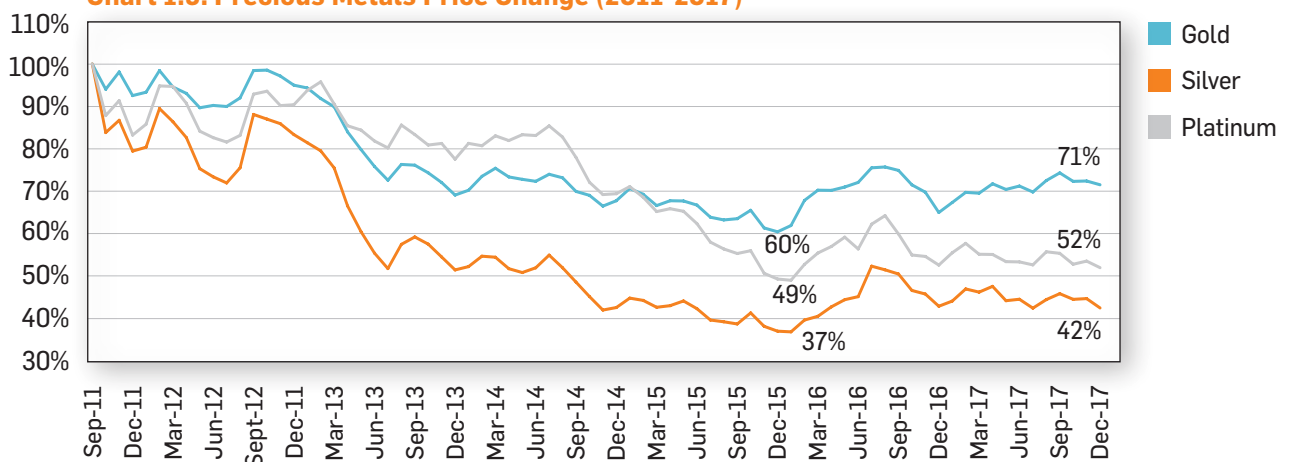


Source: S&P Global Market Intelligence and PDAC analysis

**Precious Metals**

From a peak in late 2011 through to 2015, prices of precious metals declined sharply with gold, platinum and silver dropping some 40%, 51% and 63%, respectively. As can be seen in Chart 1.5, although precious metal prices have shown some improvement from 2015 levels, none have approached peaks reached in 2011.

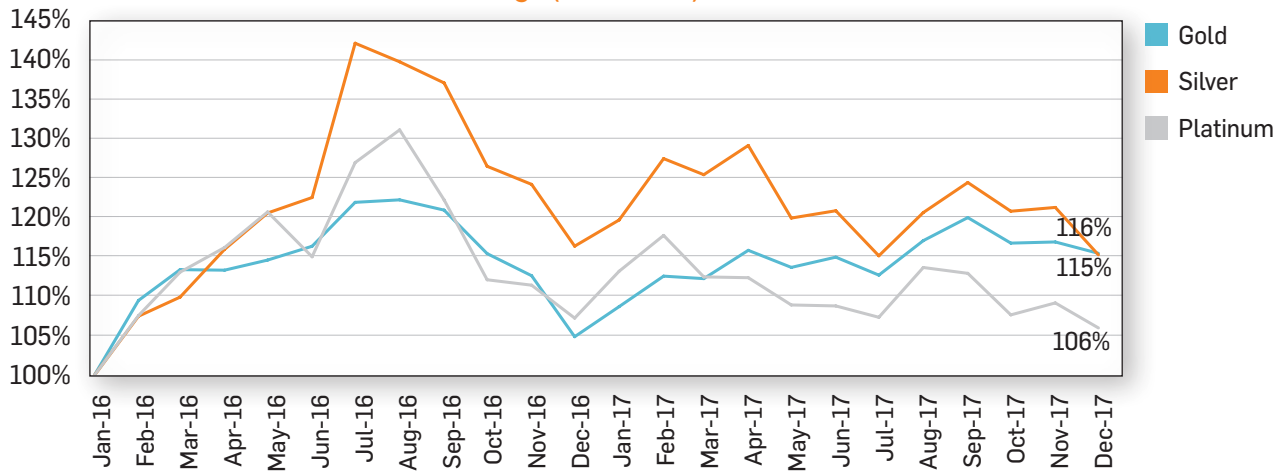
**Chart 1.5: Precious Metals Price Change (2011-2017)**



Source: S&P Global Market Intelligence and PDAC analysis

Chart 1.6 focuses on the change in average monthly prices of precious metals since 2015's bottom.

**Chart 1.6: Base Metals Price Change (2016-2017)**



Source: S&P Global Market Intelligence and PDAC analysis

Through 2016-2017, prices of gold and silver increased by 16% and 15%, respectively, while platinum saw a more modest price increase of only 6%. Precious metal prices appear to have broadly followed a seasonal pattern through 2016-2017 with price appreciation occurring more prominently through the first half of each year versus the second half. Short-term price spikes for gold and silver, in particular, have largely coincided with recent interest rate decisions by the U.S. Federal Reserve, which highlights the relationship between gold/silver prices with inflationary pressures on global currencies and specifically the USD.

While gold and silver prices are typically impacted by aspects related to currencies, platinum is impacted mostly by industrial factors. The main use of platinum is as a catalyst in diesel engines. Increased manufacturing focus on electric vehicles in the coming years is projected, which could have a negative impact on diesel vehicle demand and, in turn, result in reduced overall demand for platinum.

While there are many factors that influence and impact investment in mineral exploration and mining, prices of commodities is a key one. Therefore, broad-based commodity price appreciation over the last two years should expand investors' appetite for investment in the mineral industry and positively impact the financing landscape of the sector as a whole.

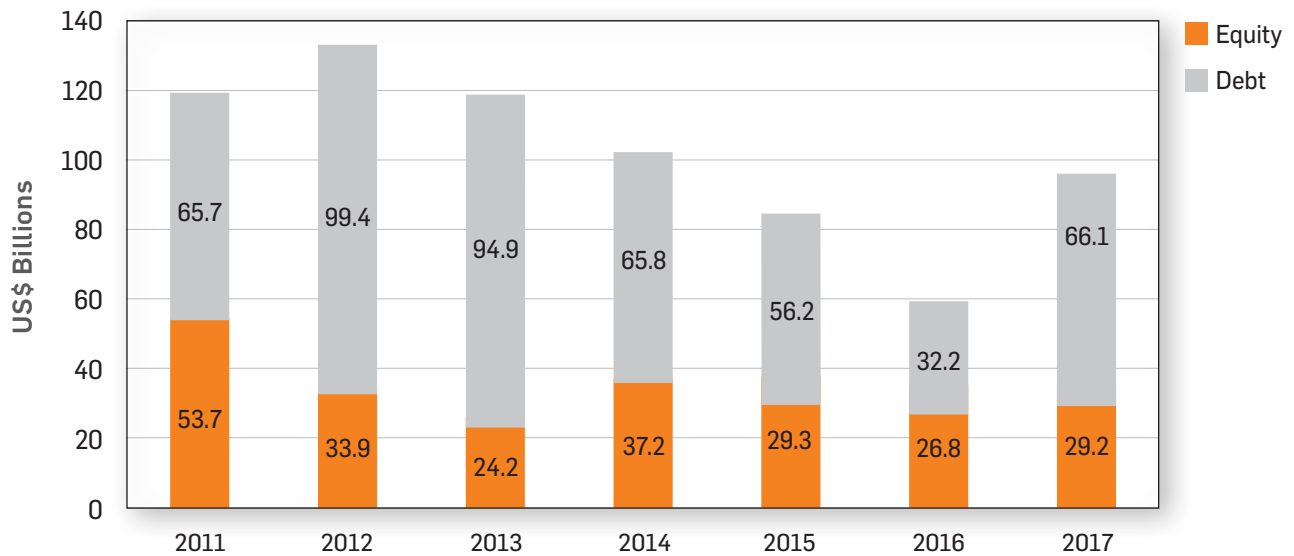
## SECTION 2: Financing Trends

This section will cover several dynamics related to financing trends for the mineral industry. First, global and domestic trends for financing in the mineral sector will be presented. The remainder of the section will focus on financings undertaken by the junior mining sector in Canada.<sup>16</sup>

### Global Financing Trends Show Signs of Recovery

Global mineral industry financing declined from a peak in 2012 to bottom in 2016 as can be seen in Chart 2.1. In 2016, financing for the sector constituted only 44% of the 2012 value. In comparison, 2017 marked a year of recovery as total financings for the global mineral sector increased by over 60% compared to 2016.

**Chart 2.1: Financing for the Global Mineral Industry (US\$B)**

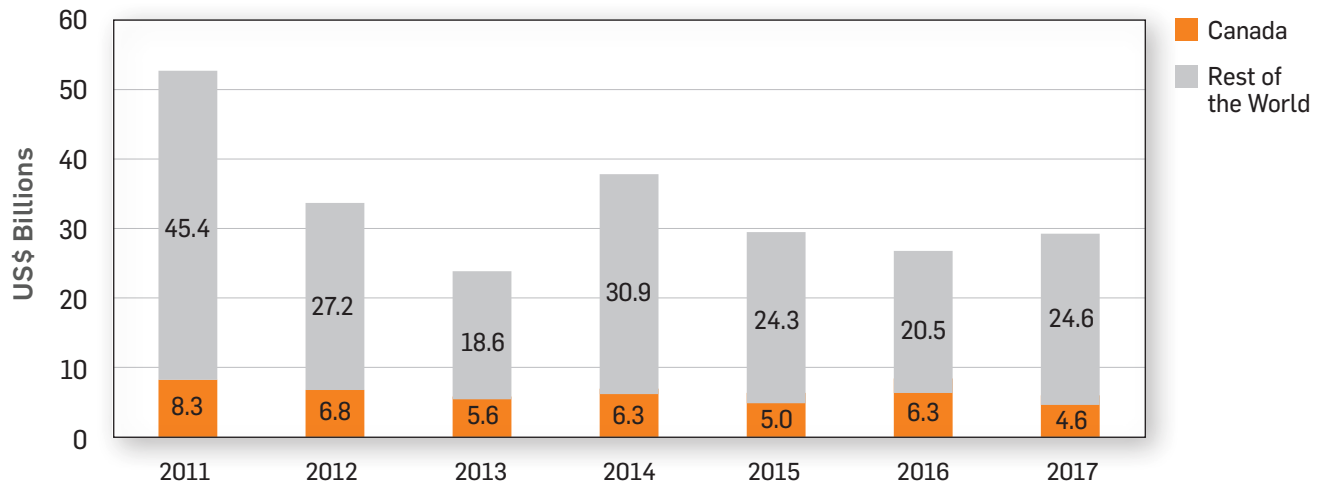


Source: S&P Global Market Intelligence and PDAC analysis

Notable in Chart 2.1 above is a distinct difference between the rebound of debt and equity financing. Equity financing, which accounts for on average roughly 35% of the funds raised globally, declined the most in 2013 but has subsequently improved modestly and essentially flattened out over the last three years. Debt financing declined sharply in 2016 only to increase significantly in 2017, doubling its value compared to 2016. It is important to note that debt financing is not a typical fundraising option for non-revenue generating companies such as mineral exploration companies.

Chart 2.2 provides a sense of Canada's leading role in equity financing for the mineral industry. Funds raised from 2011-2017 on Canada's two key stock exchanges, the TSX and TSX Venture (TSXV), accounted on average for 19% of the total equity raised globally.

**Chart 2.2: Equity Financing for the Global Mineral Industry (US\$B)**



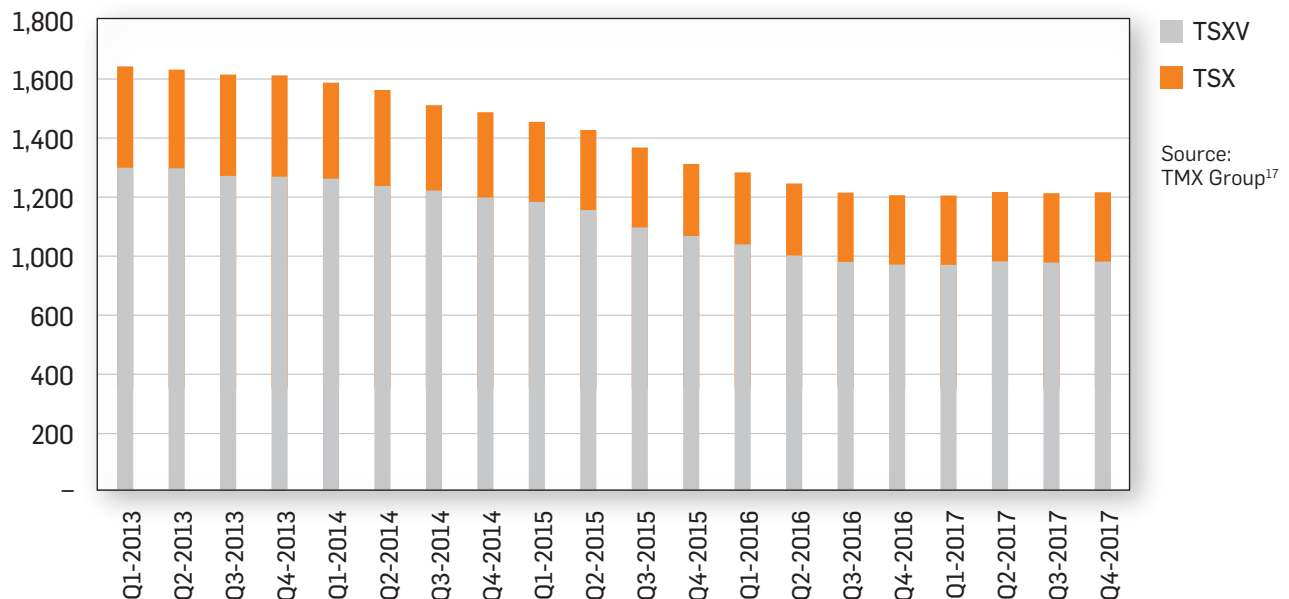
Source: S&P Global Market Intelligence and PDAC analysis

Chart 2.2 above also illustrates the 25% year-over-year increase in equity financing on Canadian stock exchanges in 2015-2016. However, globally there was a decline of 8.5% over the same period. Fluctuations continued in 2017 with equity capital raised on Canadian stock exchanges declining 27% to US\$4.6 billion, whereas the level of global equity financing increasing 9% compared to 2016.

### The Financing Landscape in Canada

In the last quarter of 2016, the number of mineral industry issuers on the TSX and TSXV (combined) reached its lowest point with only 1,206 companies listed as compared to 1,665 in the first quarter of 2013. Throughout 2017, the number of listings continued to hover above 1,200, as illustrated in Chart 2.3. Roughly 80% of the issuers listed on Canadian stock exchanges are listed on the TSXV and 20% on the TSX—a ratio that has remained relatively stable during the period outlined in Chart 2.3.

**Chart 2.3: Number of Listed Mineral Industry Issuers (TSX & TSXV)**



Source: TMX Group<sup>17</sup>

Looking at each exchange separately, from 2013-2016 the number of mineral exploration and mining issuers on the TSX decreased over 37%, while TSXV saw a decrease of approximately 25% over the same period (Table 2.1).

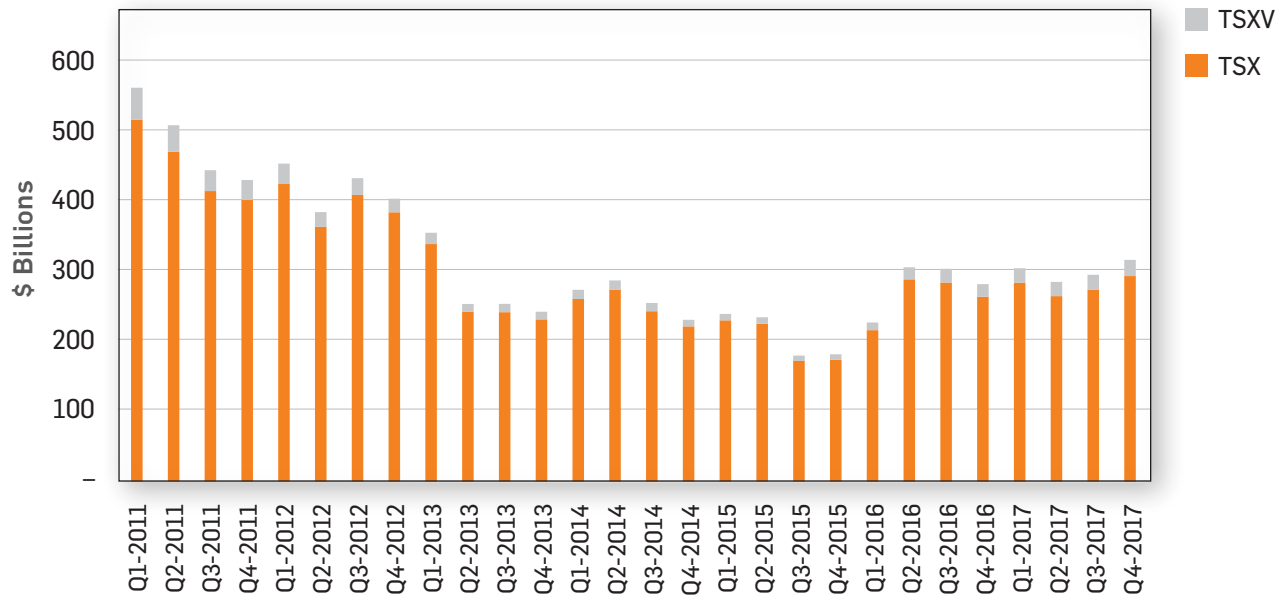
**Table 2.1: Number of Exploration and Mining Issuers in TSX & TSXV**

	TSXV	TSX	TSX+TSXV
Q1-2013: # of issuers	1,308	357	1,665
Q4-2016: # of issuers	987	224	1,211
Decrease in # of issuers	(321)	(133)	(454)
% of decrease	(24.5%)	(37.3%)	(27.3%)

Source: TMX Group

The aggregate market capitalization of mineral exploration and mining issuers on the TSX and TSXV reached a low point towards the end of 2015 and has since improved, as Chart 2.4 demonstrates. Rising commodity prices and an improvement in financing in 2016-17 have pushed the aggregate market capitalization of mineral exploration and mining equities on the TSX and TSXV to exceed \$300 billion at the end of 2017, approximately 10% share of a total market capitalization (for all industries) of \$3 trillion.

**Chart 2.4: Aggregate Market Capitalization of Exploration and Mining Listed Issuers (TSX & TSXV)**

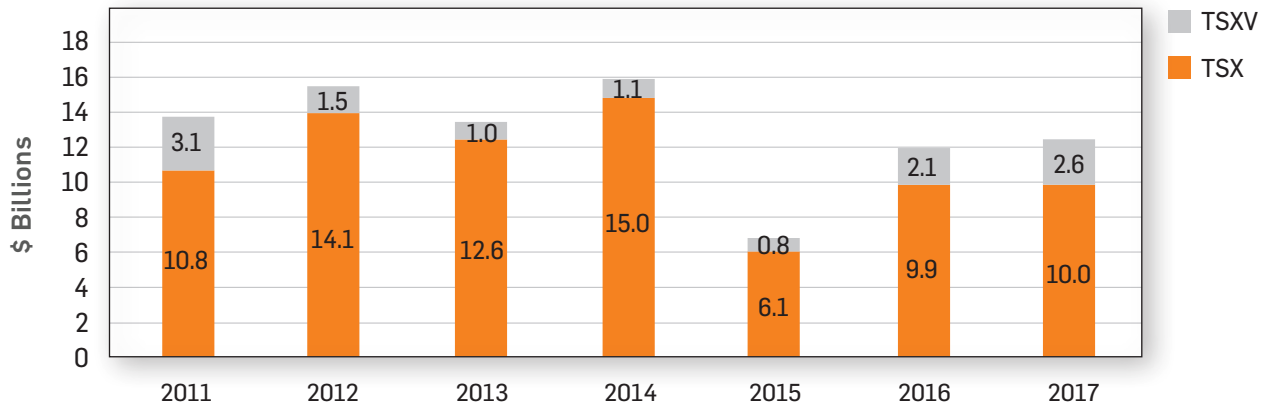


Source: TMX Group

In Canada, the aggregate value of total financing for the mineral sector (debt and equity combined) increased significantly in 2016, but improved only slightly in 2017. Total funds raised on the two key Canadian stock exchanges (TSX and TSXV combined) increased by 83% from 2015-2017.

As can be seen in Chart 2.5, the relative increase in financing on the TSXV was much more prominent than on the TSX (237% in TSXV versus 64% on the TSX from 2015-2017). In absolute dollar terms, 2017 financing on the TSXV approached the level reached in 2011, which may indicate increased investor appetite for earlier-stage exploration companies. It is worth noting that the aggregate data may be skewed due to a number of large transactions—out of 215 transactions recorded on the TSX in 2017, the largest 20 transactions (or 9% of recorded transactions) accounted for 77% of the total funds raised.

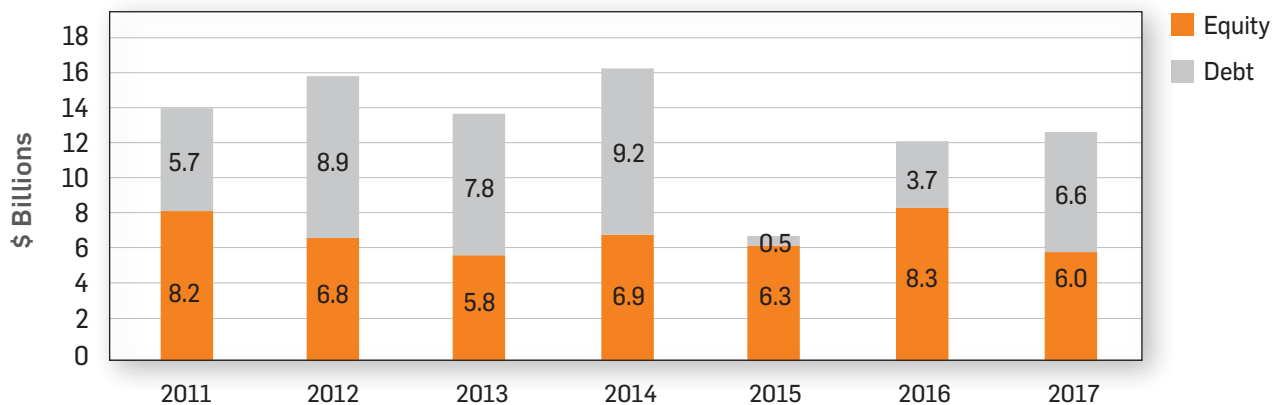
**Chart 2.5: Financing for the Mineral Sector on Canadian Stock Exchanges (TSX vs. TSXV)**



Source: S&P Global Market Intelligence and PDAC analysis

In terms of financing in Canada by funding type (equity vs. debt), Chart 2.6 illustrates that over the last two years debt financing on TSX and TSXV expanded significantly compared to 2015. Debt financing is typically used for funding of larger, late-stage developments rather than early stage exploration. As such, improvement in debt financing is likely less relevant for mineral exploration companies that typically rely on equity financing. Equity financing increased in 2016 to match 2011 investment but declined again in 2017 to sub-2015 levels. Note that the \$6 billion of equity financing raised in Canada is presented in Chart 2.6 in Canadian Dollars, and is approximately equivalent to the US\$4.6 billion, a figure which was presented in USD to enable global comparisons.

**Chart 2.6: Financing for the Mineral Sector on Canadian Stock Exchanges (Debt vs. Equity)**



Source: S&P Global Market Intelligence and PDAC analysis



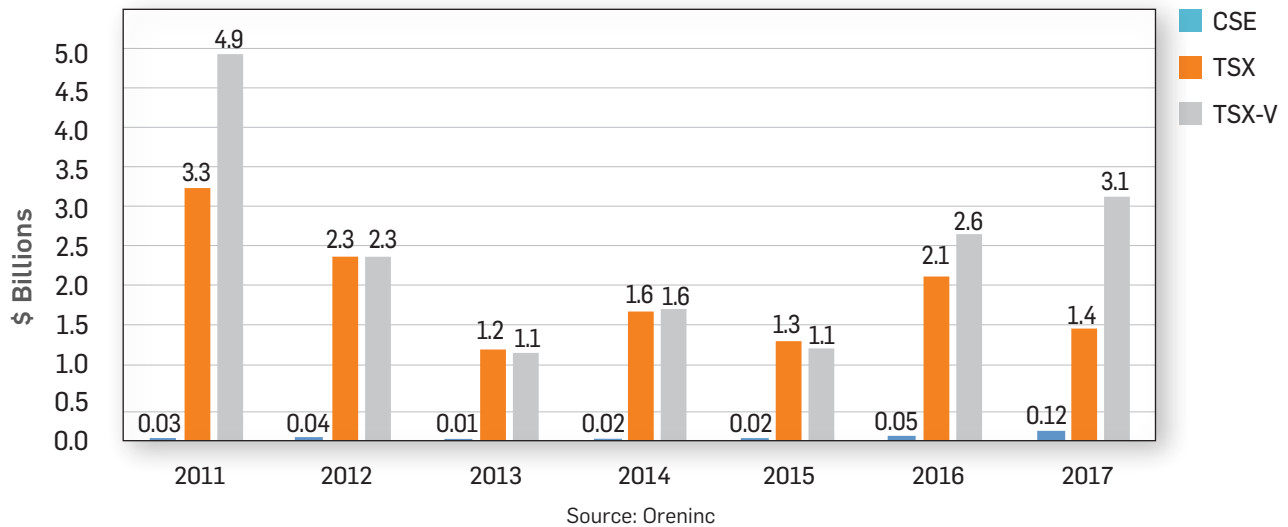
## The Junior Sector in Canada

While many mineral sector companies are able to raise equity capital through public offerings on financial markets, junior mining companies typically raise money via private placements. In this light, understanding trends in private placement financings can provide insight into the health of the junior market segment.

The data in this section shows private placement financings by junior mineral industry companies (“juniors”). For the purposes of the financial indicators illustrated in this section, Oreninc’s definition of a junior mining company has been applied (i.e. only private placement transactions of less than \$100 million, and only of companies with market capitalization below \$1.5 billion).

Financial markets for mineral companies showed marked improvement in 2016-2017 compared to the previous three years, particularly amongst the smaller exchanges such as the TSXV and Canadian Securities Exchange (CSE), as can be seen in Chart 2.7.

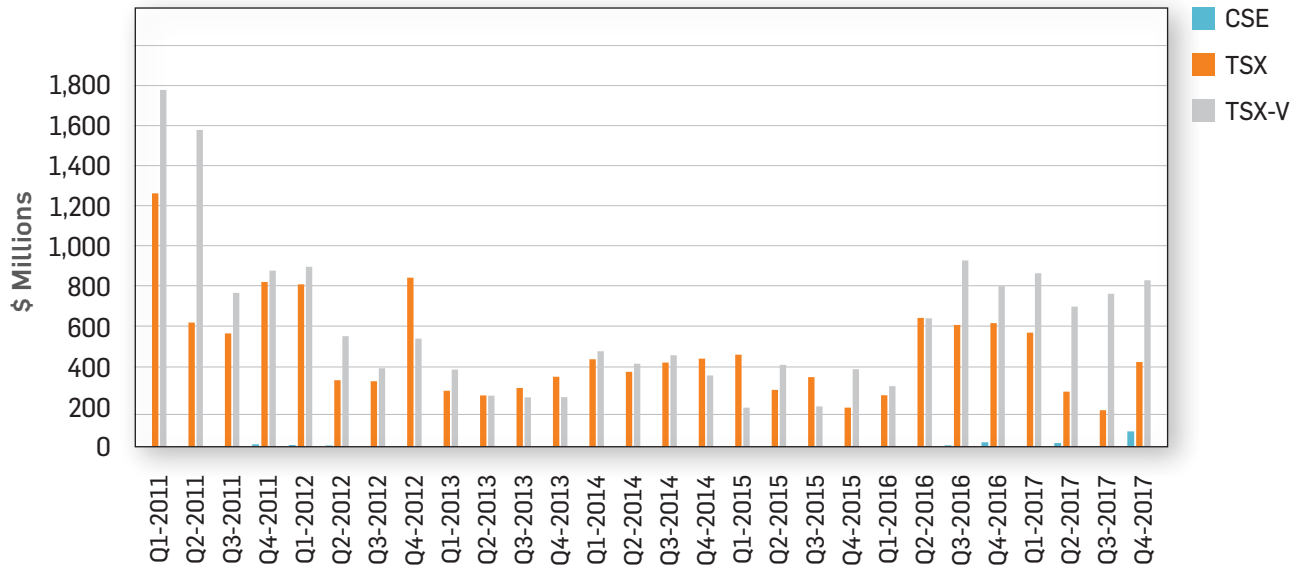
**Chart 2.7: Aggregate Value of Juniors' Financing by Exchange**



From Chart 2.7 we see TSXV equity raises by junior mining/exploration companies in 2017 increased by 18.2% to \$3.1 billion from \$2.7 billion in 2016, while the CSE saw 122.6% growth in financings to \$118.3 million. Despite greater activity in smaller exchanges, there was less activity on the main exchange as the value of financing on the TSX fell 31.9% to \$1.4 billion from \$2.1 billion in 2016. With respect to junior mining companies, TSX and TSXV financings have yet to return to the 2011 levels, when junior companies listed on these exchanges raised \$3.2 billion on the TSX and \$5.0 billion on the TSXV.

In 2017, financings on the TSX and TSXV exchanges in terms of both total number of deals and aggregate value were more prominent in the first and fourth quarters with less activity during the middle two periods of the year. That said, activity on the TSXV was more evenly spread throughout the year compared to TSX transactions (See quarterly results on Chart 2.8).

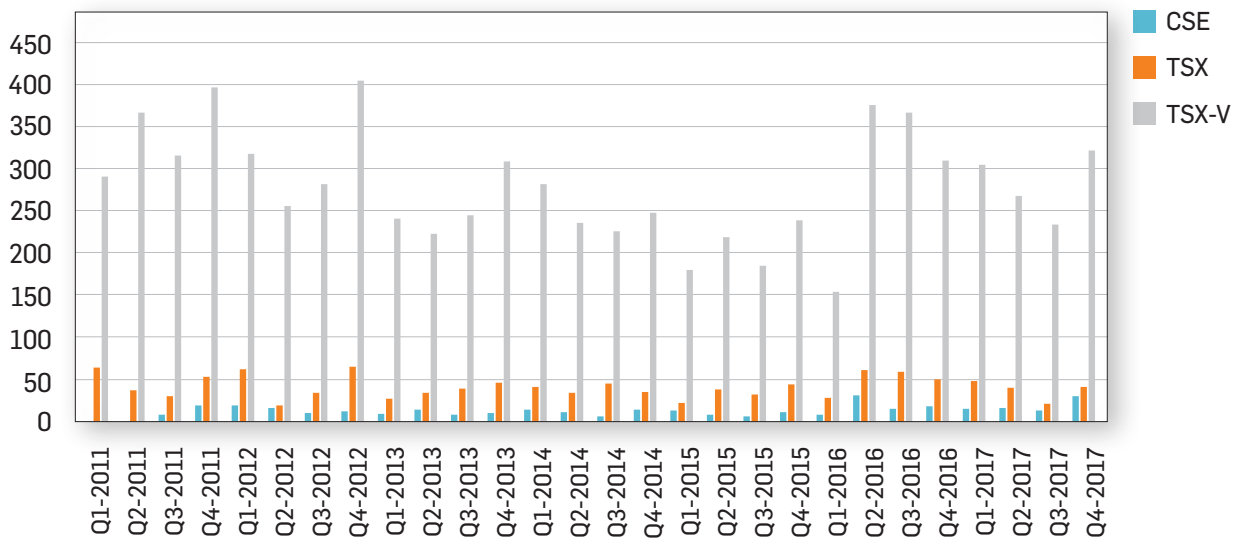
Chart 2.8: Aggregate Value of Financing for Juniors by Exchange (Quarterly)



Source: Oreninc

Chart 2.9 outlines the number of transactions completed by junior companies by exchange on a quarterly basis. The 1,129 TSXV transactions completed in 2017 represents a 6.5% decline relative to 1,207 in 2016 and remained well below the 1,371 transactions completed in 2011. In 2017 there were 150 transactions on the TSX, which was down 24.2% from the 198 in 2016. The CSE saw 74 transactions in 2017, up 2.8% over 2016.

Chart 2.9: Number of Completed Junior Transactions by Exchange (Quarterly)

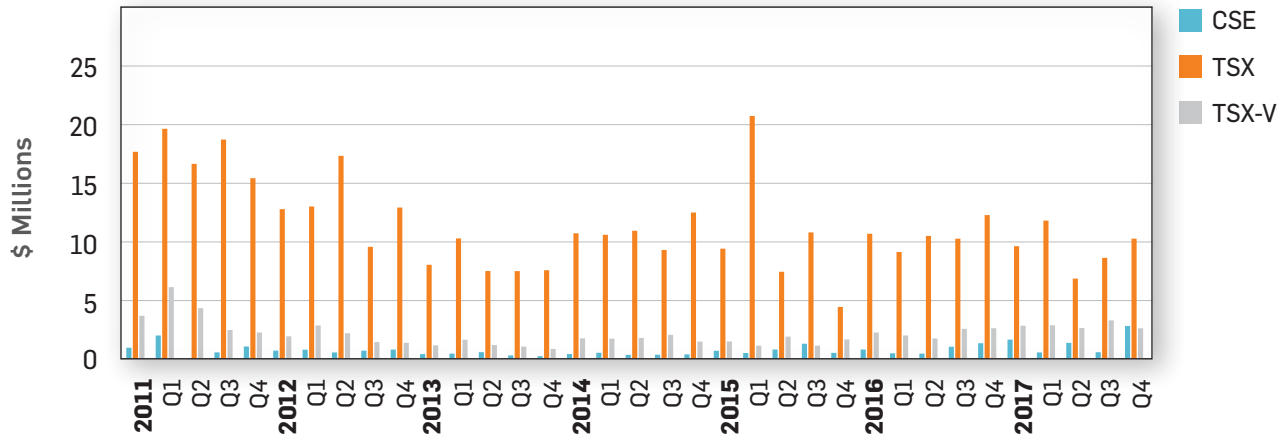


Source: Oreninc

The average amount per transaction on the TSXV increased to \$2.8 million in 2017, a 26.3% increase over the \$2.2 million average in 2016, yet it remained below the 2011 average of \$3.6 million. The TSX recorded a decline of 10.3% in the average amount per transaction—

from \$10.7 million in 2016 to \$9.6 million in 2017. The CSE continued to show growth with an average transaction amount of \$1.6 million in 2017, up 114.5% from \$745,000 in 2016. Chart 2.10 shows the average transaction value both quarterly and annually.

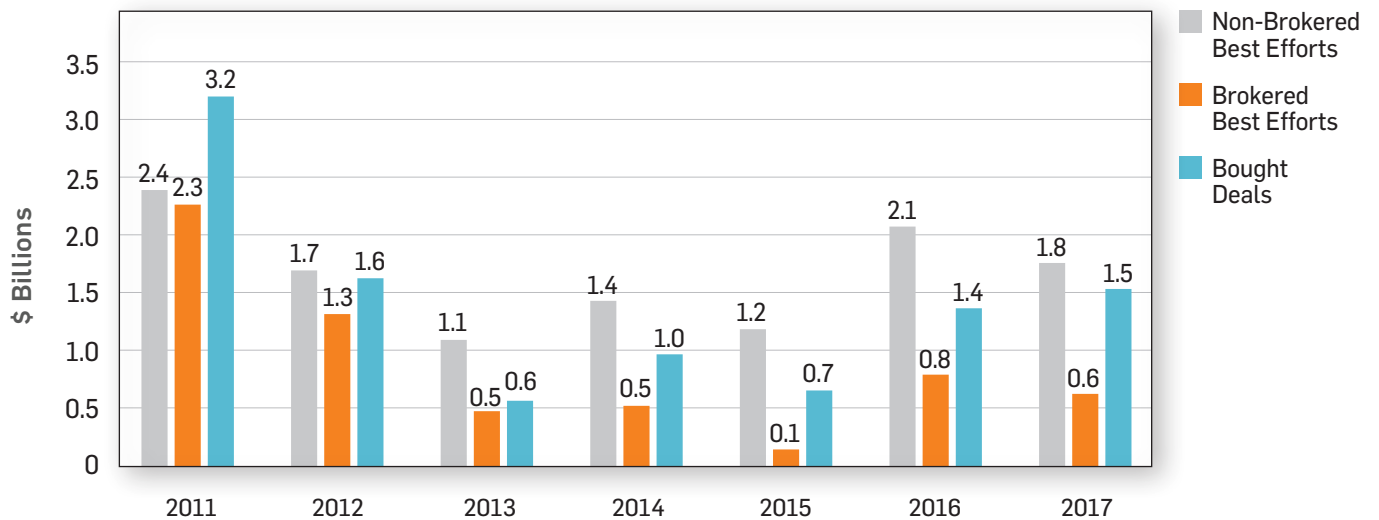
**Chart 2.10: Average Dollar Amount of Transactions by Exchange**



Source: Oreninc

Chart 2.11 compares the aggregate value of non-brokered and brokered best-efforts transactions to bought-deal transactions in the junior mining sector (refer to Endnote 18 for a brief exploration on bought-deal vs. best efforts).<sup>18</sup>

**Chart 2.11: Aggregate Value-Brokered vs Non-Brokered Transactions**

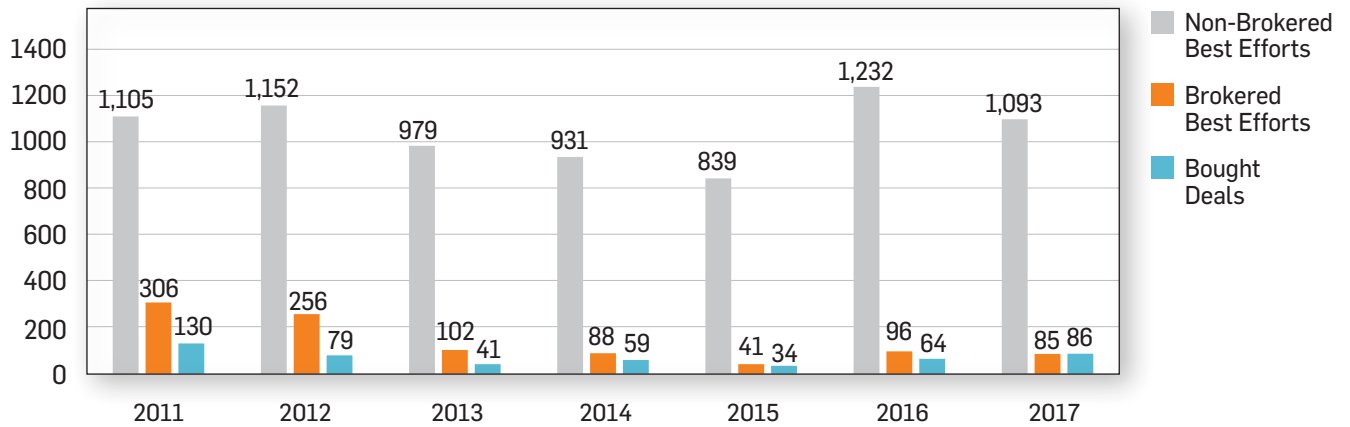


Source: Oreninc

Bought-deal transactions represented 39% of all funds raised on Canadian stock exchanges in 2017, up from 33% of the funds raised in 2016. Conversely, funds raised via brokered and non-brokered best-efforts transactions decreased in 2017. Given bought-deal financing can inherently expose underwriters to greater financial risk, the more than two-fold increase in bought-deal financing value from 2015 to 2017 may indicate mineral sector investment is stabilizing.

Chart 2.12 outlines the number of transactions by type, and reflects a similar profile to financing figures displayed in Chart 2.11. The number of bought-deal transactions increased 34.4% to 86 in 2017 from 64 in 2016. The number of best-efforts brokered and non-brokered transactions in 2017 declined year-over-year by 11.5% and 11.3%, respectively.

**Chart 2.12: Number of Transactions-Brokered vs Non-Brokered**

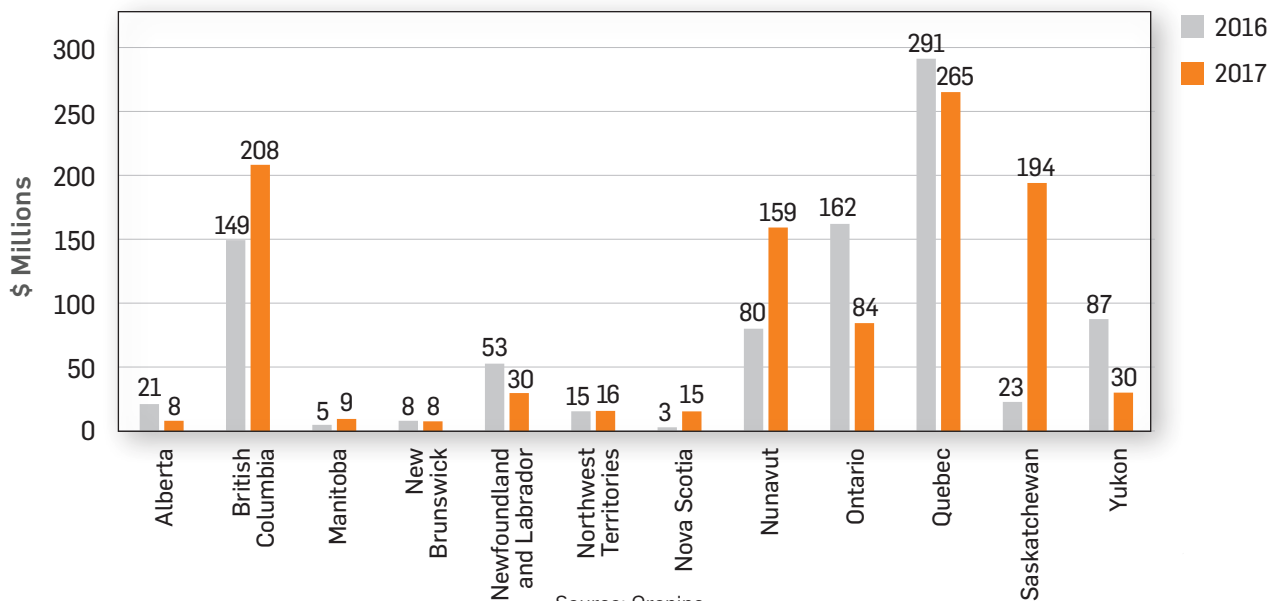


Source: Oreninc

Compared to 2011, the number of non-brokered best-efforts transactions for the subsequent six-year period was relatively stable, while brokered best-efforts transactions and bought-deal transactions declined significantly and remain well below the levels reached in 2011.

Investors' appetite for Canadian project spending seemed to improve in 2017 compared to the previous year as aggregate funds raised intended for domestic project expenditures increased 14.4% to \$1.025 billion, up from \$896 million in 2016. Saskatchewan, British Columbia, Manitoba, Nova Scotia and Nunavut saw significant growth in terms of funds raised, while Ontario, Alberta, Yukon and Newfoundland and Labrador saw significant decreases, as seen in Chart 2.13.<sup>19</sup>

**Chart 2.13: Amount of Funds Raised for Projects by Province**



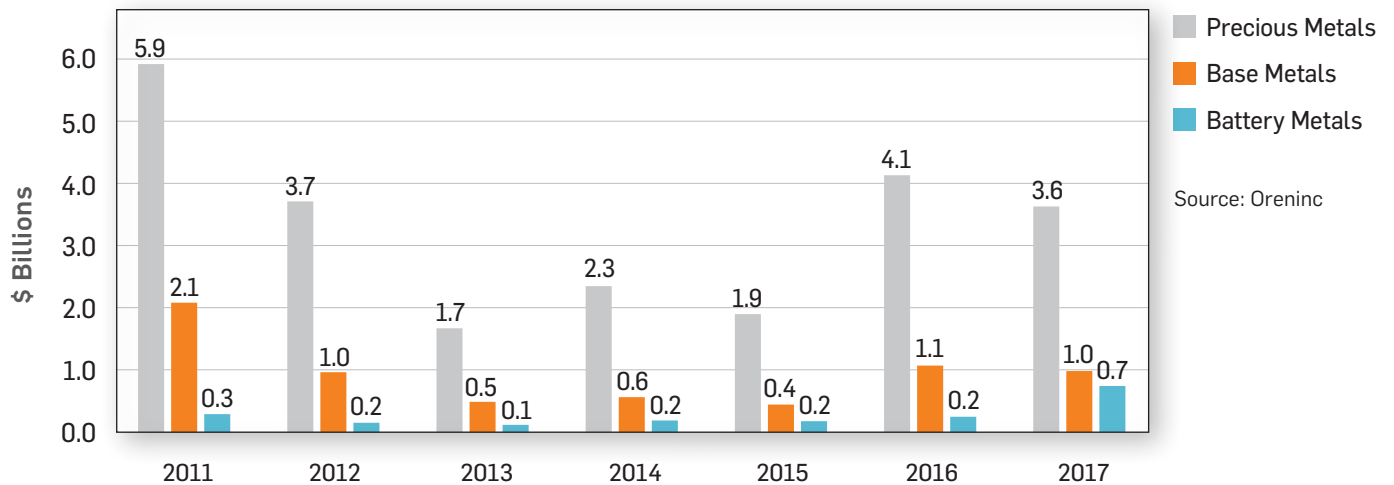
Source: Oreninc

The next three charts examine funds raised by junior mining companies on Canadian exchanges, based on commodity grouping:

- ▶ Precious metals: gold, silver and platinum
- ▶ Base metals: copper, tin and zinc
- ▶ Battery metals: cobalt, graphite, lithium and vanadium

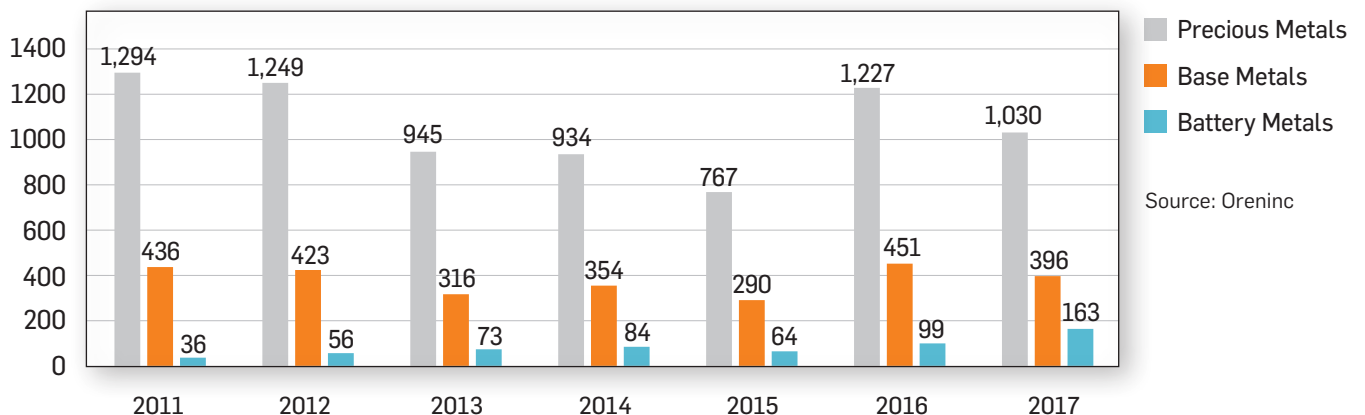
Financing for battery-technology metal projects grew by 200% in 2017 to \$741.6 million, as compared to \$247.3 million in 2016. The 2017 figure represents some 13.9% of total funds raised, compared to only 4.5% in 2016. Financing for precious metals decreased from \$4.1 billion in 2016 to \$3.6 billion in 2017. Financing for base metals' projects also dropped from \$1.1 billion in 2016 to \$981 million in 2017. As can be seen in Chart 2.14, the value of financing for both precious and base metals in 2017 was far below 2011 levels, while financing for battery-technology metals in 2017 far exceeded the 2011 level.

**Chart 2.14: Amount of Funds Raised by Commodity Grouping**



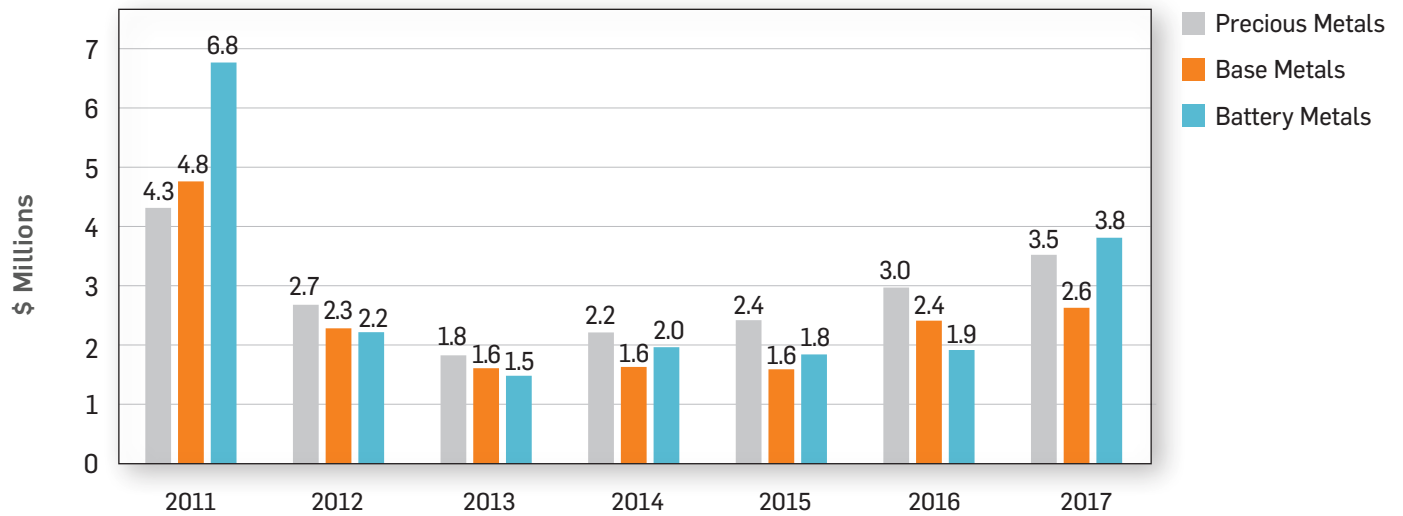
The expansion of total financing value for battery-technology metals is also reflected in the number of transactions, as outlined in Chart 2.15. In 2017 there were 163 battery-technology metal transactions representing 10.3% of all transactions, which is up significantly from 99 in 2016 (5.5% of all transactions). Precious metals transactions fell 16.1% year-over-year to 1,030 in 2017 while base metal transactions fell 12.2% to 396 over the same period.

**Chart 2.15: Number of Transactions by Commodity Grouping**



Furthermore, Chart 2.16 illustrates a near doubling in the average transaction amount of battery-technology metals' financing in 2017 to \$3.8 million from \$1.9 million in 2016. The average precious metals and base metals transaction amounts also increased over the same period, but at a more modest rate of 18.6% and 9.0%, respectively. That said, notable is the average amount per transaction for all the types of metals in 2017 remained well below 2011 levels.

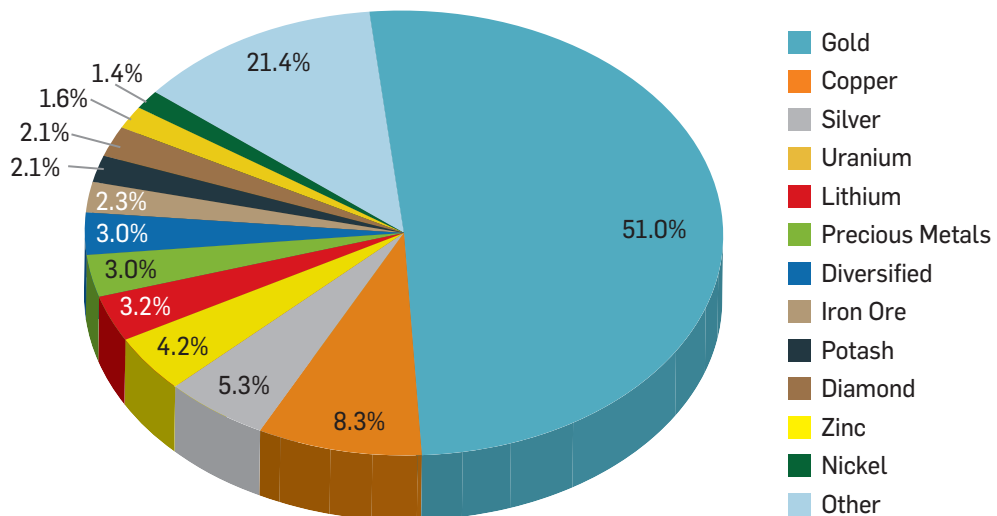
**Chart 2.16: Average Amount per Transaction by Commodity Grouping**



Source: Oreninc

Chart 2.17 shows the distribution of financings done in 2017 based on the specific targeted commodity. It shows that 72% of funds raised in 2017 targeted five key commodities. Gold leads the list by far at 51%, followed by copper, silver, uranium and lithium at 8.3%, 5.3%, 4.2% and 3.2%, respectively.

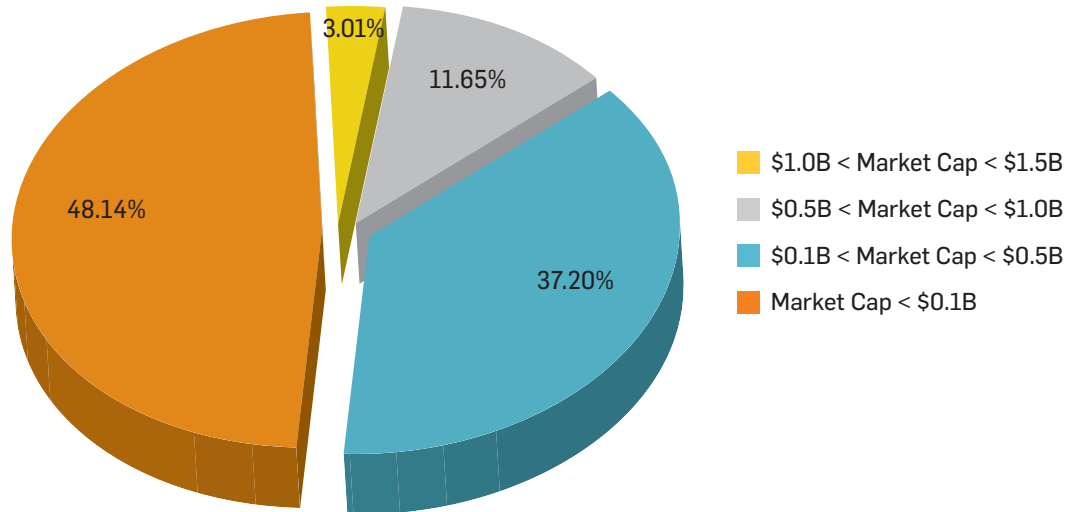
**Chart 2.17: Financing of Juniors by Commodity Type (2017)**



Source: Oreninc

Chart 2.18 below shows the distribution of total funds raised by company market capitalization between 2011 and 2017, based on Oreninc transaction tracking of financings of less than \$100 million by companies with market capitalization of up to \$1.5 billion.

**Chart 2.18: Junior Fundraising Distribution by Market Capitalization**

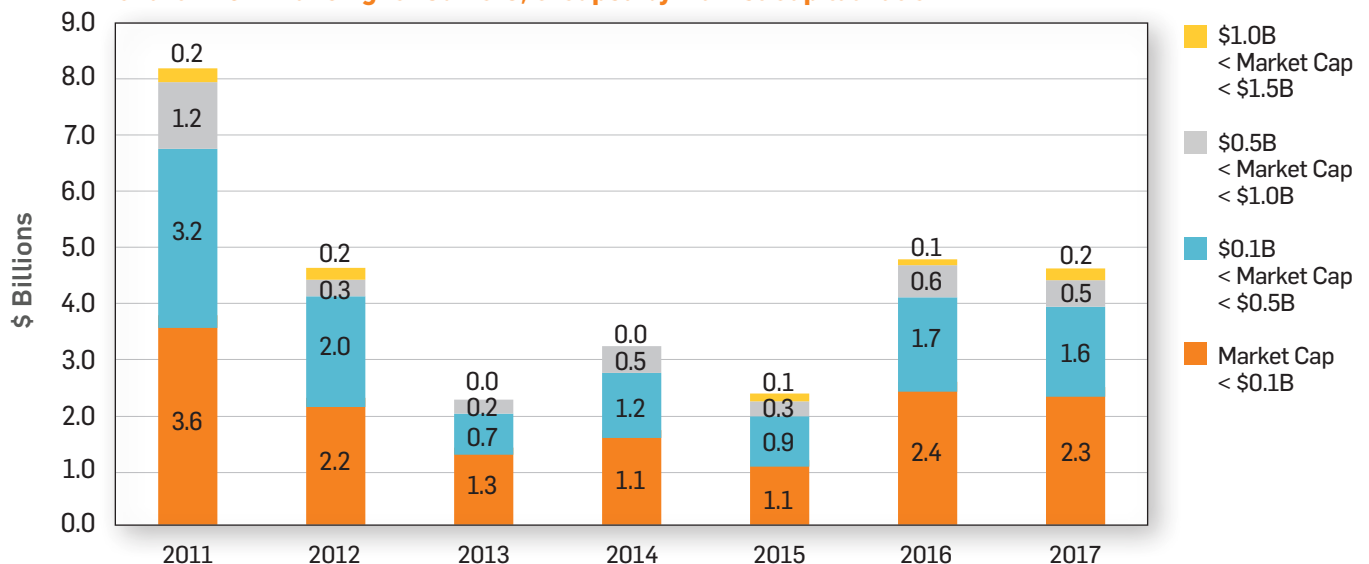


Source: Oreninc

As outlined above, nearly half of the funds raised were by companies with a sub-\$100 million market capitalization, while less than 15% of the funds were raised by companies with market capitalization above \$500 million. One possible explanation for this dynamic is that larger companies tend to target transactions in excess of the \$100 million threshold, and therefore do not appear in the Oreninc database.

Chart 2.19 profiles the value of the funds raised by market capitalization range from 2011-2017. It can be seen from the chart that financing flows for all market ranges declined materially from 2011-2015 but subsequently have improved. That said, 2017 figures show a moderate year-over-year decline in financings and overall levels remain well below the 2011 peak.

**Chart 2.19: Financing for Juniors, Grouped by Market Capitalization**



Source: Oreninc

**Oreninc Index indicates a limited improvement of the Junior Sector in 2016-17**

The Oreninc Index, a proprietary tool, was created and launched when Oreninc was formed in January 2011. The Index is intended to measure the overall health of the junior mining sector in terms of financing activity.

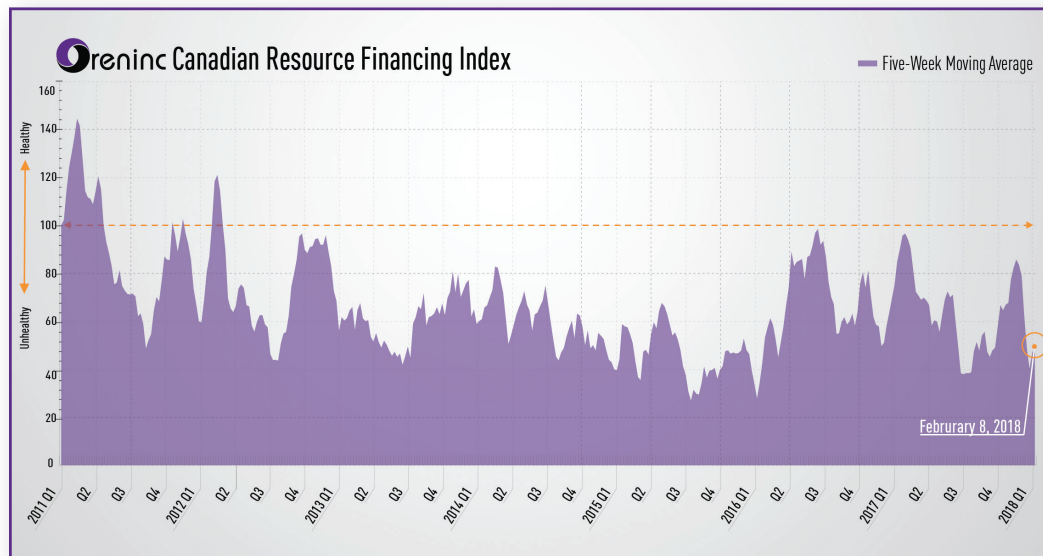
The weighted index measures three factors on a weekly basis:

- ▶ Broker participation
- ▶ Total number of transactions opened
- ▶ Total amount of funds raised

The score that is calculated indicates the overall health of the Canadian junior mining sector.

While total amount of funds raised and the number of transactions opened increased significantly in 2016-17 compared to previous years, broker participation was still low (with some increase in 2017). As a result, the index did not peak above the 100 point mark—the level of the index when it was created in January 2011 (Chart 2.20). This reflects the fact that the junior mining sector is still not as healthy as it was in 2011.

**Chart 2.20: Oreninc Index**



Source: Oreninc

One unique data point that Oreninc collects is the location of both the company headquarters and project sites. This information, as well as the companies' stated intent for the use of the funds, allows tracking of flow of funds raised on Canadian stock exchanges to different regions in Canada and around the world.

Table 2.2 illustrates the number of transactions and the dollar flow from Canadian stock exchanges to different world regions. The table shows that while approximately 40% of funds went for Canadian projects, roughly 60% of funds raised in Canada went abroad, with South America and the U.S. as key destinations in 2017.



**Table 2.2: The Flow of Funds to Canada and Abroad**

Region	2016			2017		
	Number of transactions	Funds Raised (\$M)	% of total	Number of transactions	Funds Raised (\$M)	% of total
Africa	98	608	13.2%	65	241	5.3%
Asia	21	88	1.9%	16	35	0.8%
Australia	7	37	0.8%	6	65	1.4%
Canada	859	1,773	38.4%	702	1,911	42.2%
Caribbean	5	8	0.2%	5	27	0.6%
Europe	40	62	1.3%	42	214	4.7%
Mexico & Central America	92	363	7.8%	64	363	8.0%
Oceania	10	92	2.0%	11	34	0.7%
South America	134	968	20.9%	141	1,081	23.9%
United States	178	622	13.5%	177	554	12.3%
<b>Total</b>	<b>1,444</b>	<b>4,620</b>	<b>100%</b>	<b>1,229</b>	<b>4,525</b>	<b>100%</b>

Source: Oreninc

Table 2.3 lists the Top 10 financings that closed in 2017 for the junior mining sector.

**Table 2.3: 2017 Top 10 Financing Transactions in the Junior Mining Sector**

Company	Commodity	Funds Raised (\$M)
Encanto Potash Corp.	Potash	100
Fortuna Silver Mines Inc.	Silver	98
Cobalt 27 Capital Corp.	Cobalt	97.8
Bluestone Resources Inc.	Copper	80
Solgold PLC	Gold	75.6
NexGen Energy Ltd.	Uranium	65.2
JDL Gold Corp.	Gold	63.4
MAG Silver Corp.	Silver	61.6
McEwen Mining Inc.	Gold	57.3
Novo Resources Corp.	Gold	56

Source: Oreninc

## SECTION 3: Exploration Trends

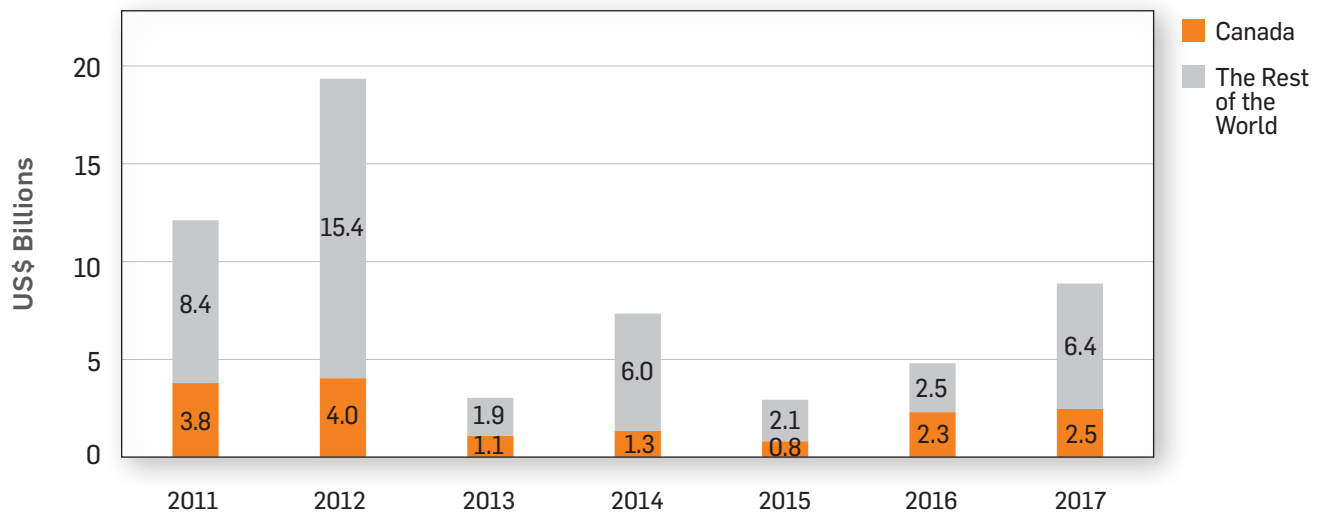
In the previous section, financing for the mineral industry was examined with a focus on the junior sector. This section will describe and analyse non-ferrous exploration expenditures by mineral exploration and mining companies, beginning with a brief presentation of financing specifically for mineral exploration.

### Financing for Mineral Exploration Begins to Rebound

Global financing explicitly for mineral exploration declined steeply from 2012-2015 but has since showed significant improvement, increasing 64% and 85% year over year in 2016 and 2017, respectively. It should be noted that the dramatic year-over-year increase in 2014 was impacted by three outlier transactions, which were classified as exploration/development financings and accounted for US\$3.5 billion. Excluding these transactions, the amount raised in 2014 would have been similar to 2015.

Chart 3.1 outlines exploration financing from 2011-2015 and also illustrates Canada's significant role in financing for global exploration as the TSX and TSXV account for 30% on average of the funds raised globally.

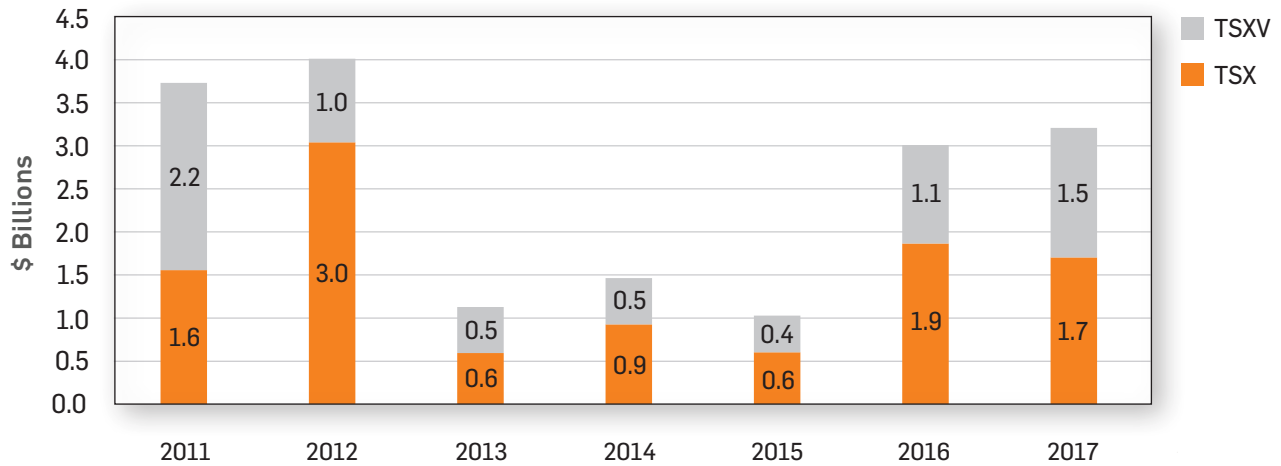
**Chart 3.1: Global Financing for Exploration (US\$B)**



Source: S&P Global Market Intelligence and PDAC analysis

Chart 3.2 provides a closer look at exploration financing on the two main Canadian stock exchanges in CAD and highlights the sharp decline from the 2012 peak through 2013-2015, followed by significant improvement of nearly 200% from 2015-2016, with a more subdued increase of 7% in 2017.

**Chart 3.2: Financing in Canada for Exploration - TSX vs. TSXV**



Source: S&P Global Market Intelligence and PDAC analysis

## Global Exploration Expenditures

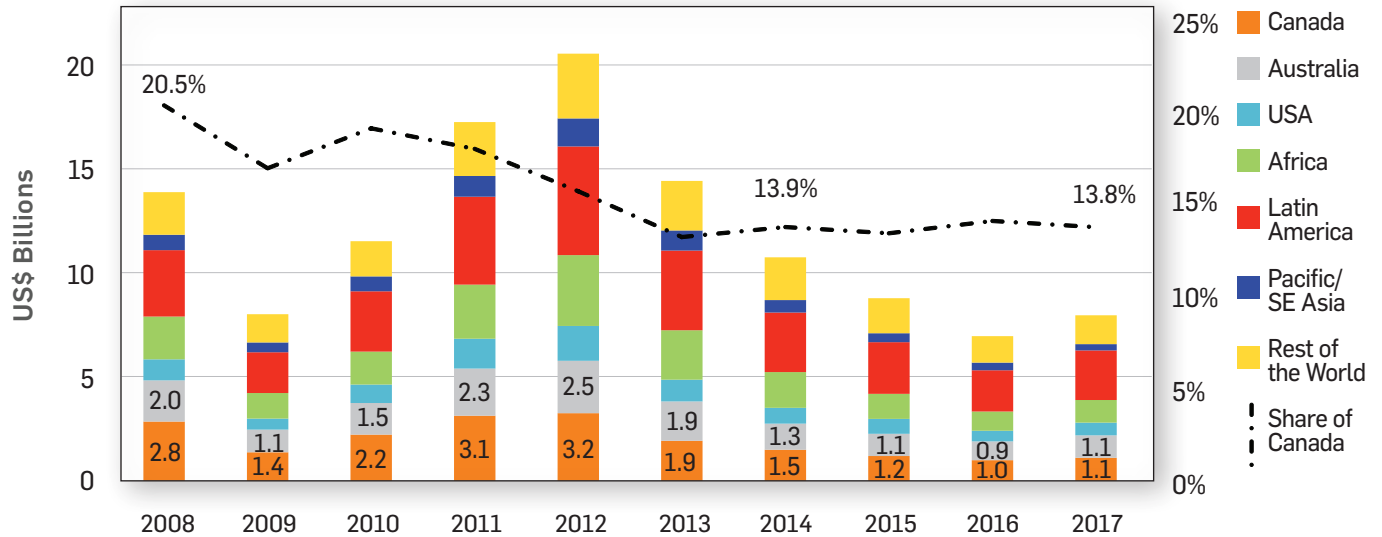
The following section examines exploration expenditures, both globally and in Canada with analyses by region, stage of exploration, company type and commodity type.

Global exploration expenditures have decreased between 2013 and 2016, mirroring the decline in financing for mineral exploration. From a peak of US\$20.5 billion in 2012, money spent globally on exploration decreased by more than 66%, with only US\$6.95 billion spent in 2016. In 2017 global exploration expenditures increased 14.5%, to US\$7.95 billion from US\$6.95 in 2016.

### By Region

Chart 3.3 illustrates the amount of funds spent on mineral exploration by region. Canada and Australia are the two leading countries in terms of funds spent on exploration, with respective shares of 13.8% and 13.6% of global exploration expenditures in 2017. However, these figures exclude expenditures on ferrous exploration, which, if included, would increase Australia's global share beyond that of Canada. As indicated in the chart, Canada remains the top destination for non-ferrous exploration. However, its share of global exploration expenditures has declined from 20.5% in 2008 to less than 14% in recent years.

Chart 3.3: Global Exploration Expenditures by Region (US\$B)

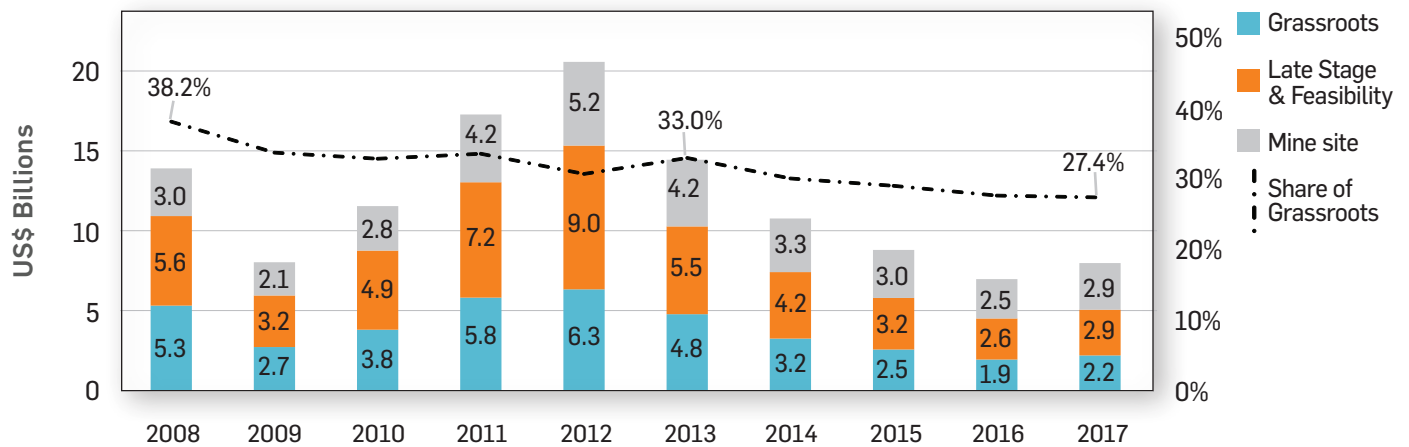


Source: S&P Global Market Intelligence and PDAC analysis

**By Project Stage**

Looking at global exploration expenditures by stage (Chart 3.4), there is a worrisome decline in grassroots exploration. The share of global exploration expenditures spent on grassroots exploration decreased from 38.2% in 2008 to 27.4% in 2017. This decline is concerning because the decline in grassroots exploration reduces the probability of discovering new deposits—and the lack of new discoveries will impact the number of future mines.

Chart 3.4: Global Exploration Expenditures by Stage (US\$B)

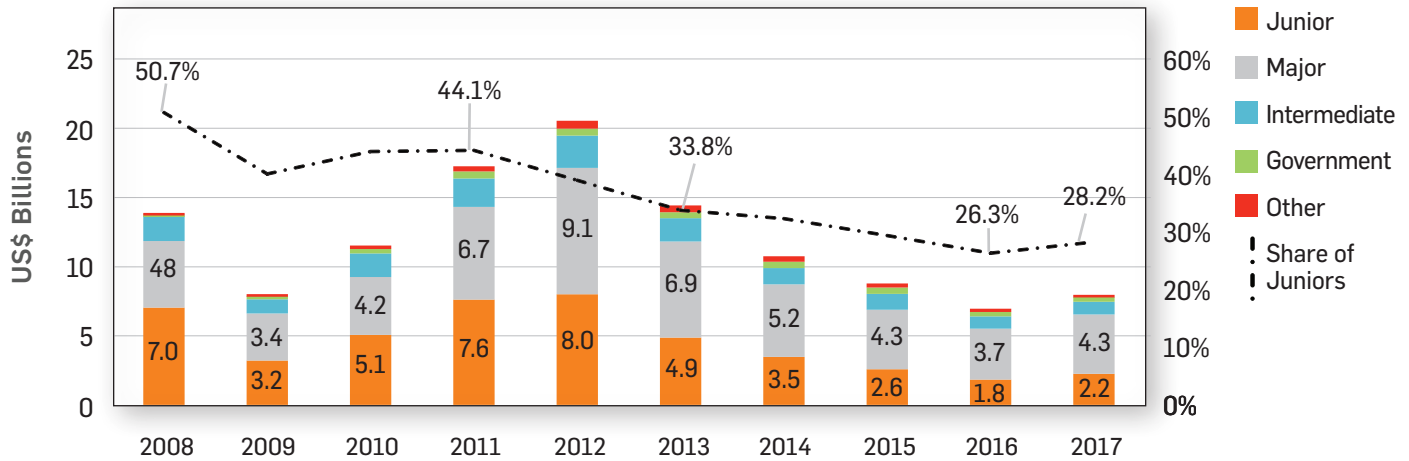


Source: S&P Global Market Intelligence and PDAC analysis

**By Company Type**

Chart 3.5 provides a breakdown of global exploration expenditures by company type. Data gathered by S&P Global Market Intelligence indicates a decline in the share of global exploration expenditures by junior exploration companies, from over 50% in 2008 to 28.2% in 2017.<sup>20</sup>

**Chart 3.5: Global Exploration Expenditures by Company Type (US\$B)**



Source: S&P Global Market Intelligence and PDAC analysis

A decline in junior company exploration spending is concerning given they have shown greater efficiency in making discoveries over time, relative to larger peers. According to a MinEx Consulting research paper presented at PDAC 2015 Convention, the ratio of the value of the discoveries relative to the money spent on exploration is significantly higher for junior exploration companies compared to senior producing companies (“majors”)—0.83 for junior exploration companies compared to only 0.63 for majors.<sup>21</sup>

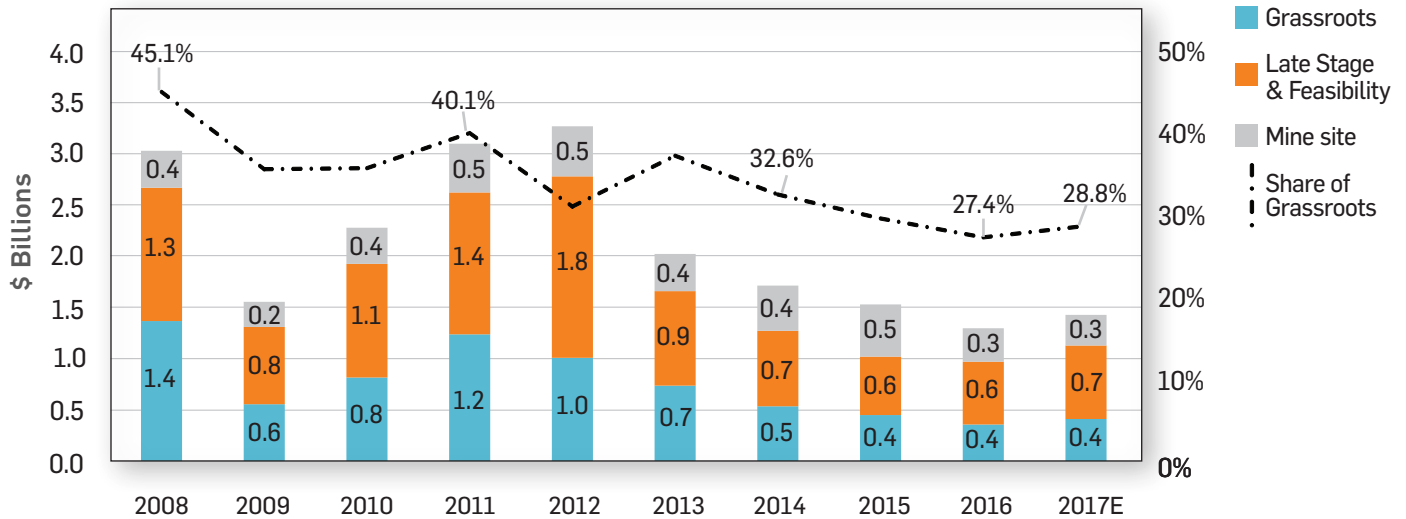
**Exploration Expenditures in Canada**

Similar to global trends, exploration expenditures in Canada declined significantly from 2012-2016. In 2016, exploration expenditures in Canada totaled \$1.3 billion, a 60% decline from the \$3.25 billion spent in 2012. Following a year-over-year increase in exploration financing in 2016, exploration expenditures in Canada showed the first increase in five years of approximately 10%, to \$1.43 billion in 2017. With this in mind, presented later in this document is data from Natural Resources Canada (NRCan) that shows a greater year-over-year increase in exploration spending in 2017.

**By Project Stage**

Reviewing exploration expenditures by project stage, similar to global trends there is a sharp decline in grassroots exploration in Canada—the share of expenditures spent on grassroots exploration dropped from 45.1% in 2008 to 21.1% in 2016. A reversal was noted in 2017; however, as grassroots activity increased to 28.8% of total expenditures, which is outlined in Chart 3.6.

Chart 3.6: Exploration Expenditures in Canada by Stage

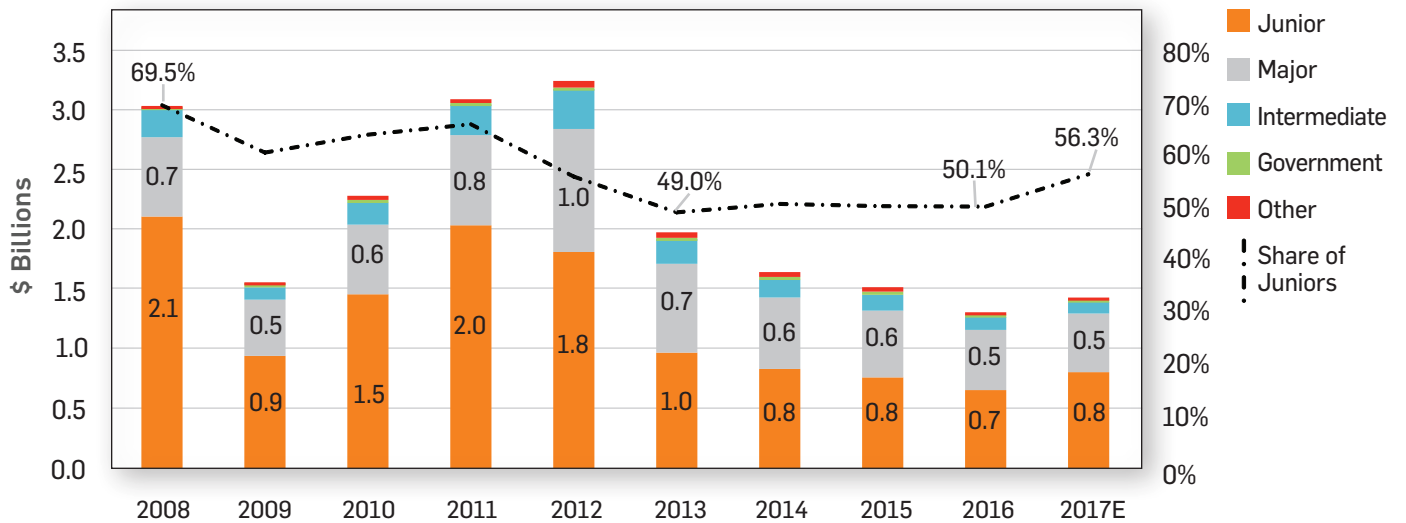


Source: S&P Global Market Intelligence and PDAC analysis

**By Company Type**

Chart 3.7 shows exploration expenditures in Canada by company type and demonstrates how the share of exploration expenditures by junior exploration companies has declined from nearly 70% in 2008 to roughly 50% in 2016. However, 2017 marked a slight increase in the junior share.

Chart 3.7: Exploration Expenditures in Canada by Company Type



Source: S&P Global Market Intelligence and PDAC analysis

### By Province/Territory

Table 3.1 outlines the distribution of exploration expenditures across Canada's provinces and territories. Between 2011 and 2017, 55%-65% of exploration expenditures were spent in three provinces—Quebec, Ontario and British Columbia. According to preliminary estimates as reported by Natural Resources Canada, nine out of the 13 provinces and territories experienced an increase in exploration expenditures in 2017, while total expenditures in Canada increased nearly 30% versus 2016.

**Table 3.1: Exploration Expenditures in Canada by Jurisdiction (\$ Millions)**

Province / Territory	2011	2012	2013	2014	2015	2016	2017(p)
Newfoundland and Labrador	157	200	117	81	47	25	37
Nova Scotia	14	15	12	7	10	5	37
New Brunswick	27	28	28	29	9	14	14
Quebec	834	621	382	317	260	297	577
Ontario	1,068	961	562	468	440	394	526
Manitoba	140	106	61	28	47	47	39
Saskatchewan	335	411	222	245	257	229	190
Alberta	47	35	39	26	18	17	28
British Columbia	645	734	493	449	346	232	258
Yukon	332	233	101	107	92	90	165
Northwest Territories	94	109	78	102	101	73	90
Nunavut	536	423	258	158	215	205	169
<b>Canada - Total</b>	<b>4,227</b>	<b>3,875</b>	<b>2,352</b>	<b>2,017</b>	<b>1,842</b>	<b>1,629</b>	<b>2,111</b>

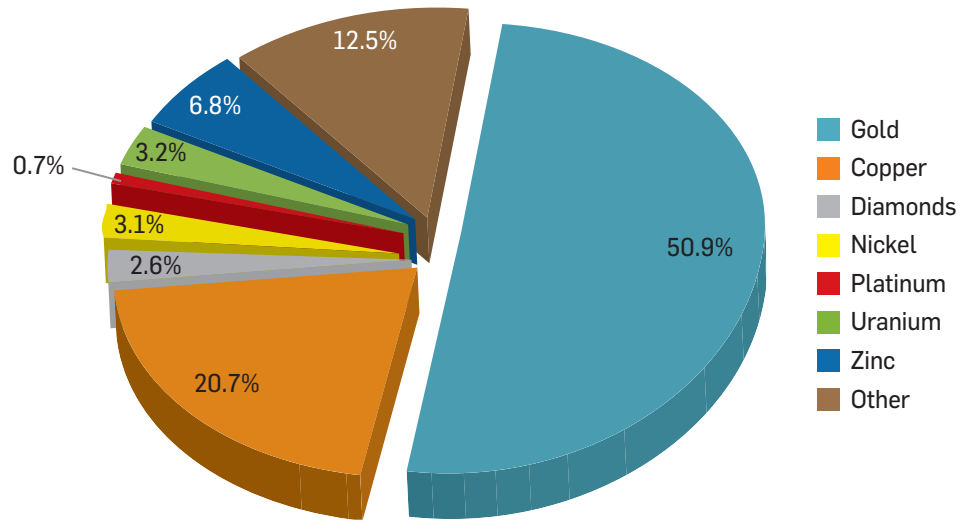
\* 2017 (p) - preliminary estimates

Source: Natural Resources Canada (NRCan)

### Exploration Expenditures by Commodity Type

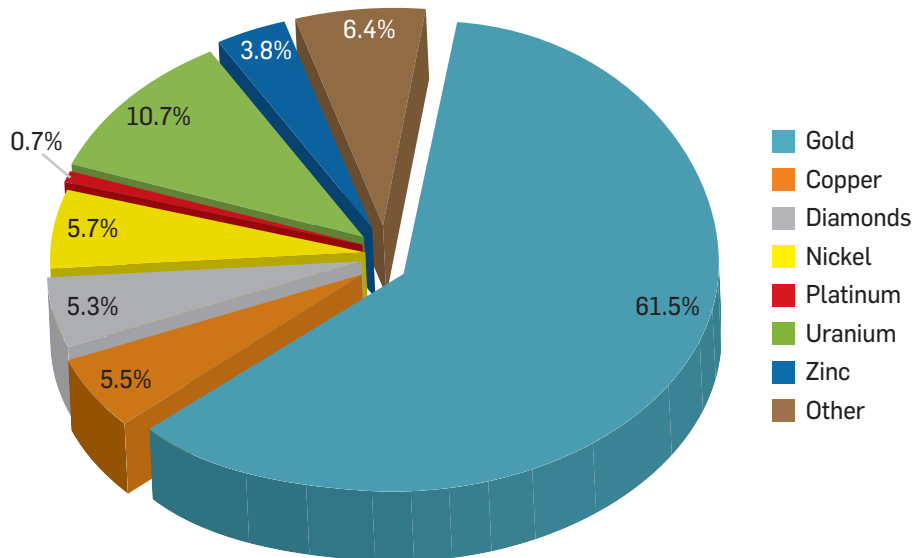
The following two charts outline the distribution of non-ferrous exploration expenditures in 2017 based on commodity type, both globally (Chart 3.8) and for Canada (Chart 3.9). Gold was the most sought after commodity in Canada and around the world, significantly exceeding other commodities with shares of 50.9% of global expenditures and 61.5% in Canada. Globally, expenditures targeting copper (20.7%) and zinc (6.2%) ranked second and third, while uranium (10.7%) and nickel (5.7%) ranked second and third in Canada.

**Chart 3.8 : Global Exploration Expenditures by Commodity (2017)**



Source: S&P Global Market Intelligence and PDAC analysis

**Chart 3.9: Canadian Exploration Expenditures by Commodity (2017)**



Source: S&P Global Market Intelligence and PDAC analysis



## SECTION 4: Fiscal Incentives and Capital Markets Reforms

As outlined in previous sections of this report, Canada is a global leader in mineral exploration. Toronto is commonly referred to as the “world capital” for financing for mineral exploration given the volume of issuances and trading liquidity for mineral industry companies on the TSX/TSXV. Moreover, according to the Fraser Institute's *Annual Survey of Mining Companies 2017*, Canada is a top destination to explore for commodities, with several provinces ranked in the Top 10 jurisdictions for the attractiveness of investments in mineral projects.<sup>22</sup>

Among various factors influencing a jurisdiction's competitiveness, access to capital is a key component. The ability to access capital is impacted by various fiscal policies and the regulatory framework that governs capital markets. Canada has established fiscal policies at the federal, provincial and territorial levels that help with efforts to enhance mineral investment and exploration activity.

### The Flow-through Share (FTS) Regime

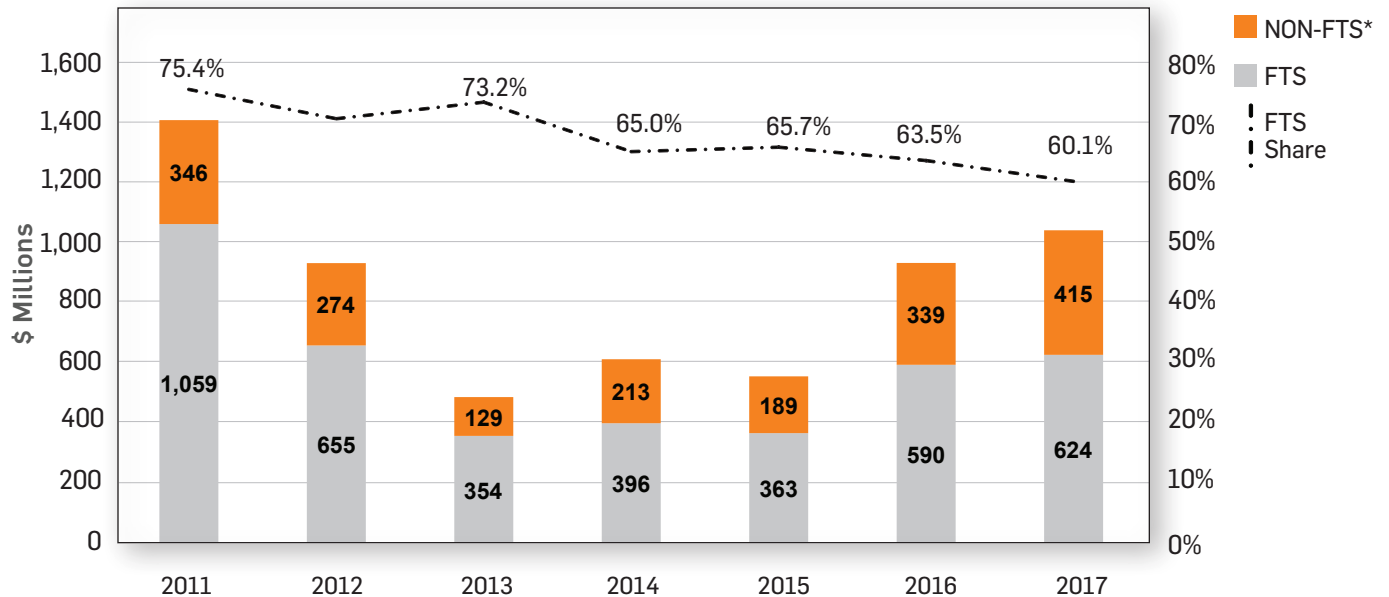
At the federal level in Canada, the most notable policy that supports financing for mineral exploration is the flow-through share regime.

The flow-through share regime allows public companies to issue a unique type of equity that allows individual and corporate investors to deduct the purchase cost from their personal income for tax purposes, provided the company issuing the shares spends the funds on prescribed exploration and development expenses for Canadian projects.

An additional policy component is the Mineral Exploration Tax Credit (METC), a 15% tax credit that can be claimed by individual investors with respect to a more limited category of early stage or grassroots exploration expenditures. To further incentivize exploration, a number of provinces and territories also offer tax credits to individual investors or other incentives for various exploration activities undertaken in their jurisdiction. The flow-through share regime assists companies in raising financing for exploration and development, while at the same time ensuring that the funds raised are spent only in Canada.

Chart 4.1 shows the amount of equity financing raised on both the TSX and TSXV for exploration in Canada from 2011 until 2017. On average, approximately 68% of the funds were raised using flow-through shares, which indicates the critical importance of flow-through financing to exploration in Canada.

**Chart 4.1: Equity Financing on TSX & TSXV for Exploration in Canada**

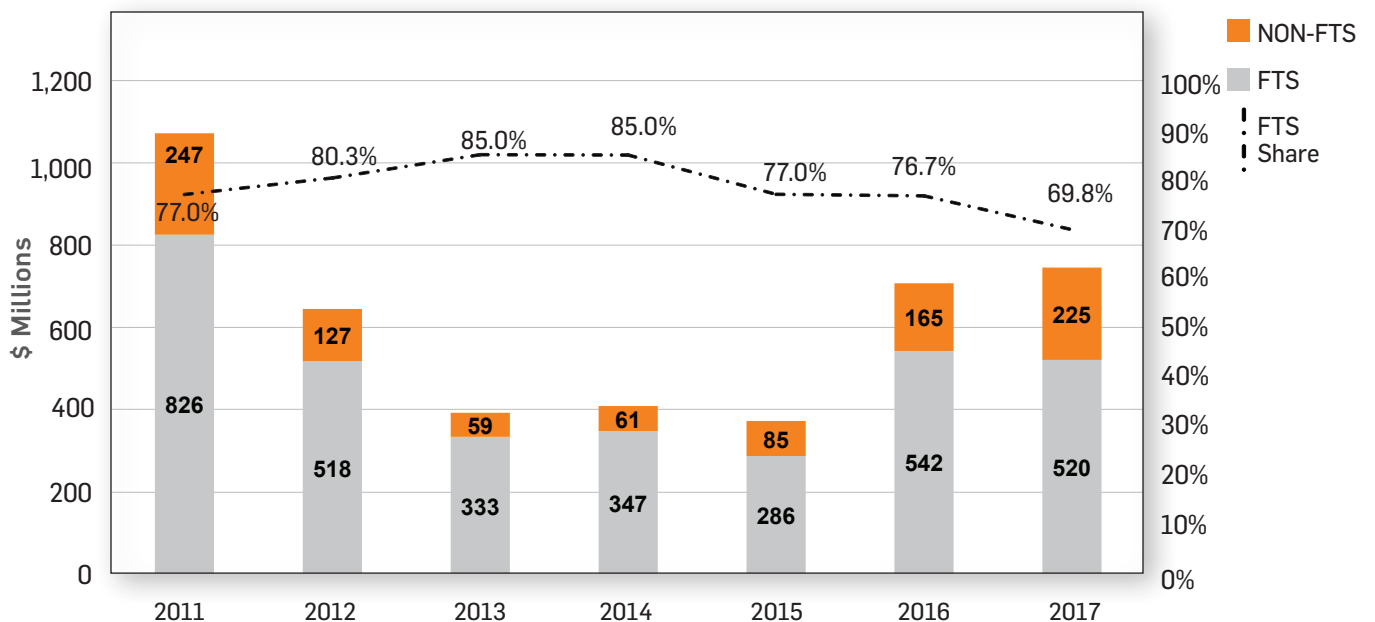


\* FTS stands for Flow-through Shares

Source: TMX Group, S&P Global Market Intelligence and PDAC analysis

Data displayed in Chart 4.1 points towards a diminishing proportion of flow-through equity over the last five years, which may reflect reduced exploration financing opportunities during a time of weakening commodity prices. That said, focusing analysis on smaller exploration companies by exclusion of any transaction higher than \$20 million a different trend in flow-through equity proportion is observed as outlined in Chart 4.2.

**Chart 4.2: Equity Financing on TSX & TSXV for Exploration in Canada (Excluding Transactions Higher than \$20 Million)**



Source: TMX Group, S&P Global Market Intelligence and PDAC analysis

Focusing on smaller transactions it is evident that the percentage of financing done via flow-through shares is materially higher relative to all transactions (78% in average in Chart 4.2 vs. 68% in Chart 4.1). Also notable is that the peak in flow-through shares percentage over the period outlined takes place in 2014, the midst of the downturn. The different dynamics displayed likely highlights a greater importance of flow-through shares financing for smaller-scale exploration companies.

### **Additional Expenses are Eligible as Canadian Exploration Expenses**

In order to comply with the flow-through share framework, funds raised for exploration should be eligible for consideration as Canadian Exploration or Development Expenses (CEE or CDE), according to guidance offered by the Canada Revenue Agency (CRA), and according to the *Income Tax Act*.<sup>23</sup> Prior to 2016, there were a number of additional expenses incurred by mineral exploration companies that would not be considered qualified CEE. The two main types of expenditures not included in CEE:

- ▶ **Community Consultation:** engaging with communities during earlier stages of the exploration process to garner support for an exploration permit/licence.
- ▶ **Environmental Studies:** Conducting additional and more comprehensive environmental studies in order to comply with environmental regulations as part of efforts to obtain an exploration permit/licence.

In the 2016 Federal Budget, following a lengthy advocacy campaign by the PDAC and other industry organizations, additional expenses that pertained to community consultation and environmental studies incurred to obtain an exploration permit/licence were recognized as CEE eligible. PDAC has continued to work with the CRA in an effort to make the guidance regarding CEE eligibility clearer for industry and other issuers.

## **Regulatory Developments in Canadian Capital Markets**

Another key fiscal element that influences a jurisdiction's mineral industry competitiveness is having high-functioning capital markets with efficient securities regulation. This includes maintaining a solid balance between the need to protect investors and the need to enable small issuers to access funding opportunities at affordable costs of compliance with disclosure requirements of reporting issuers.

### **New Prospectus Exemptions Were Adopted in 2015-2016**

In late 2015 and early 2016, a number of new prospectus exemptions were adopted and other exemptions were modified in several jurisdictions across Canada with high mineral industry activity. While information on new exemptions use is very limited, a publication by the Ontario Securities Commission (OSC) provides some data on new exemptions in Ontario.<sup>24</sup>

According to the OSC *Staff Notice 45-715 – 2017 Ontario Exempt Markets Report*, four new exemptions were introduced in Ontario in 2015-16, as a basis of the OSC Exempt Market Reform Initiative. The four new exemptions are:

- ▶ The *offering memorandum* exemption (the “OM Exemption”)—introduced on February 11, 2015
- ▶ The *family, friends and business associates* exemption (the “FFBA Exemption”)—introduced on May 5, 2015
- ▶ The *existing security holders* exemption—introduced on January 13, 2016
- ▶ The *crowdfunding* exemption—introduced on January 25, 2016

The OSC report provides some insight about the uptake of the new exemptions. It summarizes capital raising activity by non-investment fund issuers in Ontario's exempt markets throughout 2015-2016, and provides a sense of the use of the new exemptions. According to the report, the new exemptions have gained traction among 25% of all Canadian issuers. In 2016, some 400 issuers relied on the new prospectus exemptions to raise approximately \$133 million—a negligible amount compared to the size of the Ontario exempt market which was \$72 billion in 2016. Among issuers relying on the new prospectus exemptions, natural resource issuers represented the largest industry group by number of issuers (37%).

The OSC report also specifies how the funds raised through the new exemptions were distributed:

- ▶ The *family, friends and business associates exemption* was used by 302 issuers that raised gross proceeds of approximately \$63 million, with 21% of the value of these funds (\$13.2 million) raised by over 130 natural resources issuers (i.e. mining, oil and gas companies).
- ▶ The *offering memorandum exemption* was used by 103 issuers that raised gross proceeds of approximately \$68 million.
- ▶ The *existing security holder exemption* was used by 24 issuers that raised gross proceeds of approximately \$2 million.
- ▶ With respect to the *crowdfunding exemption*, the report confirms that no reported use of the crowdfunding exemption was recorded. However, the report does mention that issuers have used online funding portals to raise proceeds under the accredited investor or offering memorandum exemption.

While data regarding the use of the new exemptions among mineral exploration companies is not available, anecdotal evidence suggest that exploration companies have mainly used the exemption of *family, friends and business associates*, as well as the *existing security holder* exemption. The use of other exemptions by mineral exploration companies is negligible.

## Steps to Reduce the Cost of Securities Regulation

In July 2017, PDAC submitted a comprehensive response to a CSA consultation paper, which included 32 questions centred on a variety of regulatory challenges impacting mineral exploration companies.<sup>25</sup> PDAC's submission addressed a number of key aspects, as follows:

### Modify the Triggers for Material Change in NI 43-101

A key recommendation made by PDAC addressed a key barrier that exploration companies face when attempting to use a short-form prospectus, which requires the filing of an Annual Information Form (AIF) and also a current technical report for each material property. PDAC proposed the CSA modify NI 43-101 requirements for the conditions under which a current technical report is required for short-form prospectus purposes. This change would allow exploration-stage mining issuers to participate in the short-form prospectus system (by filing an AIF) or file a long-form prospectus, without incurring the expense and delay of obtaining an updated technical report containing information that does not constitute a material change in the affairs of the issuer.

### Venture-Friendly Regulatory Regime

Another key proposal by PDAC was related to the regulatory framework with which issuers should comply. PDAC proposed that a streamlined, venture-friendly regulatory framework be created, which is optional for issuers that do not have material revenue as long as their market cap is less than \$250 million.

### Improve the Practicality of At The Market (ATM) Offering

Another PDAC recommendation addressed key barriers companies face when attempting to finance via ATM offering. These barriers make the implementation of the ATM system in Canada impractical.

### Additional recommendations contained in PDAC's response to the CSA consultation paper include:

- ▶ Extend the eligibility criteria for the provision of two years of financial statements (as opposed to three years) to issuers that intend to become non-venture issuers.
- ▶ Auditor reviews of interim financial statements only be required for an IPO prospectus, and not for subsequent prospectus filings.
- ▶ An alternative model for an abbreviated form of prospectus should permit, but not necessarily require, the incorporation by reference of documents that have previously been filed by the issuer on SEDAR, including financial statements, material change reports and information contained in the summary of a technical report filed under NI 43-101.
- ▶ Update NP 11-201 (delivery of documents by electronic means) and NI 54-101 (communication with Beneficial Owners of Securities of a Reporting Issuer) to allow the utilization of the latest cloud based data and document management strategies and technologies.

## ENDNOTES

- <sup>1</sup> Source: IMF publication, January 22, 2018
- <sup>2</sup> Source: S&P Global Market Intelligence and PDAC analysis
- <sup>3</sup> Source: S&P Global Market Intelligence and PDAC analysis
- <sup>4</sup> Source: S&P Global Market Intelligence and PDAC analysis.
- <sup>5</sup> For the purpose of analyzing finance data for the junior sector, this report uses the Oreninc definition for a junior mining transaction, which consists of: 1) A company with market capitalization of less than \$1.5 billion and; 2) a private placement transaction of less than \$100 million
- <sup>6</sup> Source: S&P Global Market Intelligence and PDAC analysis
- <sup>7</sup> Source: S&P Global Market Intelligence and PDAC analysis
- <sup>8</sup> Source: S&P Global Market Intelligence and PDAC analysis.
- <sup>9</sup> Source: TMX Group, S&P Global Market Intelligence and PDAC analysis
- <sup>10</sup> All figures were sourced from the data providers in the currency in which they are presented. No conversion was done by the authors of this report.
- <sup>11</sup> Advanced Economies is a term used by the IMF to describe a group of 39 countries, including countries from the G7, the Eurozone, the European Union, as well as: Australia, China, Israel, New Zealand, Puerto Rico, San Marino, Taiwan, Singapore, Hong-Kong, Korea, and Macao. More details on advanced economies and other IMF's groups and aggregates information can be found in this link: <https://www.imf.org/external/pubs/ft/weo/2017/01/weodata/groups.htm#ae>
- <sup>12</sup> IMF, World Economic Outlook Update, January 22, 2018 retrieved from <http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>
- <sup>13</sup> The USD index presented here is monthly, and is relative to March 1973 (the benchmark). On the Y-Axis we see the relative strength of the dollar when the point of reference (i.e. 100 on the Y axis) is March 1973. It means that every other point on the chart is measured compared to the benchmark. For example, in the end of 2017, the Index was 94.3% compared to 100% in March 1973.
- <sup>14</sup> Source: S&P Global Market Intelligence and PDAC analysis
- <sup>15</sup> Note that due to visual constraints, not all months are presented in the charts 1.3-1.6.

- <sup>16</sup> The data for the sub-section on the junior mining sector is taken from Oreninc. Oreninc's definition for a junior mining transaction is composed of two aspects: 1) the transaction was done by a Company with market capitalization of less than \$1.5 billion and; 2) it is private placement transaction of less than \$100 million.
- <sup>17</sup> The data was sourced from TMX group, based on the TMX's MIG report archives for the months of March, June, September and December of the years 2013-2017. Data sources can be found at: <https://www.tsx.com/listings/current-market-statistics/mig-archives>
- <sup>18</sup> A "bought-deal" is a securities offering in which an underwriter commits to buy the entire offering from the client company. On the other hand, in a "best-efforts" transaction the underwriter promises to make its best effort to sell as much of a securities offering as possible, but is not obliged to purchase the entire amount being offered. Best-efforts transactions can be either brokered or non-brokered.
- <sup>19</sup> Note that as opposed to figures presented in Charts 2.5-2.12, which reflect financings on domestic exchanges for worldwide use, Chart 2.13 outlines financings specifically intended for domestic project spending.
- <sup>20</sup> All exploration data were gathered by S&P Global Market Intelligence, which defines "junior company" slightly different than the definition used by Oreninc and presented in the second section. According to S&P global, a junior company is a company with annual revenue of less than US\$50 million. All references to junior companies in this section will refer to the S&P Global's definition.
- <sup>21</sup> Richard Shodde, MinEx Consulting, Canada's discovery performance and outlook, March 2015 (Presented at PDAC) - <http://www.minexconsulting.com/publications/R%20Schodde%20PDAC%20Conf%20March%202015%20FINAL.pdf>
- <sup>22</sup> Fraser Institute, Annual Survey of Mining Companies 2017, February 2018: <https://www.fraserinstitute.org/sites/default/files/survey-of-mining-companies-2017.pdf>
- <sup>23</sup> In reality, investors are more focused on acquiring flow-through shares where the funds expended are on qualifying CEE, rather than on CDE.
- <sup>24</sup> OSC Staff Notice 45-715 – 2017 Ontario Exempt Markets Report, June 2017: [http://www.osc.gov.on.ca/documents/en/Securities-Category4/rule\\_20170615\\_45-715\\_exempt-market.pdf](http://www.osc.gov.on.ca/documents/en/Securities-Category4/rule_20170615_45-715_exempt-market.pdf)
- <sup>25</sup> CSA Consultation Paper 51-404: Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers.



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