The Northern Miner was privileged to play host to a roundtable discussion bringing together 13 of the heaviest hitters and nimblest minds on Bay and Howe streets to shed light on the state of alternative financing methods in the mining industry.

Sponsored by flow-through financing specialists PearTree Securities and held in the downtown Toronto offices of Newport Private Wealth, the roundtable was titled “New Frontiers in Mining Finance” and moderated by Northern Miner publisher Anthony Vaccaro.

Some of the discussion focused on the results of new data generated by the polling of a select group of Northern Miner readers on their understanding of, and attitudes towards, alternative mining financing. Survey highlights are spread throughout the report in charts, graphs and sidebars.

While traditional debt and equity financing remain a bedrock of the mining and mineral exploration industry in Canada and beyond, the tightening of this traditional source in response to the downturn in commodities markets has made mining companies seeking financing more receptive to alternative financing sources.

Through our research, The Northern Miner is seeking to gauge the mining industry’s need for and receptiveness to alternative financing methods that encompass royalties, streaming, private equity, flow-through financing (including charity flow-through financing) and equity crowdfunding.

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Introduction

Hope. With its undertones of uncertainty or even religiosity, it’s a word that’s not often formally associated with the hard-edged world of capital markets. And yet hope is undeniably at the root of any successful innovation in finance.

Could the success of Franco-Nevada in the 1980s and 90s have been achieved if its royalty model did not fire the imagination of mining companies hoping for more capital and investors hoping for greater returns? More recently, Randy Smallwood and Silver Wheaton travelled from boardroom to boardroom to convince companies and investors their new streaming model could work the same magic the royalty model did twenty years earlier. Despite the early skepticism, the streaming model is now entrenched in our industry.

The research contained in this report confirms that companies and investors are today placing more hope in Private Equity as a new source of mine financing. With specialized companies such as Resource Capital Funds leading the way, PE firms are stewards of deep pools of capital that can be available to mining companies that offer real competitive advantages and have management who are open to the advice and direction that often come with a private equity investment.

And while our research shows that executives and investors feel they have a good handle on royalties, streaming and private equity, it points to a lower level of comfort with charity flow-through and equity crowdfunding.

In the case of charity flow-through, a model pioneered by the principals at PearTree Financial, there have already been more than $600 million of such financings. Indeed, some of the high-profile and respected companies represented at our roundtable have already made use of the model, but our survey respondents are still unfamiliar with the mechanics of charity flow-through financing.

In broad strokes PearTree subscribes for flow-through shares capturing all the tax benefits and some steps later, arranges for the shares to be purchased by global institutions and strategic investors at a lower price due to their being stripped of their tax value. Before PearTree’s innovation, flow-through financings began and ended in Canada. Now there is a way to access global sources of capital in a way that expands funding and provides market pricing support. In fact 90% of the shares associated with PearTree financings have been bought by non-Canadian investors.

Equity crowdfunding is getting plenty of attention because of its growing reputation as a potential disrupter in the mould of Uber, Skype or Airbnb. The basic premise of equity crowdfunding is simple enough: take away restrictions on investors and let companies go directly to providers of capital via an online portal. Such simplicity unleashes a torrent of regulatory issues, however, mainly centered on the protection of investors and whether such a portal could be safely opened to non-accredited investors.

While regulators aren’t yet fully caught up to the equity crowdfunding model, our discussion shows the topic generates heated debate. Klondike Strike is looking to be the first mining-focused equity crowdfunding portal in the world and you can meet its CEO Chad Williams in the pages to follow.

So sit back and enjoy the read, and may this report shine a light on new financing pathways that can help miners, explorers and investors navigate through our difficult times.

—Anthony Vaccaro CFA, MBA
Roundtable Participants

Ian Ball, President & CEO, Abitibi Royalties – *royalty junior mining company*

Carol Budducci, Executive Vice-President & Chief Financial Officer, IAMGOLD – *major gold miner*

Andrew Farncomb, Managing Partner, Cairn Merchant Partners – *independent merchant bank*

Liam M. Fitzgerald, Partner and National Mining Leader, PwC Canada – *major accounting firm*

David Harquail, President & CEO, Franco-Nevada – *royalty mining company*

Oscar A. Jofre, Jr., Regulated Crowdfunding Advisor, KoreConX – *crowdfunding advisory firm*

Trent Mell, President and Head of Mining, PearTree Securities – *securities firm and flow-through specialists*

Randy Smallwood, President & CEO, Silver Wheaton – *streaming mining company*

Kerry Smith, Vice-President and Senior Mining Analyst, Haywood Securities – *brokerage house*

David Thomas, Managing Director (Canada), Resource Capital Funds – *private equity firm*

Rod Thomas, President, Prospectors & Developers Association of Canada – *industry association*

Darin Wagner, President & CEO, Balmoral Resources – *junior mining company*

Chad Williams, President & CEO, Red Cloud Mining Capital – *capital markets advisory firm*

Moderated by Anthony Vaccaro, Publisher of The Northern Miner
The present state of mining finance

The roundtable begins with a wide-open discussion of the current state of the mining sector, and the new realities facing mining companies trying to raise money, particularly with the alternative methods of royalties and streaming, private equity, flow-through, and equity crowdfunding.

The discussion is augmented with the results from a survey on mining finance that polled 450 select Northern Miner readers consisting of mining executives, mining investors, geologists, prospectors and other key people within the industry. We found that confidence among survey respondents was deteriorating the most in traditional debt and equity capital raises.

CAROL BANNUCCI • There is this global weakness and uncertainty around commodities. There’s a lot of volatility.

When you take a look at the market today, access to the equity markets is very constrained. I can see the banks pulling back and reducing their exposure. They’ve got a huge exposure to commodities and so you’ve seen them retrenching.

It’s affecting everybody across the whole horizon, whether you’re a producer, a developer or doing some exploration. So it’s a tough time for everybody.

Those that have really strained their balance sheet because they’ve been out there buying and buying and taking on a lot of debt, now they’re being forced to sell assets. As time goes by, more assets will be coming available, which is perfect for us at Iamgold because we have such a strong balance sheet.

DAVID HARQUAIL • I think the period we had, where we had a lot of institutional money coming in and a lot of funds that were chasing growth in the industry, that was kind of a heroin. That was not normal.

What our industry was always about when you had exploration and early stage projects, it generally started with grubstaking or you did private placements with individuals and family that you knew. You didn’t try to finance mines into production. You took those property submissions to the majors and they would take them to the next stage.

More recently we institutionalized the whole exploration business, and I don’t think that’s ever coming back. What we’re going to have now is people returning to very small sources of capital to do these concept plays.

What the mining industry really needs is very long-term, patient capital to be able to achieve...
projects. And the shorter-term financing for companies — that “heroin” — always leads to bad outcomes and that's what I've been seeing.

**CHAD WILLIAMS** • There are four reasons for our current malaise as an industry.

The first is demographics. As the baby boomers get older, they're conserving capital and are unwilling to risk it in a more speculative industry like mining. But we have very good news on that front because we did some test marketing of millennials — the 18- to 35-year-old group in Canada — and found they were actually very open to investing in mining and think mining is an important part of the economy. They are, unfortunately, not very knowledgeable, so if you do want to market to them you have to be very open, very transparent. They won't be stimulated by cross-sections, drill-hole maps and the heavy technical stuff that we do as an industry.

They're stimulated by other things. We're going to have to do things differently. But the bottom line is millennials are ready and they are going to be a very important part of the funding for mining in the future.

Secondly, let's be honest: most mining companies have performed very poorly in the allocation of capital. So we deserve some blame. We often get mining companies looking for capital that walk in our door and they don't have budgets or a real business plan. They figure, “We're just going to drill a bunch of holes and we're going to get Barrick to take us over.” That’s their business plan. It doesn't work like that anymore. Modern investors, including millennials, are a lot more sophisticated.

The third problem is the structural change in asset management. I call it the Great Aggregation and it's caused by fund managers having to compete against exchange-traded funds and these ETFs are huge. They charge very low fees and, quite frankly, most fund managers have not had a good performance and they're competing against these behemoth ETFs that have very little costs. And so the solution is to get bigger and bigger and bigger. And if you get bigger as a fund, then you can't allocate capital resources to small mining companies. It doesn't move the dial.

The fourth problem is retail brokers are prohibited at many firms from investing in mining. I've seen with my own eyes...

How do we get the millennials to get involved in high-risk exploration?

—ROD THOMAS

"I do think that the financing market is structurally broken."

—KERRY SMITH
memos at some of these banks that prevent the investment advisors from advising their clients to buy mining names. That’s a structural problem that will not go away.

There’s never been as much capital in existence as there is right now — it just isn’t flowing to our sector.

DARIN WAGNER • We did feed off the proverbial heroin and there got to be too many exploration companies getting funding for projects that really didn’t have a chance 30 years ago and still don’t have a chance. We got overblown and it was relatively easy to access that capital.

We’re back to normal, to a regime where you better have something substantial, and these are harder and harder to come by. You can’t walk out in your boots and come across anything these days. Quality deposits are more expensive to find, they’re farther afield in more difficult places, and the whole process is more complex. Much like the producer’s cost profile has gone up, the explorer’s cost profile has gone up and there is no easy money.

The commodity cycle is working against us, but with the advantage that there are other financing paths we didn’t have before: private equity groups and streaming royalty deals. They’re not necessarily something you want at the early stage, but there are more options.

Retail investors will come back if you give them a reason. We saw it ourselves last year: if you do have a discovery of substance, the money’s there and the investors are there. But no turkeys are flying right now, unfortunately.

ROD THOMAS • Two things that we at the PDAC have been hammering away on is access to capital and access to land. In

Perceived changes to availability of various forms of financing over the last 12 months
that framework, I do agree things are somewhat broken, particularly as it applies to the junior sector.

We’ve been advocating lowering the bar in terms of an investor’s qualifications to make investments, particularly high-risk investments, and broadening the base of who can invest.

One big question is, how do we get the millennials to get involved in high-risk exploration? Historically, people who have made investments in exploration have been the younger generation but their risk profile has changed substantially and so, going forward, where do we find access to capital?

KERRY SMITH • I do think that the financing market is structurally broken. We’ve got all the resource managers and they don’t have any more capital, so they’re only playing with a pool of capital that’s, at best, staying static. Maybe it’s shrinking a bit. So they can’t look at new ideas.

There’s going to be a lot of consolidation in the business and it’s happening now. It’s going to be a big change in the next 10 years, and I’m not sure how it’s going to play out. The regulators are going to have to be involved.

LIAM FITZGERALD • When you look at all these alternative financing, the word on everyone’s lips is “tax”. It’s about understanding how tax flows, and whether it’s a tax advantage, negative tax or whether it’s tax neutral. Because what most people are finding when it comes to alternative financing, is first they want to make sure it’s tax neutral and there’s no detriment going into the deal. And only after that do they ask, what is the benefit? So it really becomes a number-crunching game.

But my personal view is that transactions are outpacing the education, and one of the key points is in accounting.

DAVID HARQUAIL • Mining’s a highly cyclical business, and there used to be a lot of wisdom among the big companies in the industry that you only developed low-quartile-cost projects that had a long duration so you could catch multiple cycles over time.

But when the investors are giving you money and saying, “No, we are so convinced gold is going to go up or commodities are going to go up, we want you to develop this high-cost project and in fact maximize net asset value, so you can get the best possible NAV because that’s the metric that we really want.”

Then you have all these projects that, afterwards, the investors ask, “Why did you develop those things? It made no sense.”

As long as we have open-ended funds like that, they’re systemically doomed to always be buying at the top and selling at the bottom. And this is why they don’t have any funds right now. Where you have some capital discipline like in the old days, it’s the companies that decide when a project is developed, once it fits into a low-quartile and has a long life.

KERRY SMITH • Generally companies have too much debt and that’s a big problem. What happens is people make three mistakes, according to Ian Telfer. You buy things at the wrong time in the market, you pay for them in the wrong way and you don’t do proper due diligence. And Ian Telfer always would tell me, “If I get two of those right, I’m going to be happy.” Barrick probably got all three wrong on Lumwana in Zambia and unfortunately, it almost killed the company, literally in one transaction.
Royalties & streaming

Mining royalties have a long history in the industry, but large-cap royalty companies such as Franco-Nevada have only risen to prominence in the last couple of decades. The newest twist on royalty financing is metal streaming which has taken off in popularity in recent years as a non-dilutive method to finance mine construction or refinance debt.

DAVID HARQUAIL • I think the only thing that we at Franco-Nevada, as a royalty company, are bringing in, and what’s different, is we’re a form of more permanent, patient capital. We’re financing to be able to achieve projects.

A classic case in point in how things can go wrong with shorter-term money is Barrick Gold’s Pascua-Lama in the Andes. Here is a project that’s come in at multibillion dollar capital costs, and it was designed to maximize the net present value. And when you do that you’re making the biggest target possible for the NGOs, and it’s more than likely to fail because you scale it up to full size from day one. But imagine if you were a predecessor company like the Norandas or the Falconbridges or you were private money or Hochschild or whatever, you’d start off with a small project, make sure it works first and then you scale it up over time. Trying to give instant gratification in the capital markets with a maximum-NPV project like that just creates systemic risk.

The future is going to be: who are the most long-term investors out there? There are the strategic investors, the state-owned enterprises or the concentrate off-take — mining companies have always partnered with them.

But the real future is going to be the pension funds. My nightmare is the pension funds are going to move into my business, and I’ve seen it already in oil and gas. The Ontario Teachers’ Pension Plan just invested $3.3 billion to buy lands from Cenovus Energy for the royalty potential and the freehold lands.

Perceived obstacles preventing use of royalty or streaming arrangement

In our survey, 43% of respondents felt that the percentage of capital raised by royalty and streaming methods would increase over the next 12 months – the highest of any alternative financing method.
And you can see the pension funds looking and trying to get educated in these other things because they don’t want to buy equities anymore. They’ve gotten out of equities because they feel like they’re getting screwed in the marketplace.

But they want to do direct investments and they’re trying to build their teams and expertise. That’s the perfect marriage because these guys are looking over multiple decades or longer to amortize their plans.

And the mining industry can fit that very well. Marrying our type of project with really long-term money, that’s where the future’s going to be.

Trent Mell • Royalty streams are a fabulous product once you know what the resource is. But if you lock that down too early, you could be giving up a lot.

Randy Smallwood • Royalties have been around for quite awhile now, so streaming is actually the new approach in the space itself. I’d have to say that it’s taken us 10 years to get to the point where streaming is always on everyone’s list of choosing a financing option. And it’s been 10 years of trying to convince everyone that this isn’t a magic black box. You know, we say the simplicity is actually quite confusing. People tend to think it’s a much more complicated process than what it really is, in terms of structure and things like that.

But it has been a battle. It was getting transactions done with companies on the scale of Glencore and Vale and even Barrick that finally gave us market credibility and made the sales pitch that much easier. We’ve finally broken through over the last couple of years, and I think it’s actually the need on the other side that’s driven it.

I would say that of all the industries — obviously, I’m biased because my industry is what I know — we seem to be a very, very traditional crowd and it’s tough in this space to break into new things. We can all gain from being able to open ourselves to these new opportunities.

Chad Williams • When I came up with the idea for streaming about 10 years ago, it was to satisfy a need because Wheaton River was producing silver and nobody cared, and Silver Standard had silver assets with no cash flow. So it was putting two groups together, and they both had the realization...
The period we had, where we had a lot of institutional money coming in and a lot of funds chasing growth in the industry, that was kind of a heroin.

—DAVID HARQUAIL

that it was a eureka moment. And the eureka moment is basically illuminating the intermediary between the investors who want to invest — and don't really know how to invest — and the mining companies that need the money. And then taking out the intermediary.

LIAM FITZGERALD  In my role as a tax partner, I’ve had about 62 conversations in the last three months about alternative financing, whether it’s flow-through charity, flow-through, royalties or streams.

When I’m a tax person, I usually stop at the CFO. But these are conversations which have been elevated up to the CEO who wants to understand, what is a stream? Because most are aware of the stream, but don’t understand it. When I explain it to them the first time they don’t believe that it’s as simple as it is. So they ask me to come back again to make sure I draw the boxes on the page.

Alternative financing method that is expected to experience highest growth over the next 12 months

- Royalty and streaming: 57%
- Private equity: 53%
- Flow-through financing: 39%
- Equity crowdfunding: 22%
- Charity flow-through financing: 11%
But it’s also new players in the market. I’ve had conversations with billion-dollar New York private equity firms who want to understand it and the model to see if it fits.

You have two types of players in these fields: for a stream, it’s either someone trying to fund a project or someone trying to refinance debt. But there’s no point refinancing debt with something that’s classified as debt. So, when you look at a term sheet for many stream deals, right at the bottom they’ll say, “And, by the way, there’s no transaction if this is called debt.” And they won’t do it. So then the two parties have to come together and come up with terms and conditions to make sure that this sits right on the balance sheet. It’s becoming an interesting education process.

At this point there’s not a clear designation for streaming with regards to debt. It depends on which debt rating agency you talk to, but most analysts will call it debt from what I understand.

A total of 74% of survey respondents felt “very familiar” or “somewhat familiar” with royalty and streaming financing methods. Only 11% of respondents had used royalty or streaming financing over the past 12 months.

RANDY SMALLWOOD • We didn’t make any transactions between 2010 and 2012, and everyone was telling us, oh, the streaming model’s broken.

No, it’s that we have certain mechanisms in there that prevent us from overpaying in a frothy market. It’s not that we didn’t put offers out there, but we stayed strict to the business plan, which was to value these things in a way that limits our ability to overpay in a frothy market. I hate to say it: it’s not rocket science, but what we do is chase a trailing average, and that trailing average has got to climb before we’ll step up to it. It’s called analyst consensus long-term commodity price. We can’t step above that.

Silver was trading at US$48 per oz. and the analyst long-term consensus never made it over US$23. Nobody’s selling us their silver at 23 bucks an ounce. We don’t do transactions that way.

We put out $3 billion in proposals from 2010 to 2012 and didn’t close a single transaction. And we’re starting to wonder, is the streaming model broken? Thank God we didn’t do any deals in that period.

DAVID HARQUAIL • I remember sitting down with one company and they had a project, so I was meeting the chairman and we were talking about a 2% royalty versus — this was about three years ago when you could still raise equity — diluting this company by 20%.

And he didn’t like it: “Oh, you’re going to have a piece of my upside forever.” And I said, “Look, that’s kind of the trade-off but otherwise you’re issuing 20%, and that’s 20% on every project you have and everything else you’re going to do in the future.” He said, “Well, I can always dilute that down.”
Traditionally, private equity firms have not played a prominent role in Canada’s mining industry, as equity markets have been a reliable source for miners to access funds. That has changed in recent years, with several PE funds announcing large raises dedicated to investments in the mining sector and mining companies becoming more receptive to new sources of funding in the face of ongoing challenges in the equity markets.

DAVID THOMAS: In terms of PE being the saviour if you will, I’m not convinced. People like the idea, in a tough financing market, to be able to go to a couple of people and just get the money they need instead of having to go out and do a broader marketing effort. The idea that you’re patient capital and there for the long haul is very attractive as well.

But working with PE is not without its challenges for some groups. A lot of people view PE as being the money of last resort and that’s absolutely not true. But we watch our investments very closely. We’re not necessarily activist investors but we’re active investors. We take seats on boards and we try to help them beef up their management teams to take into account the stage of development they’re at. We get a say on approved budgets, and rights that protect us from being diluted going forward.

So working with private equity requires a strong level of commitment in a partnership going forward. This is sort of a long-winded way of saying, to a certain extent, be careful what you wish for.

CAROL BANDUCCI: It goes back to risk tolerance and the volatility around commodities and the payback period that PE funds set for themselves and whether they can actually achieve it depending on where you are in the cycle. So it’s a tough sell.

ANDREW FARNCOMB: I see businesses coming in now much the way we did in the 2010 timeframe, where there were exploration companies with no viable business model approaching billion-dollar valuations.

When you sit down with sophisticated investors, they’re asking for a pathway to show either how are you going to build this thing or why is someone going to actually buy it?

And that’s where private equity plays a big part, as well as the streaming companies, because a lot of the private equity firms think, “Do we have the

Expectations regarding percentage of capital raised in mining by private equity over the next 12 months
capacity to finance this right to production?" So that’s a new theme.

KERRY SMITH: My opinion of private equity groups is generally, outside of a few, they’ve been pretty poor deployers of capital. They haven’t done a lot and that’s not to say it’s a bad thing, but they came in five or six years ago and said, we have a nine- or ten-year mandate. We’ve got a billion dollars to invest and we’ve got nine years to work it out.

And here we are in year five and they really haven’t done much. One of the real issues with private equity is the guys that run these companies generally — and I don’t mean this disrespectfully to an accountant — but they tend to be accountants, who don’t really understand the business model, which is, you have to have a vision of a cyclical commodity and say, “Okay, if I’m at the bottom of the cycle, I want to be in the game because I know that the commodity’s gonna go here over the course of time. I just don’t how long it’s going to take for that to play out.”

And accountants generally look at it and say, “My best guess of the metal price that I should be using is the price that I’m seeing today on the screen.”

If that’s the price you’re going to use, it’s going to be really difficult for you to actually make any meaningful investments, and that’s been the case with most of the PE guys. I don’t think they’ve really deployed much capital. They do the odd little deal around the margin, but generally, the commodity price they’re using to get to the return they need is tough to achieve.

DARIN WAGNER: I would just add that a lot of generalist private equity funds use their low cost of capital to make investments that are highly leveraged. And we all know as mining professionals that financial leverage on top of operating leverage is a recipe for disaster. And so what these guys are doing, the reason that they’re not making these adjustments is they’re running their models with the same gearing that they would if they were going and investing in a consumer products
company. And they’re going like, yikes, volatility on the
distribution of the returns is off the charts. We can’t possibly
take that kind of exposure.

**ANDREW FARNCOMB:** Another issue to touch on is the
rush to go public isn’t there anymore. There are a lot of smart
groups that are saying the regulatory costs, having to manage a
shareholder base who may sell shares at a whim, and you have
a stock price and because your quote is XYZ that’s the value
of your company, a lot of groups are seeing the benefit to
keeping companies private and raising capital in the private
markets.

**RANDY SMALLWOOD:** I would say that probably 15-20%
of what we’re looking at right now is private. Five years ago, it
was zero. It was all public.

The benefits of going public versus the regulatory costs and
hurdles, it’s not positive now. It’s actually much better to stay
private. So we’ve got lots of assets out there that are looking
for streaming, but they’re privately owned and they have no
plans of going public.

**ANDREW FARNCOMB:** There’s a lot of talk of net asset
value, but there’s not a lot of talk of NAV per share. A lot of
people have lost sight of that, though if you’re a developer
looking to get taken out, the executives that are running
those companies are much more conscientious about NAV
per share.

But in the smaller space where I spend a lot of time, I really
work with management teams and boards to help understand
what does wholly-financed NAV per share look like at that
company. And let’s make some reasonable assumptions as
to how much debt you can put on it, how much of a stream
could it bear and what sort of equity is available for a project
like this?

When you put all those variables in, that’s how you need to
think about the value of a project. And if you’re a $15-million
market cap company today that needs to raise half a billion
dollars, it’s not going to happen, when you try to do that
arithmetic to look at a fully financed entity per share. And
very few people I find do that when they’re looking at how
to advance a project.

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** Alternative financing method that inspires the greatest confidence**

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<th>Method</th>
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<td>Private equity</td>
<td>44%</td>
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<td>Royalty &amp; streaming</td>
<td>32%</td>
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<td>Flow-through financing</td>
<td>18%</td>
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<td>4%</td>
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<td>Charity flow-through financing</td>
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Flow-through financing in its various forms has been a part of the Canadian exploration scene for decades. The most popular flow-through credit today is the 15% Mineral Exploration Tax Credit, which was first introduced in Canada in 2000 for mineral exploration that takes place in Canada.

A new variation on the theme is charity flow-through financing, whereby an investor subscribes for flow-through shares but then donates the shares to their chosen charity. The charity then sells the shares to an institutional investor to receive their funds, and a tax receipt is issued to the original donor.

ROD THOMAS • I really do feel that flow-through shares have made Canada a powerhouse in terms of exploration, and we have been advocating for an increase in the Mineral Exploration Tax Credit. Recently all three federal parties in Canada have come out with a supportive position on the METC, so I think that’s a testament to the work we’ve done. It’s something that our industry relies on, but even if they were to double it today, I don’t know if that would be a sufficient catalyst compared to having higher commodity prices.

DARIN WAGNER • At our stage of development, we certainly make liberal use of the flow-through system. We make very little use of the charity flow-through system and we’re engaged with talking to private equity groups. We’re a little bit early, from my point of view, to enter into the royalty world. But at least there are those alternate paths to look at. But the institutional world that we all got warm and fuzzy with and grew to love between 2002 and 2010 is gone. It’s a tougher place to live these days.
Liam Fitzgerald • People want me to explain flow-through and charity flow-through. I have to tell them that basically flow-through is flow-through and it’s the back-end that changes it. I have to come back a week later to re-explain it because they didn’t quite believe me the first time. So it’s a big education process that we’ve been going through.

Trent Mell • What we’ve done is taken the flow-through model, which has been a lifeline for the industry but I think is a little bit broken, and we’ve made it better. In our situation, what we’ve done is we’ve disaggregated or stripped out the tax benefits and put it to people who need it. And we put discounted common shares into the hands of the global investor base. So we have a premium product, a discounted entry point and what we’ve done is we got charities from McGill University to the Vancouver General Hospital who have benefitted through bigger and faster gifts. There’s an entire hospital wing in Vancouver that wouldn’t have been built but for the generosity of our clients.

Any time you lock in from the $1-million to $50-million range, charity flow-through just makes sense because it’s not diluted and there are no strings attached.

We’re in a position where we have more capital available to us than we can deploy. We’ve got upwards of $250 million a year of capital to put to work, and in the last 12 months we’ve done about $150 million.

When you look at the survey, I see opportunity, because you’re showing that 80% of people in the survey have never done a charity deal. And almost as many people don’t even know what it is. And we have deployed $600 million of capital under the structures of 2007. But a lot more can be done.

Carol Banducci • We did a financing with PearTree where we did flow-through shares through a donation structure and raised $50 million for our Westwood operation, which is in Quebec and in start-up mode. So it was a great opportunity to access, at a very attractive level, that marketplace.

Financing methods that are perceived to be the best suited to the mining industry:

- 34% Private equity
- 25% Royalty & streaming
- 35% Flow-through financing
- 2% Charity flow-through financing
- 5% Equity crowd funding

We did a flow-through share financing through a donation structure and raised $50 million for our Westwood operation.

—Carol Banducci
TRENT MELL • When it comes to protection of the economic interests of existing shareholders, that’s where charity deals work very well. And the way it works is we’ve got a donor client who’ll subscribe for the shares with the tax benefits, donate the shares to a charity at a discount and then that gets monetized. That piece is important because how you monetize that, if you’re doing it the right way, you can bring in a respectable, long-term strategic global investor — not just a Canadian taxpayer who’s going to flip it. That’s the first part. The other is the premium. If you’re doing a Quebec super flow-through deal, then for a one-dollar purchase price in the back-end our clients are writing a cheque for about $1.60. So when you take a look at that on a per-share basis or on a spot basis this could really be an accretive transaction, at least at the prevailing share price. So it allows you to get in, there are no strings, you’re not mortgaging your future, you’re not giving up control of the asset, you’re getting a premium product or you can do a spot and pass on the discount to get the right shareholder in.

Charity flow-through is the same product but better. If you like traditional flow-through you’re going to love charity flow-through.

—TRENT MELL

DARIN WAGNER • If you ask why can’t you go back to your existing shareholders, there’s nothing preventing me to. We did one charity deal last fall and brought in a large one in London who was basically the principal partner. If I were to walk out of here and do one tomorrow, my first call is to that group. There’s nothing preventing me from going back there. Probably because a lot of our shareholders are retail, smaller shareholders, we live with these people much closer. There’s an expectation, but there’s also a reality that we have to treat them as fairly as we humanly can. Even in a falling market, even if the share price has fallen out of bed from where it is, we have to go back and treat them with respect. They’re the ones that are keeping us alive.

Familiarity with alternative forms of financing (percent who are “very/somewhat familiar”)

<table>
<thead>
<tr>
<th>Form of Financing</th>
<th>% Familiarity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional equity financing</td>
<td>85%</td>
</tr>
<tr>
<td>Private equity financing</td>
<td>83%</td>
</tr>
<tr>
<td>Debt financing</td>
<td>80%</td>
</tr>
<tr>
<td>Flow-through financing</td>
<td>73%</td>
</tr>
<tr>
<td>Royalty &amp; streaming</td>
<td>72%</td>
</tr>
<tr>
<td>Equity crowdfunding</td>
<td>31%</td>
</tr>
<tr>
<td>Charity flow-through financing</td>
<td>28%</td>
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</tbody>
</table>
The fundamentals are still there, and that’s to treat your shareholders with respect and to do whatever you can to create value for them — even if sometimes that value creation doesn’t work.

**ANDREW FARNCOMB** • Historically, the issue with flow-through — not charity flow-through — has been the structure of the funds. They have to roll them. And so ultimately you have a block of stock that’s coming up for sale at the first liquidity opportunity, and that’s just the structure of them.

You have a significantly different cost base as a result of the charity structure. So you’re putting a new shareholder in who has a cost base that’s 40% potentially below market, maybe even more depending on how it’s structured. So you need to be very sure that it’s going to a high-quality shareholder who is there for the long term.

**DAVID THOMAS** • We’ve been the end-buyer of a couple of charity flow-throughs. We can’t take advantage of the flow-through credits but we’re happy to be on the other side of the train. Another reason why we like being part of the charity flow is because you know the money goes into the ground.

**TRENT MELL** • Charity flow-through is the same product but better. And if you like traditional flow-through you’re going to love charity flow-through. That’s what it comes down to and the lack of familiarity with charity flow-through in the industry speaks to the work that people like me and others have to do in the space.

But it’s the same product that was brought in 40 years ago, to simulate mineral exploration in Canada and it really has been a lifeline to the industry and it still can be. But the traditional funds are not raising the amount of money they used to. So our hope is that we can come in and fill that void and keep these juniors growing and exploring.

**DARIN WAGNER** • With charity flow-through, there is concern there on the back, with a new back-end buyer, as to, “Are we going to get stung somewhere along this line by the tax?” Yeah, that is huge.

**TRENT MELL** • But the initial perception is that it’s tax and we all have an allergic reaction to tax except for maybe a couple of people in this room.

One of our early corporate successes would have been Hochschild coming in to Lakeshore years ago. More recently Agnico Eagle took on a charity deal and Goldcorp bought on charity. So you’re seeing more. In fact, we are having more conversations today on the larger end of the spectrum with producers looking at strategic investors or M&A opportunity. But any time you have money that comes across for treasury shares, that’s going into the ground, you can structure it with our format.

**CAROL BANDUCCI** • We looked at alternative financing through this flow-through charity structure and found it has been very advantageous for us because we accessed capital, we got a premium on our equity and then we were giving up tax attributes that we would otherwise not use. So it’s really a win-win situation. But, we’re in an enviable position because we’ve got some optionality.
Crowdfunding

The newest alternative financing option is crowdfunding, which has taken off in sectors as diverse as real estate and biotech, but is still slow to be embraced by miners. There are many questions as to how regulators will respond to crowdfunding, but the rise of internet-based financing steeped in social media culture cannot be denied.

OSCAR JOFRE • Worldwide we’re seeing the disruptiveness of a new form of capital being raised from not only those who can qualify, but everyday people. We’re seeing this disruptiveness in the banking sector, insurance and others. Eventually it had to reach the mining sector.

The numbers are already there: $65 billion was raised in regulated crowdfunding last year worldwide. And 30% of that went to one of the highest-risk sectors in the world: biotech, which is very similar to mining in terms of risk.

The retail investor is going to these platforms online. There are 1,300 equity crowdfunding portals around the world today. We estimate that in another year there’ll be at least 4,000, and Canada will have 50 of them. These are like private stock exchanges. So if you don’t create one and you don’t jump on the bandwagon, you’re not going to get their money and you’re going to have to keep going to that same 1%.

DARIN WAGNER • I love crowdfunding because this is what we have always done as explorers, it’s just it was a smaller crowd — it was friends and family or 36 guys that you worked with. But now we have the potential to access a much bigger crowd if we do it intelligently.

What’s gotten in the way of a lot of this is the regulators. We can’t crowdfund the way we used to. We can’t go out and get $5,000 from somebody we know personally. There’s an exemption for that, but there are limits.

OSCAR JOFRE • Last year only 1% of qualified investors were getting access to private placements in Canada. This is something that crowdfunding has been alluding to for a long time: the 99% of the people who truly do qualify, you’re not reaching.

This new audience, you cannot communicate with them the same way you did before. Mining...
companies have a problem communicating their message. That’s where it’s broken. It’s not the money, the money’s there. But they’re not expressing it in a way that makes sense. It’s making the process easier, making the availability of information easier, making the availability of capital easier, making the availability of the retail investor easier. It’s happening and it’s very exciting.

**IAN BALL** - There’s been a recent change where the TSX is making rights offerings easier to do now. It’s a 10-page document versus a 150-page one. The question is, why is there any documentation when they’ve already bought the stock on the open market where no requirements were needed? If you want to raise a little bit of capital, you should go to your shareholders first, those who have been there supporting the company.

If you could combine a rights offering with crowdfunding with no paperwork...

**CHAD WILLIAMS** - For lowering fees, making the process easier, making the availability of information easier, it’s the Internet. It’s the Internet that’s the solution. Crowdfunding will substitute the retail-investor component of financing. It’s here, it’s happening and it’s very exciting. All star capital allocators, whether they’re developers or exploration geologists, will get an advantage through the visibility and transparency of funding. The large share of capital through the Internet will make a difference.

If you could combine a rights offering with crowdfunding with no paperwork...

**DAVID HAROUAL** - To me crowdfunding sounds like easy money. The concern with crowdfunding is whether the government is going to come in with the deluge hammer and try to work with you, but make sure that it comes back down to earth.

**OSCAR OFRE** - Crowdfunding is going to flush out underperforming management in a way that you’ve never seen before, because there’s this level of transparency that has an accountability component to it. You’re fully exposed on social media. Crowdfunding has got the highest level of due diligence because they’re operated by broker-dealers. This is what people don’t realize.

**LIAM FITZGERALD** - The concern with crowdfunding is whether the government is going to come in with the deluge hammer and try to work with you, but make sure that it comes back down to earth.

Crowdfunding will substitute the retail-investor component of financing. It’s here, it’s happening, and it’s very exciting.

- CHAD WILLIAMS
PearTree Securities is a subsidiary of PearTree Financial Services Ltd., the originator and leading provider of charity flow through financing (in Canada). As an exempt market dealer, the role of PearTree Securities is to work with Canadian mining and exploration companies to arrange structured flow through financings under PearTree Financial’s market-leading format. With a veteran in-house team of sell and buy-side investment professionals, mining sector analysts and legal experts, PearTree Securities offers issuers, underwriters, banks, brokerages and accredited investors a valuable opportunity to participate in uniquely structured flow through share deals that create better value than comparable open-market transactions.