

State of Mineral Finance 2019: At the Crossroads



PROSPECTORS &
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State of Mineral Finance 2019: At the Crossroads

State of Mineral Finance 2019: At the Crossroads report provides a retrospective of recent financing dynamics for the mineral exploration and mining industry through the end of 2018 with analysis based on a broad set of financial metrics and industry-related data.

The aim of this report is to provide current information on mineral industry financing activity, which can act as a basis of knowledge for PDAC members and mineral industry participants, as well as to provide beneficial insight for future decision making.

About the organizations

Prospectors & Developers Association of Canada (PDAC): PDAC is the leading voice of the mineral exploration and development community. With over 8,000 members around the world, PDAC's mission is to promote a globally-responsible, vibrant and sustainable mineral sector that encourages leading practices in technical, operational, environmental, safety and social performance. PDAC is known worldwide for its annual PDAC Convention—the premier international event for the industry—that has attracted over 25,000 people from 135 countries in recent years and will next be held March 1-4, 2020 in Toronto. Please visit www.pdac.ca

Oreninc: 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



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Executive Summary

From a broad perspective, global mineral exploration activity expanded in 2018, maintaining the positive trajectory established in 2017 after a multi-year contraction in activity from 2012-2016. Mineral exploration spending in Canada jumped by approximately 31% in 2018 versus one year prior, reflecting the second largest regional increase after the United States at 34%. The rebound in North American activity well outpaced the rest of the world, which posted a year-over-year spending increase of approximately 13%. Although exploration activity climbed in 2018, industry financing weakened notably, stalling the investment rebound established over the previous two years.

In last year's PDAC's report—**State of Mineral Finance 2018: Gaining Momentum**—2017's rebound in mineral exploration activity was attributed to increased investment that directly related to wide-scale improvement in metal prices in 2016-2017. Expanding global growth expectations were a central driver for base metal price appreciation and a weak U.S. dollar during 2016-2017 drove positive precious metal price action over the two years. However, these dynamics shifted during 2018.

IMF global GDP growth expectations for 2018 and 2019 have since been revised downward by roughly 5% and 10%, respectively. In similar fashion, all base metals trended lower over the course of 2018 with price drops ranging from 6% to 21%. The U.S. dollar index (DXY) climbed nearly 7%, and its strong inverse relationship with precious metals was maintained in 2018 as the monthly average gold price fell +5% from January to December, establishing the first negative annual price trend for gold since 2015. Surging prices of the two leading battery metals (cobalt and lithium) also lost steam in 2018, most likely due to supply and demand fundamentals supplanting recent market speculation.

Metal price weakness is likely the main driver behind declining 2018 investment. Mineral industry equity financing in 2018 dropped by nearly 35% from a year earlier to establish a new decade low for both total value raised and number of transactions completed. While funding specifically for exploration remained above 2013 and 2015 lows, in 2018 it declined by more than 50% from a year earlier to represent less than ¼ of peak investment levels established in 2012. Also concerning is the 40% year-over-year drop in bought-deal financing for junior explorers to \$0.6 billion in 2018, which is the lowest figure recorded in a decade and hints at a lack of sector confidence by large brokerages.

Growth in passive investments and alternate high-risk sectors (i.e. cannabis, blockchain) has also contributed to a recent drop in mineral industry investment. Strategic reinvestment by major mining companies has offset some of these impacts with sector reinvestment increasing by more than fivefold from 2013-2017. However, margin expansion through higher metal prices or cost reductions may be necessary to sustain reinvestment by major miners into junior explorers.

Canada's mineral industry was better shielded but not immune from declining investment as both equity and exploration-specific financing fell by approximately 25% year-over-year on domestic exchanges. With a more moderate slowdown, Canada represented a larger proportion of 2018 global exploration. However, domestic activity remains well below recent peaks. While 'grassroots' spending edged up in nominal terms, the proportion of grassroots exploration spending continues to decline both at home and abroad, reaching a decade low in 2018.

PDAC advocacy posted a major win in 2018 with renewal of the Mineral Exploration Tax Credit (METC) for five years. PDAC is currently engaged with the Canada Revenue Agency (CRA) in an effort to improve clarity of Canadian Exploration Expense (CEE) eligibilities for industry participants and with the Canadian Securities Administrators (CSA) and the Ontario Securities Commission (OSC) to streamline processes and reduce capital costs through a burden-reduction project. While PDAC's advocacy efforts are aimed towards increasing access to capital and mineral industry investment, the trajectory of commodity prices in 2019 will likely have the largest influence on mineral industry financing and exploration activity levels over the coming 12-18 months.

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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 efforts to raise capital for exploration and development. The *State of Mineral Finance 2019: At the Crossroads* report focuses largely on financial aspects of mineral exploration up to the end of 2018. The report was produced by PDAC in collaboration with Oreninc.

This report is divided into four key sections:

- 1) The macroeconomic environment and metal prices
- 2) Financing trends
- 3) Exploration trends
- 4) The fiscal and regulatory landscape

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 metal prices. Due to the strong correlation of metal prices to the level of activity in the mineral sector, it also includes a brief overview of key metal prices.

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, provided by Oreninc.

Section 3 first informs the readers regarding the state of financing for exploration activities, and following that provides an overview of trends for exploration expenditures, disaggregated by commodity, region, stage of exploration and company type.

Section 4 provides updated information about the fiscal and regulatory landscape in Canada, as it pertains to the mineral sector. It describes the flow-through share (FTS) regime, a leading fiscal policy that Canada has in place to support a vibrant exploration sector. This section also provides an update on the use of new prospectus exemptions and the attempts made to improve the efficiency of securities regulation for smaller issuers such as mineral exploration companies, while maintaining investors' confidence by improving the disclosure aspects of the regulatory system.

Sources of Information

This report analyses data on financing undertaken by mineral industry participants and on exploration expenditures from a number of recognized industry sources.

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 (2017/18)
- Natural Resources Canada (NRCan)
- MarketIntelWorks (S&P Capital IQ data)

PDAC conducts extensive analysis of the listed data sources in an effort to reconcile differences

and to ensure that overall mineral industry financing and expenditure dynamics are properly captured. However, differences in definitions and data capture methodologies creates some discrepancies between sourced data, which can result in slight differences in figures contained within this report.

In relevant places, references identify the data source and clarifications are provided in footnotes.

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 2018 and has been prepared for the purpose of informing readers about recent developments in financing and exploration expenditures, as well as providing 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. Such figures are clearly marked by a “US\$” sign.¹

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 February 13, 2019.

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), Jeff Killeen (jkilleen@pdac.ca) or for specific information on Oreninc’s data, contact Kai Hoffmann, the CEO of Oreninc at hoffmann@oreninc.com.

¹ All figures were sourced from the data providers in the presented currencies. No currency conversion was done by the authors of this report.

SECTION I: The Macroeconomic Environment and Metal Prices

The significant decline in commodity prices and resulting negative impacts on the mineral industry from a peak in 2011-2012 through to 2016 have been well documented. The broad rebound in metal prices through 2016-2017 subsequently supported an upswing in mineral industry investment and exploration activity over these two years. However, due to a number of economic factors that emerged in 2018, metal prices reversed course in Q2 to finish the year in negative territory.

Global Economic Uncertainty is Rising

The outlook for near-term global economic activity appeared to reverse course early in 2018 as trade tensions began heating up. Concerns of a potential economic slowdown seems to have weighed on growth expectations, particularly in Europe and emerging markets, over the second half of the year. Despite these tensions, U.S. economic data remained relatively strong in 2018, helping to propel the U.S. dollar, interest rates and related U.S. bond yields higher.

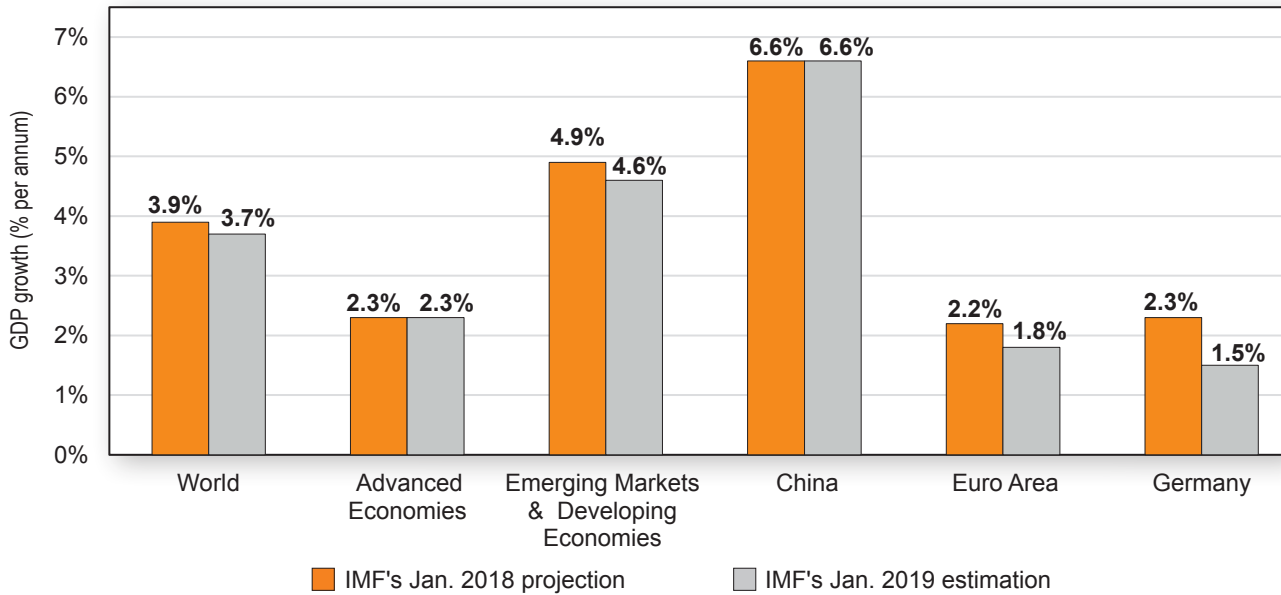
China's attempt to clamp down debt levels along with an ongoing economic shift from manufacturing and infrastructure development to a more consumer-driven economy has led to a decline in future Chinese Gross Domestic Product (GDP) growth expectations. This has put further downward pressure on the demand for raw materials. These factors collectively acted as significant headwinds for both base and precious metals through 2018. Supply and demand fundamentals seemed to supplant market speculation as a primary driver behind battery metals pricing, leading to a reversal of the multi-year upward price trajectory in Q2/18.

The U.S. and China are central in current global trade tensions, but tariffs and other trade barriers escalated across a number of regions over the last 18 months. In March 2018, the U.S. government announced new steel and aluminium import tariffs, and in June added a 25% tariff on US\$50 billion worth of Chinese exports to the U.S. In retaliation to these measures, China, Canada and Europe applied counter tariffs on U.S imports. There is also still a risk of tariffs being applied to an additional US\$250 billion worth of goods, depending on China's reaction to U.S actions. These escalating trade tensions sparked fear of a global economic slow-down, and were a main cause for the International Monetary Fund (IMF) to reduce 2018-2019 growth expectations.

Following the 2016-17 upswing in global economic activity, the IMF in January 2018 projected global growth of GDP to reach 3.9% in 2018 and 2019. However, during the second half of 2018 it seemed clear that estimates had overshot, and indeed, IMF revised projections downward in its January 2019 outlook, reducing global GDP estimates by 0.2% and 0.4% in 2018 and 2019, respectively.

Chart 1.1A shows the differences between IMF's 2018 global and key regional GDP projections from Q1/18 and revised estimates posted in Q1/19. It is worth noting that changing conditions in the Euro area and emerging markets had the greatest negative impact on future estimates, whereas growth rates for China and the United States either matched or exceeded prior expectations (6.6% in China, as projected; 2.9% in the U.S., up from 2.7% estimated in Jan. 2018).

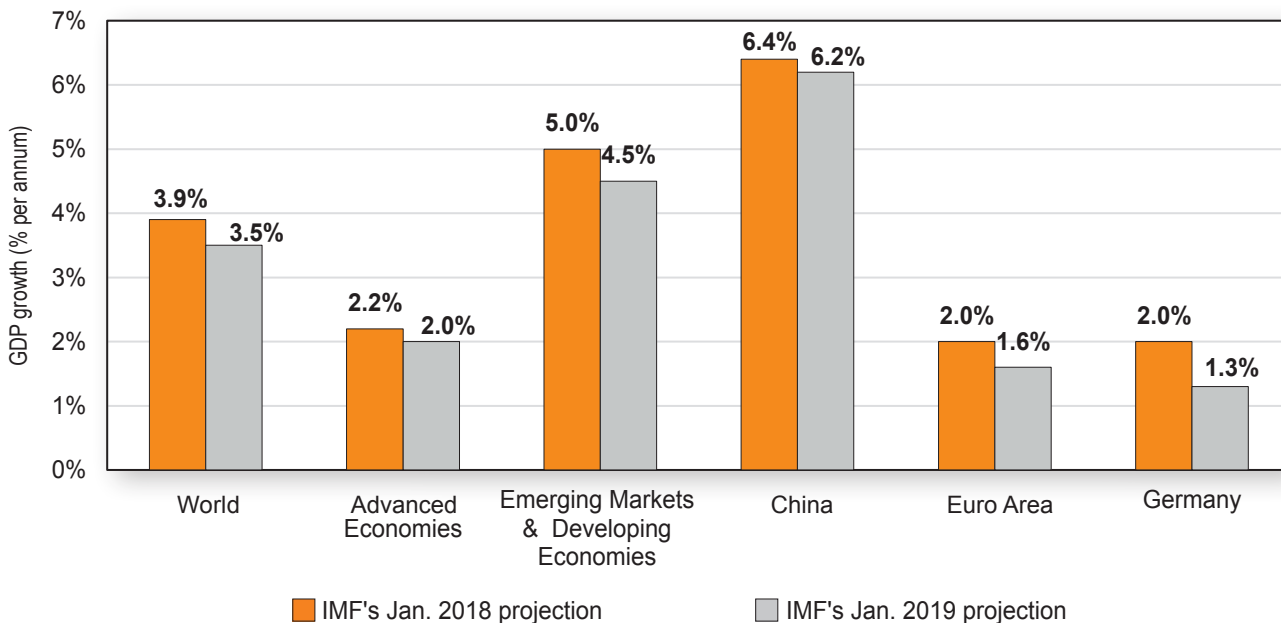
Chart 1.1A: GDP Growth in 2018
IMF Projection & Estimation (Jan. 2018 vs. Jan. 2019)



Source: IMF

Growth expectations for 2019 have declined more steeply than 2018, as illustrated in Chart 1.1B, which highlights how reduced estimates for advanced economies and China has led to a 0.4% reduction of global GDP expansion in 2019, from 3.9% to 3.5%. It is worth noting that these two regions (China vs. advanced economies) present different characteristics with respect to the demand for metals. By and large, end consumers of the global economy’s production are located in advanced economies, and therefore the impact of slowdown in these regions is relatively indirect, while China is the key consumer of most metals via manufacturing. Therefore, China’s impact on the mineral industry goes beyond its share of world GDP, and a slowdown in its economic growth has more direct impact on metal prices and on mineral industry dynamics.

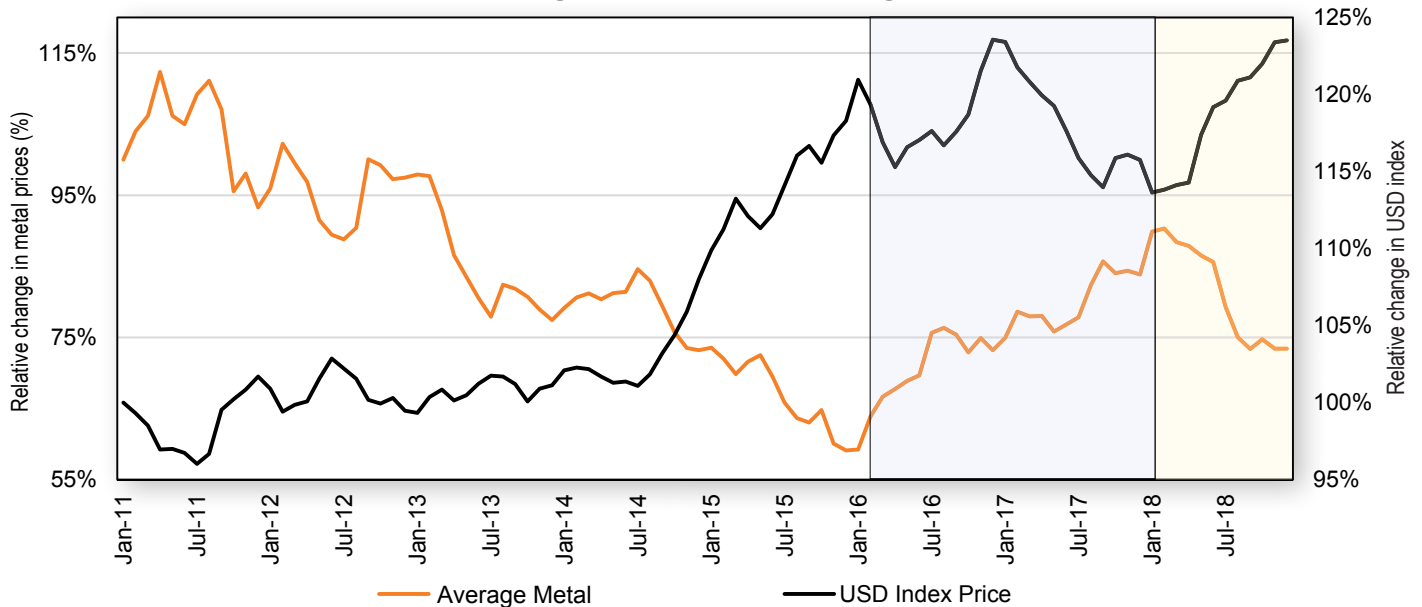
Chart 1.1B: 2019 GDP Growth
IMF Projections (Jan. 2018 vs. Jan. 2019)



Source: IMF

A strong link between the relative performance of the USD and metal prices continues to be observed. This inverse relationship is displayed in Chart 1.2, which shows the change in monthly average value of the USD index (DXY) against the change in average metal price². DXY indicates relative USD strength against a weighted average of key U.S. trade partner currencies. Base and battery metals prices have moved higher along with USD at points over the last two years, in part, due to expectations for increased U.S. government infrastructure spending and surging Electric Vehicle (EV) sales hinting at future demand increases. However, strong USD performance and overall performance of U.S. equities has predominantly acted as a headwind for metals in 2018.

Chart 1.2: USD Index vs. Average Metal Price (% Change)



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

In December 2016, the Federal Reserve accelerated the course of interest rate hikes that progressively moved the overnight interest rate to 2.5% by the end of 2018, up from 0.5% in 2016. Climbing rates pushed U.S. bond yields higher, driving increased capital flows into the U.S. and appreciation of the USD. These dynamics put pressure on commodity prices due to the relative price appreciation for commodities being purchased with non-USD currencies. The increasing bond yield subsequently put pressure on precious metals (primarily gold) as a result of the increasing opportunity purchase cost of gold. Increasing bond yields typically manifest as an attempt to cool economic activity, which often leads to a drop in demand for industrial consumables and creates a headwind for base metal prices.

Metal Prices Lose Footing

Long-term Price Trend

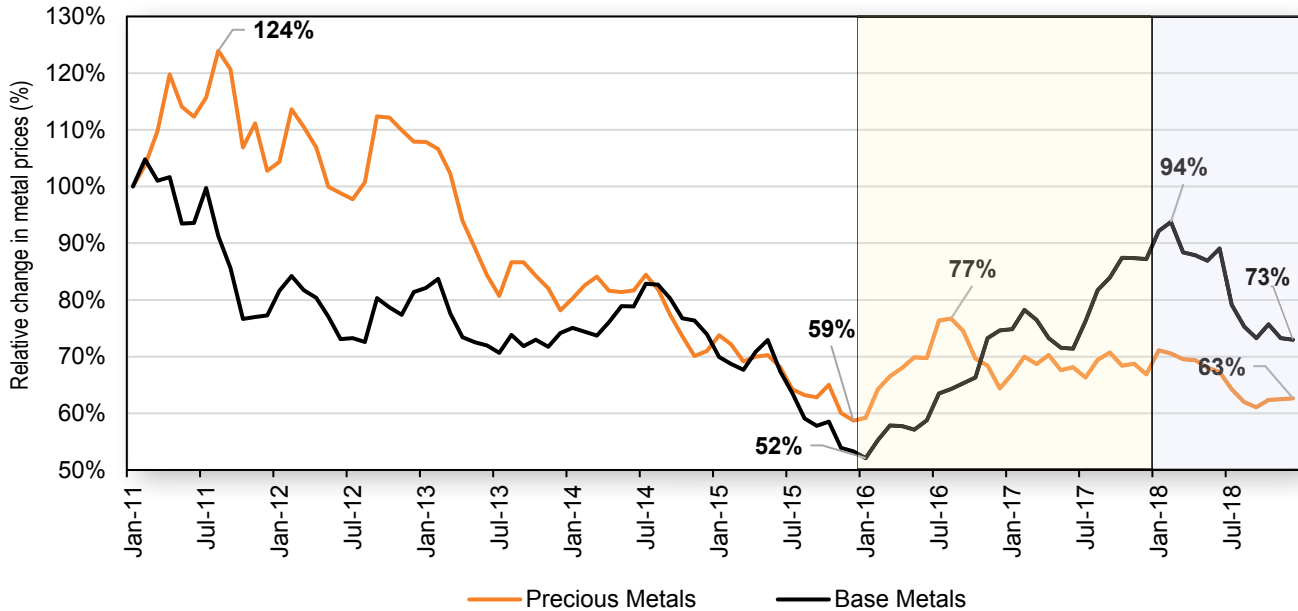
Commodity prices peaked in 2011-2012 after a “super cycle” that began in the early 2000s. A softening growth outlook from Asia coupled with anemic western economic recovery from the 2008 global financial crisis drove a decline in metal prices from 2012 to 2015. China’s improved growth outlook and expectations for increased infrastructure spending in the U.S., along with USD depreciation, helped to boost commodity prices across the board in 2016-2017. By the end

² ‘Average Metal’ is a weighted average price composed of: 60% - precious metals, 35% - base metals, and 5% - battery metals. This weighting reflects global exploration financing and expenditures levels.

of 2017 precious, base and battery metal prices increased 13%, 59% and 167%, respectively, compared to December 2015. However, escalating trade tensions, delays in U.S. infrastructure investment and USD strength in 2018 suppressed base and precious metal prices, respectively, leading to a year-over-year decline in all key metal prices by year end.

Chart 1.3 illustrates the change in the monthly average prices of precious and base metals throughout 2011-2018. The change in precious metals represents the average change in the price of gold, silver and platinum, and the change in base metals represents the average change of copper, nickel, lead and zinc.

Chart 1.3: Metals Price Change (2011-2018)

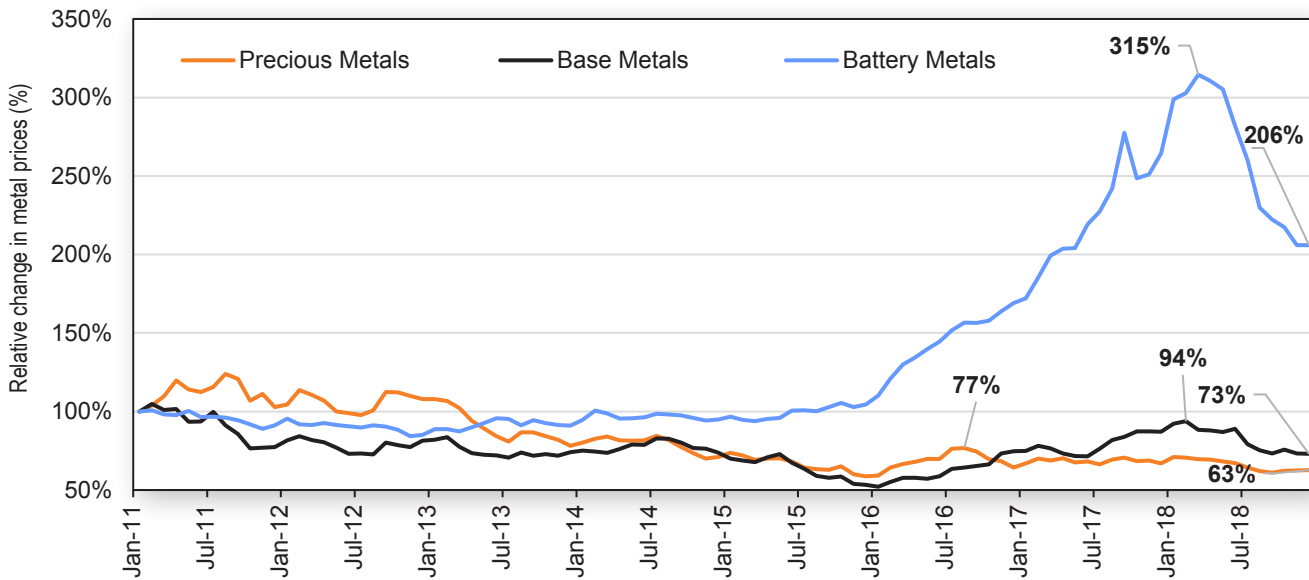


Source: S&P Global Market Intelligence and PDAC analysis

Metals designated for batteries (battery metals) have seen a spike in demand in recent years, mostly due to expanding electric vehicle production. The two principal battery metals analyzed—cobalt and lithium³—significantly outperformed base and precious metals from 2013 to Q2/18. At the peak (May 2018) the price of battery metals had increased over 300% compared to 2011. It is possible that the market switched focus in 2018 to current battery metal supply and demand characteristics rather than longer-term demand speculation as prices realized a sharp decline in the second half of the year. That said, battery metal prices at year end were still 200% above January 2011 levels. Chart 1.4 illustrates the relative performance of battery versus precious and base metals.

³ Nickel has dual designation as both a base and battery metal. Its current primary use is in stainless steel manufacturing, and therefore is presented as a base metal in this report.

Chart 1.4: Metal Price Change by Metal Group (2011-2018)



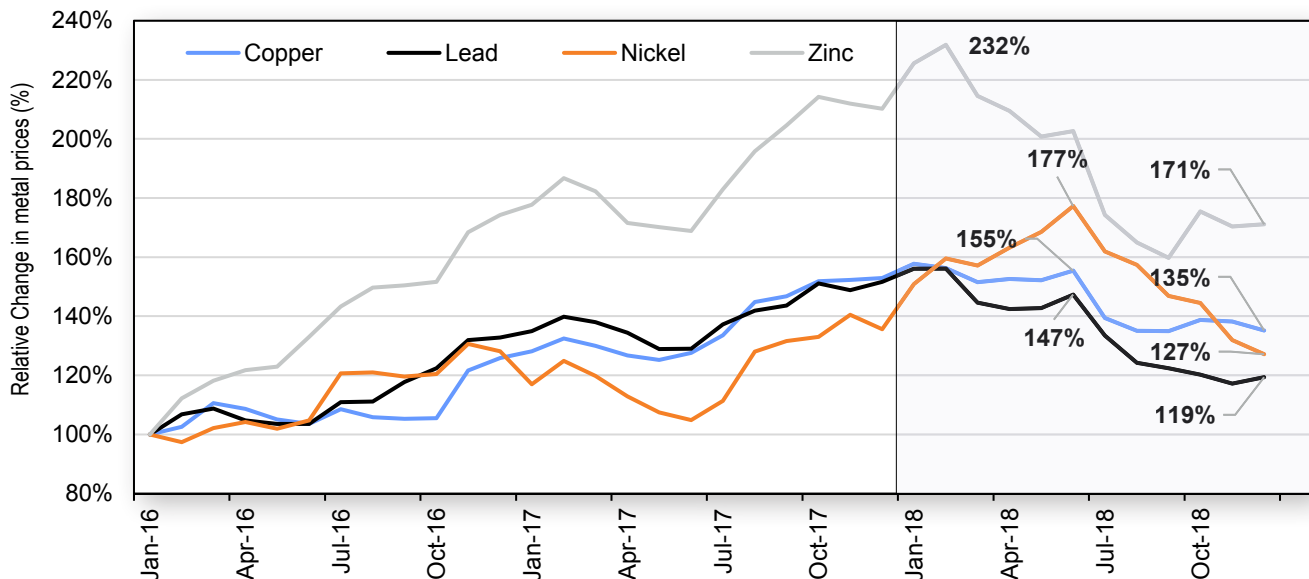
Source: S&P Global Market Intelligence and PDAC analysis

Short-term Price Trends

The end of 2015 has by and large marked the bottom in the commodities space, after which some improvement was registered in the price of most key metals. Next, the price trend for key base, precious and battery metals will be reviewed for the period of 2016-2018.

Chart 1.5 outlines the relative change in the average monthly prices of key base metals for 2016 through to the end of 2018. It illustrates a significant improvement in the prices of key base metal off a bottom in 2015. However, the base metal rally lost steam in early 2018, leading prices downward for the balance of the year and giving up much of the gains realized over the previous two years. The prices of copper, lead and zinc dropped by approximately 12%, 21% and 19%, respectively, year-over-year. That said, base metal prices have retained some of the appreciation from 2015 lows with prices ranging from 19% to 71% above 2015 levels.

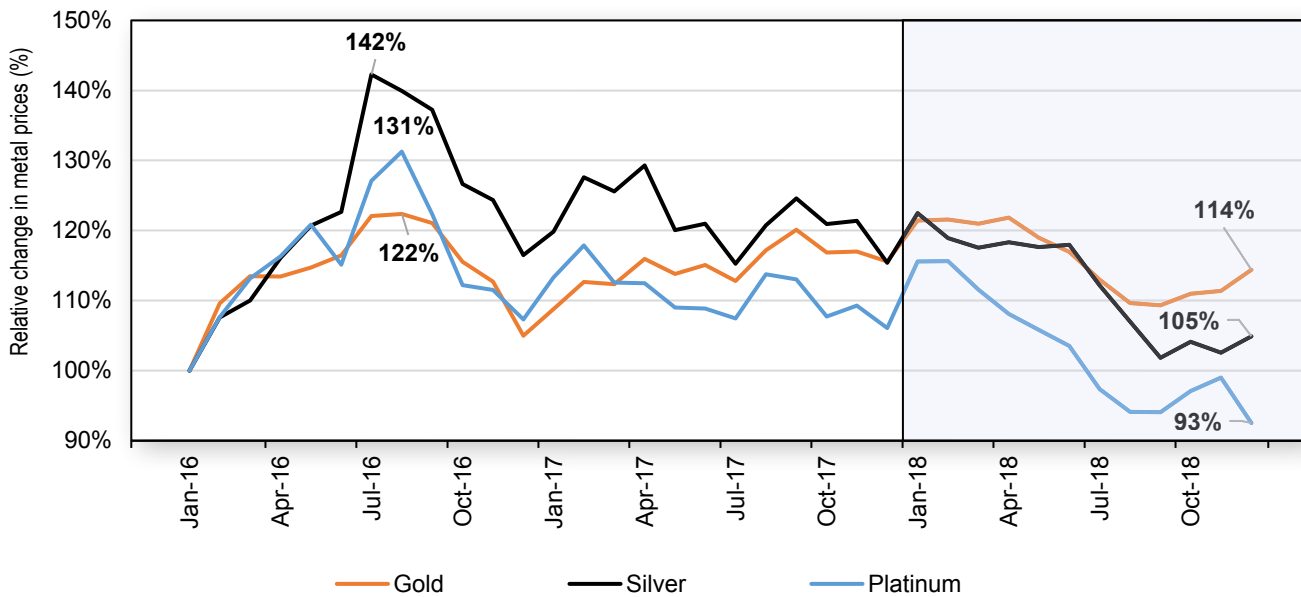
Chart 1.5: Base Metals Price Change (2016-2018)



Source: S&P Global Market Intelligence and PDAC analysis

Precious metals' prices increased significantly in the first half of 2016, with gold, silver and platinum gaining 22%, 31% and 42%, respectively, compared to January 2016. However, prices retreated over the remainder of 2016 and largely trended sideways through 2017. In 2018, all precious metals were in red territory with year-over-year declines of 1%, 9% and 13% for gold, silver and platinum, respectively. As Chart 1.6 shows, the post-2015 recovery in precious metal prices has been much softer than base metals, as prices of gold and silver increased only 14% and 5%, respectively, while the platinum price decreased by 7%.

Chart 1.6: Precious Metals Price Change (2016-2018)



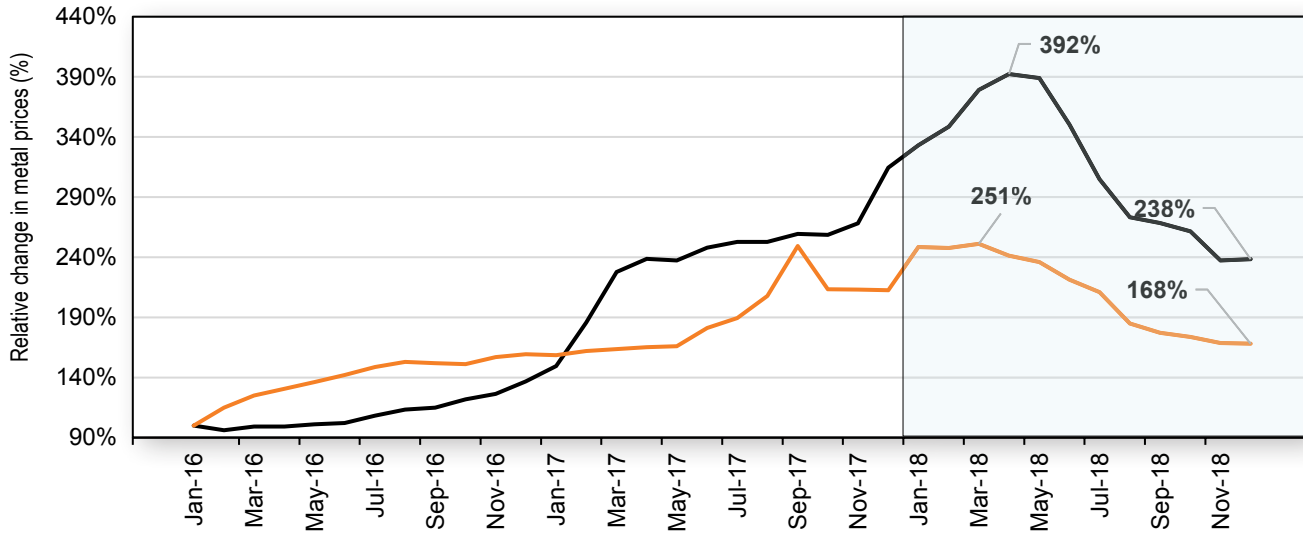
Source: S&P Global Market Intelligence and PDAC analysis

Gold is often treated as a currency proxy and gold price fluctuations typically have a significant influence on silver and other precious metal prices. As such, the continuous course of interest rate hikes by the Federal Reserve, from an initial base of 0.5% in December 2016 to 2.5% in December 2018 acted as a significant headwind for precious metals over this period. These headwinds gained force in 2018 as USD appreciation re-materialized, largely as a result of accelerating rate hikes. While last year's market sentiment reflected expectations for continued rate increases in 2019, this seems to have shifted in early 2019 to a more subdued outlook.

For platinum, the sources of the decline are different, since as opposed to gold and silver, 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.

Both increased demand and market speculation around cobalt and lithium translated to staggering price increases of 392% and 251%, respectively, from January 2016 to March/April 2018. However, cobalt and lithium prices began to weaken in Q2/18, and ended up posting year-over-year declines of 24% and 21%, respectively. That said, prices of both metals remain well above January 2016 levels, as can be seen in Chart 1.7.

Chart 1.7: Battery Metals Price Change (2016-2018)



Source: S&P Global Market Intelligence and PDAC analysis

The next section of this report will focus on financing aspects of the mineral industry, and will illustrate how declining metal prices have translated to reduced investment demand and capital availability for the mineral sector.

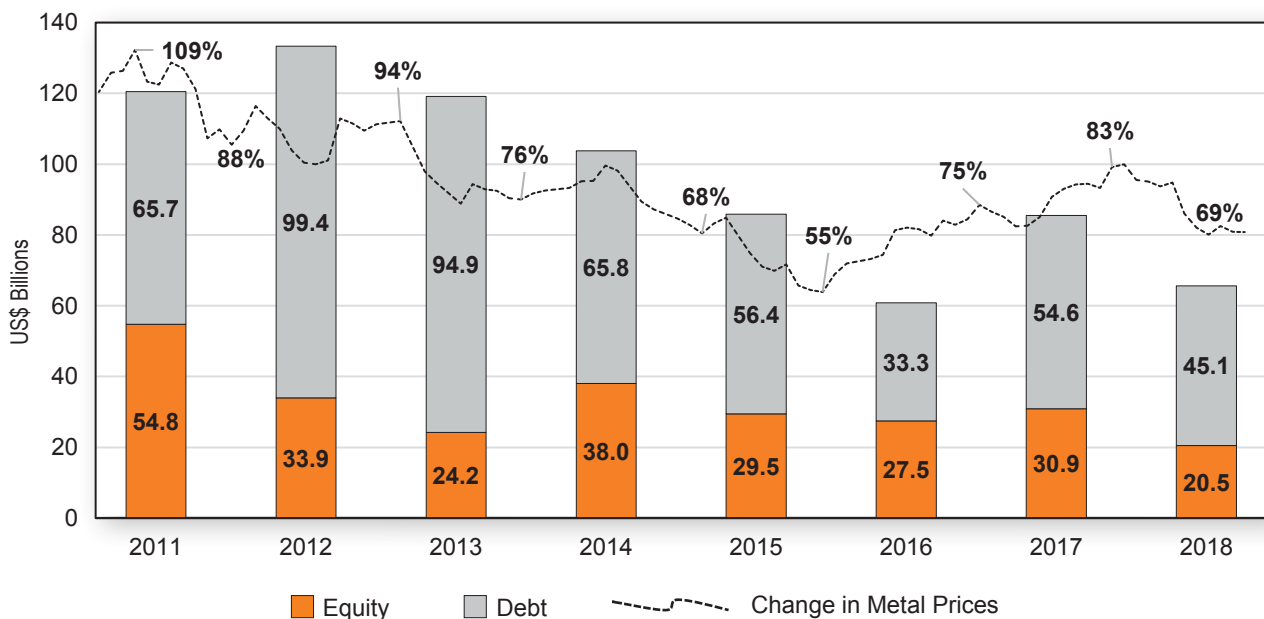
SECTION 2: Financing Trends

The following section will review mineral industry financing trends and related dynamics. Global and domestic trends for financing in the mineral sector will be presented, followed by a focus on financings undertaken by the junior mining sector in Canada.

Global Financing Recovery Stalls in 2018

Global financing activity for the mineral industry appeared to be gaining momentum in 2017 by posting a 40% year-over-year increase from a 2016 low point, where funds raised represented only 45% of 2012 levels. However, as outlined in Chart 2.1, 2018 global financing activity retreated towards the 2016 low point. In particular, funds raised via equity in 2018 was the lowest recorded figure over the last decade.

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



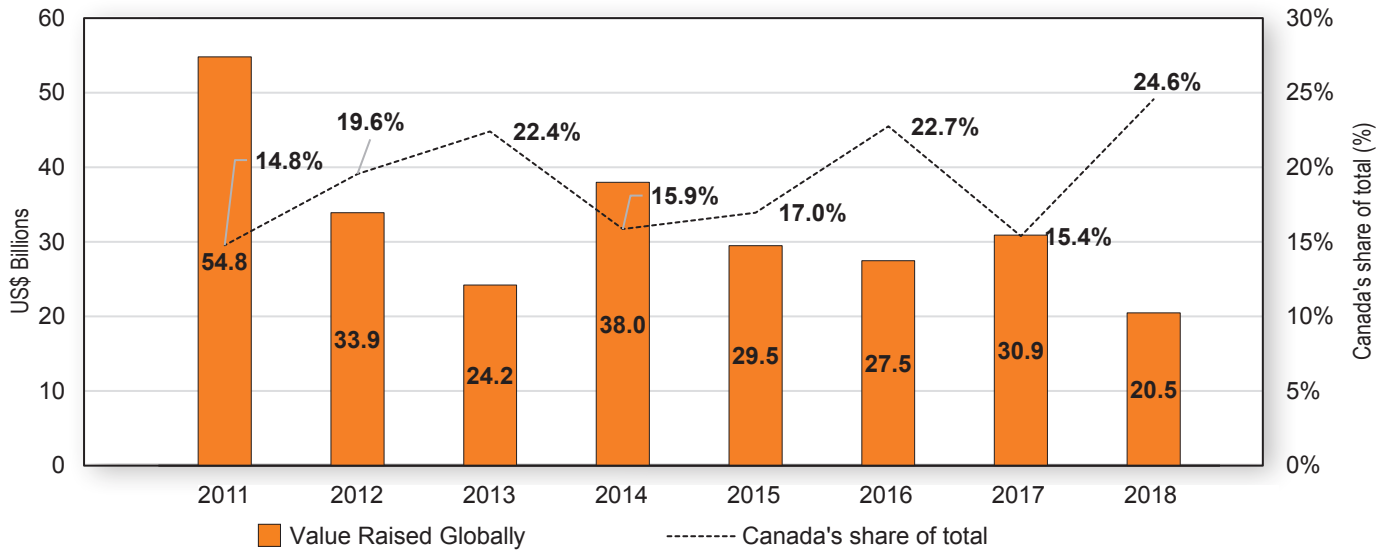
Source: S&P Global Market Intelligence and PDAC analysis

Chart 2.1 highlights the strong correlation between relative changes in metal prices (dashed line) and overall financing activity. With this in mind, we can see the overall metal price decline in 2018 coincided with a year-over-year decline in equity and debt financing of approximately 34% and 17% respectively. Despite a positive trajectory for both precious and base metal prices in the first two months of 2019, a sustained positive price trend may be necessary to generate increased investor interest and financing activity within the mineral industry in the near term.

It is important to note that debt financing is not a typical fundraising option for non-revenue generating entities such as mineral exploration companies. As such, the balance of this report largely focuses on equity financing activity.

Chart 2.2 highlights the importance of Canadian exchanges for mineral industry financing. Canada continues to lead in providing access to equity capital for the mineral industry, with 19% (on average) of the equity capital raised by public companies from 2011-2018 completed on Canada's two key stock exchanges (the TSX and TSX Venture or in short TSX-V).

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

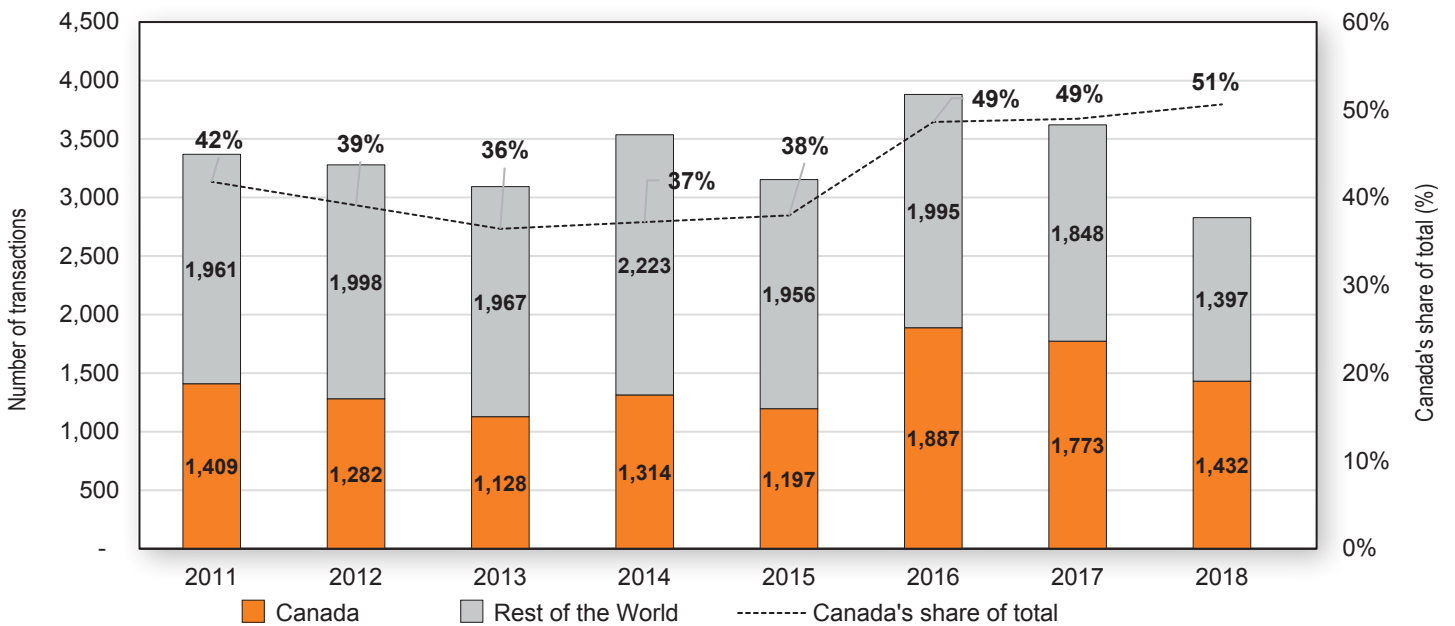


Source: S&P Global Market Intelligence and PDAC analysis

Canadian exchanges attracted a higher proportion of global equity funds in 2018 relative to 2017 at nearly 25%, but it was from a much smaller overall pot, which signals a more rapid year-over-year contraction of mineral industry funding outside of Canadian exchanges.

The impact of Canadian exchanges is further demonstrated in Chart 2.3, which outlines the number of transactions. On average, over 40% of publicly reported equity transactions since 2011 have occurred on Canadian exchanges and the proportion has increased for three consecutive years to reach a decade high of ~50% in 2018. However, the total number of transactions declined by ~22% from 2017 to 2018, which coincides with a 33% decline in equity funding value.

Chart 2.3: Equity Financing for the Global Mineral Industry (# of Transactions)



Source: S&P Global Market Intelligence and PDAC analysis

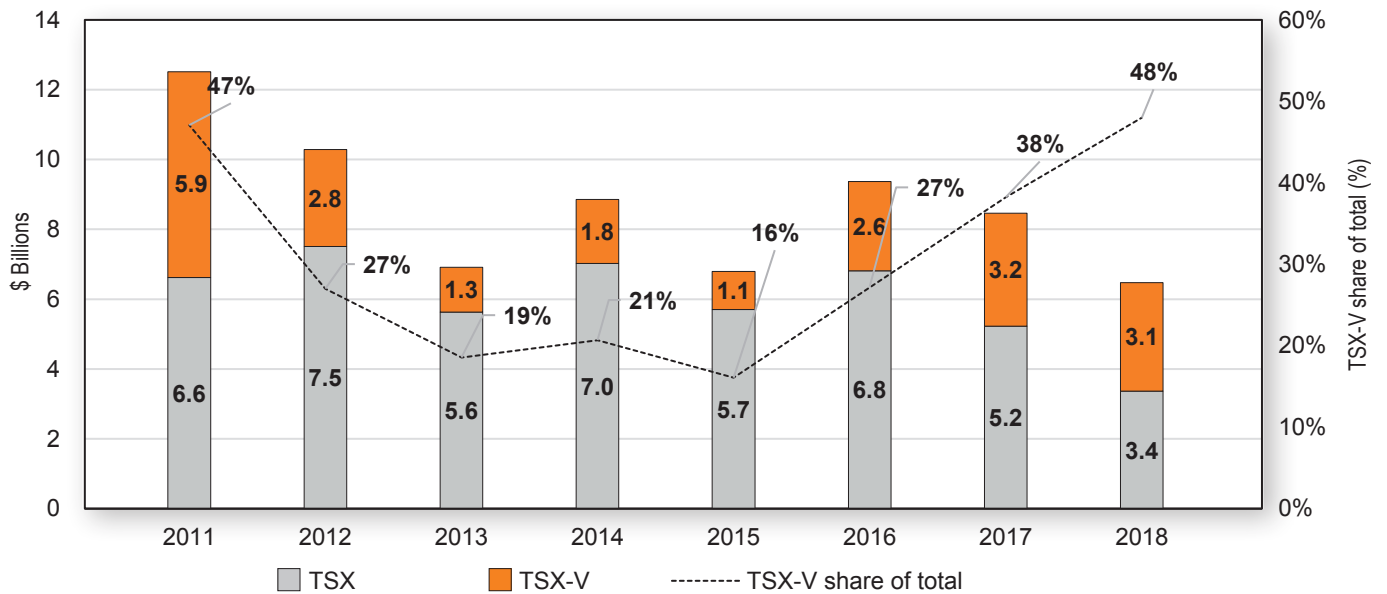
Given the importance of Canadian exchanges outlined in Charts 2.2 and 2.3, the following section focuses on Canadian equity financing dynamics for the mineral industry.

Financing Landscape in Canada Contracts

While Canada’s *proportion* of global equity financing increased in 2018, the total value raised on Canadian exchanges declined in line with the global trend to reach ~\$6.5 billion, a decrease of ~23% and ~31% relative to 2017 and 2016, respectively.

Chart 2.4 outlines equity financing levels on the TSX and TSX-V exchanges, as reported by TMX Group. Notably, TSX-V equity financing levels were relatively flat from 2017 to 2018. With equity funds raised on the TSX dropping ~35% year-over-year, the proportional value of equity raised on TSX-V has spiked to 48% in 2018, which is the highest level reached since 2011. Also noteworthy is the fact that 2018 equity financing fell short of both 2013 and 2015 levels, to reach the lowest point in nearly a decade.

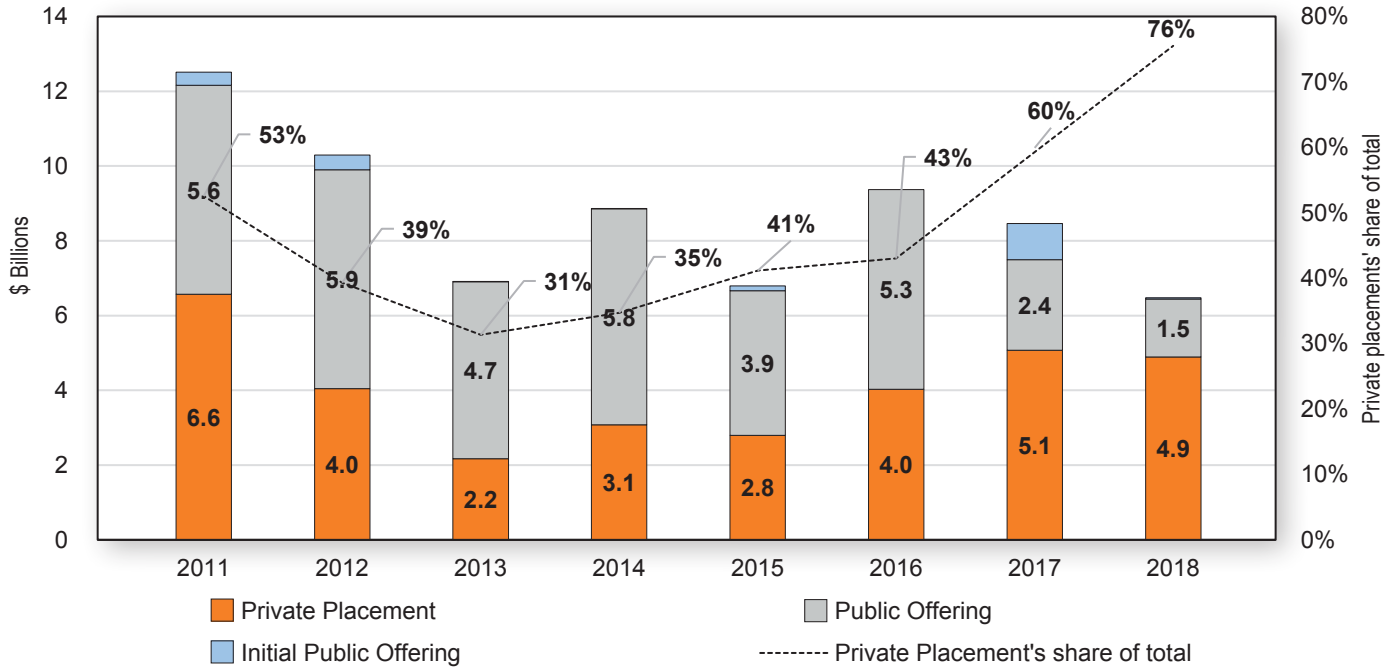
Chart 2.4: Equity Raises on Canadian Stock Exchanges (\$B)
TSX vs. TSXV



Source: TMX Group and PDAC analysis

In Chart 2.5 the same data is presented but disaggregated based on financing type. This analysis reveals how the proportion of funds sourced via private placements increased significantly from 2013 to 2018. The proportional increase was a result of both the near-continuous increase in the amounts raised via private placement combined with an equally noticeable decline in public offering investments, especially between 2016 and 2018. Alarmingly, total public capital raised in 2018 declined by more than 70% compared to 2016. The lack of Initial Public Offerings (IPOs) in recent years is also quite noticeable.

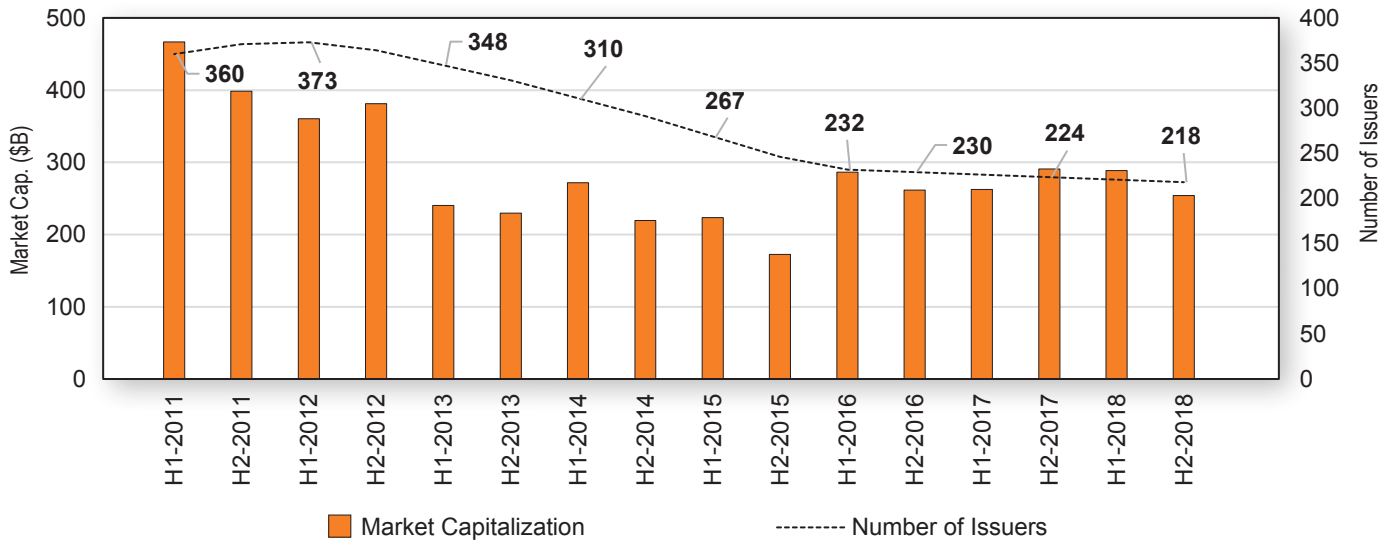
Chart 2.5: Equity Raises on Canadian Stock Exchanges (\$B)
Private Placements vs. Public Offering vs. IPOs



Source: TMX Group and PDAC analysis

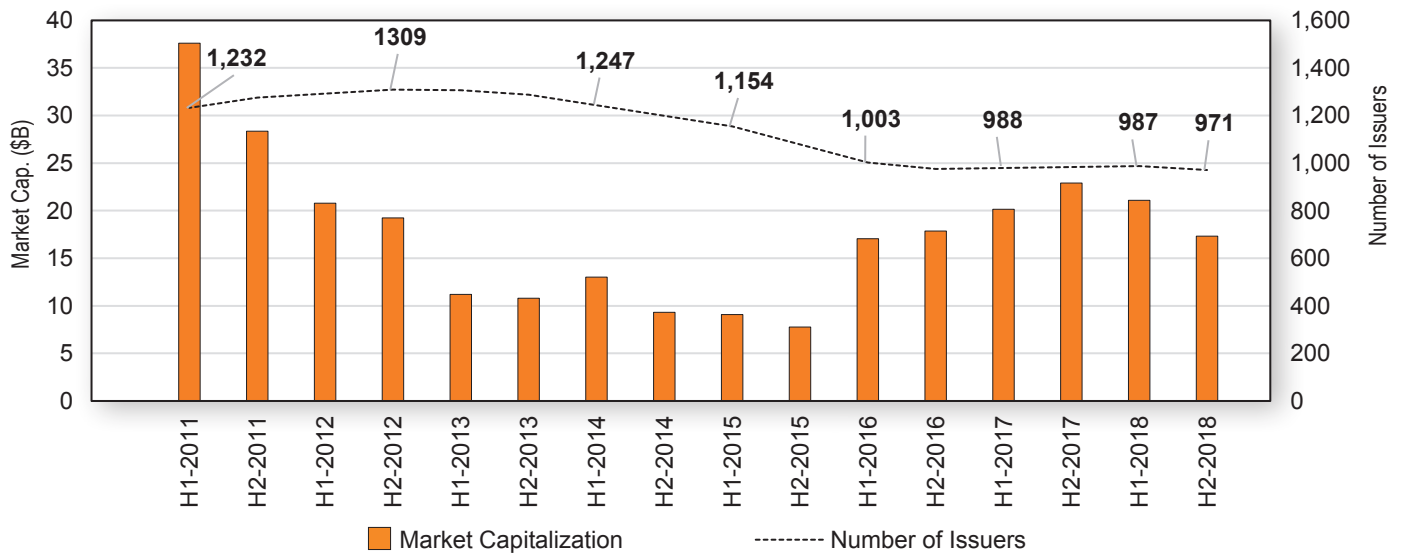
Similar to the funding trends displayed above, a material decline in the total market capitalization and number of mineral industry issuers on the TSX and TSX-V occurred between 2011-12 and 2015-16. These market characteristics are outlined in Charts 2.6 and 2.7, and show that a rebound in 2017 was followed by a subsequent decline in 2018.

Chart 2.6: TSX Listed Mineral Industry Issuers



Source: TMX Group

Chart 2.7: TSX-V Listed Mineral Industry Issuers



Source: TMX Group

Table 2.1 calculates the relative change in the number of mineral industry issuers listed on the TSX and TSX-V between the 2011-2012 peak and the second half of 2018. Table 2.2 provides the same analysis with respect to issuer market capitalization on each exchange.

Table 2.1: Number of Mineral Industry Issuers in Canada

	TSX-V	TSX	TSX & TSX-V
H1-2012: # of issuers	1300	373	1673
H2-2018: # of issuers	971	218	1135
Decrease in # of issuers	(329)	(155)	(484)
% of decrease	-25.3%	-41.6%	-28.9%

Source: TMX Group and PDAC Analysis

Table 2.2: Market Cap. of Mineral Industry Issuers in Canada

	TSX-V	TSX	TSX & TSX-V
H1-2011: Market Capitalization (\$B)	38	467	504
H2-2018: Market Capitalization (\$B)	17	254	271
Decrease in Market Capitalization (\$B)	(20.3)	(212.8)	(233.1)
% of decrease	-53.9%	-45.6%	-46.2%

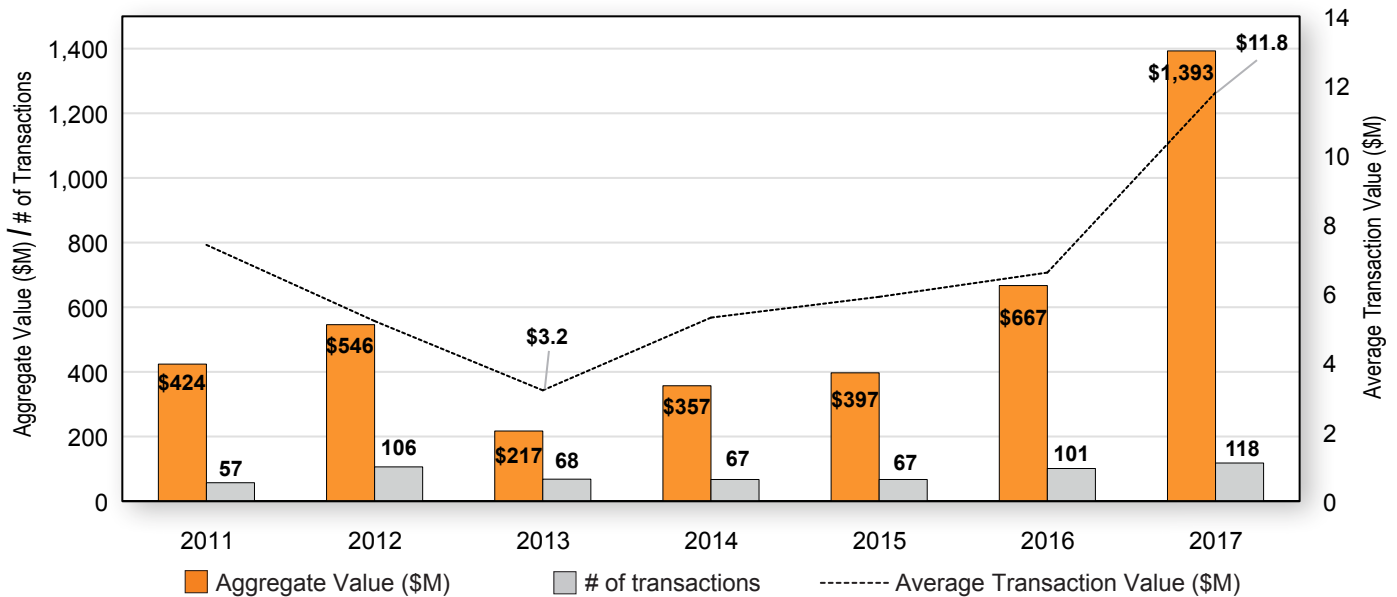
Source: TMX Group and PDAC Analysis

What is noticeable from the tables and charts shown previously is that from 2011-2015 there was a wide-scale decline of both the number of listed mineral industry companies and the overall value of this market segment. While there was a notable rebound in the overall market value of the mineral industry in 2016 and 2017, the trend reversed in 2018.

Also notable is the decline in the number of active companies operating in the sector since 2011 and the decline continued in 2018 with elimination of approximately 17 listed mineral companies during the year. Consolidation within the mineral industry accounts for some of the reduction in listed companies but the decline also reflects the difficulty exploration and mining companies have experienced in sourcing public funds and new investors since the 2011 peak.

One recent trend in the Canadian mineral sector is a steady increase in reinvestment by major mining companies into junior explorers. Chart 2.8 shows the aggregate and average transaction value, as well as the number of transactions completed by major mining companies investing in juniors. From 2013 to 2017, the average transaction value increased from \$3.2 million to \$11.8 million, vaulting the aggregate value upward to a record a fivefold increase in just four years, from \$217 million in 2013 to nearly \$1.4 billion in 2017.

Chart 2.8: Majors' Investment in Juniors



Source: MarketIntelWorks; S&P Capital IQ

While we are encouraged to see increasing reinvestment by major mining companies into the junior exploration end of the market, it has not reached sufficient levels to offset the overall outflow of public investment in junior mineral explorers.

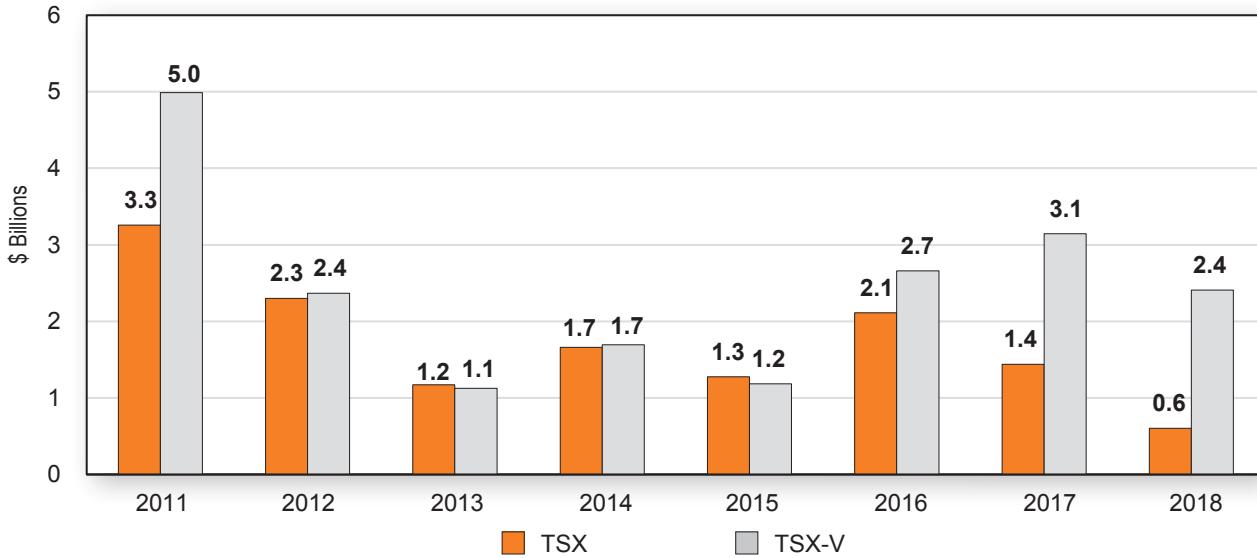
Canada's Junior Funding Evaporating

While large mineral sector companies are able to raise equity capital through public offerings, junior mineral industry companies (juniors) typically raise money via private placements. Hence, understanding private placement financing trends provides insight into the health of the junior market segment.

The following section outlines junior private placement financings as defined by Oreninc (i.e. transactions of less than \$100 million and companies with a market capitalization below \$1.5 billion).

Chart 2.9 below shows a rebound in junior investor interest in 2016/2017, but the value of equity raised by juniors completed on TSX and TSX-V decreased by 58% and 23% in 2018, respectively. Notably, the \$0.6 billion raised on the TSX in 2018 is the lowest recorded number since Oreninc began tracking the junior sector in 2011.

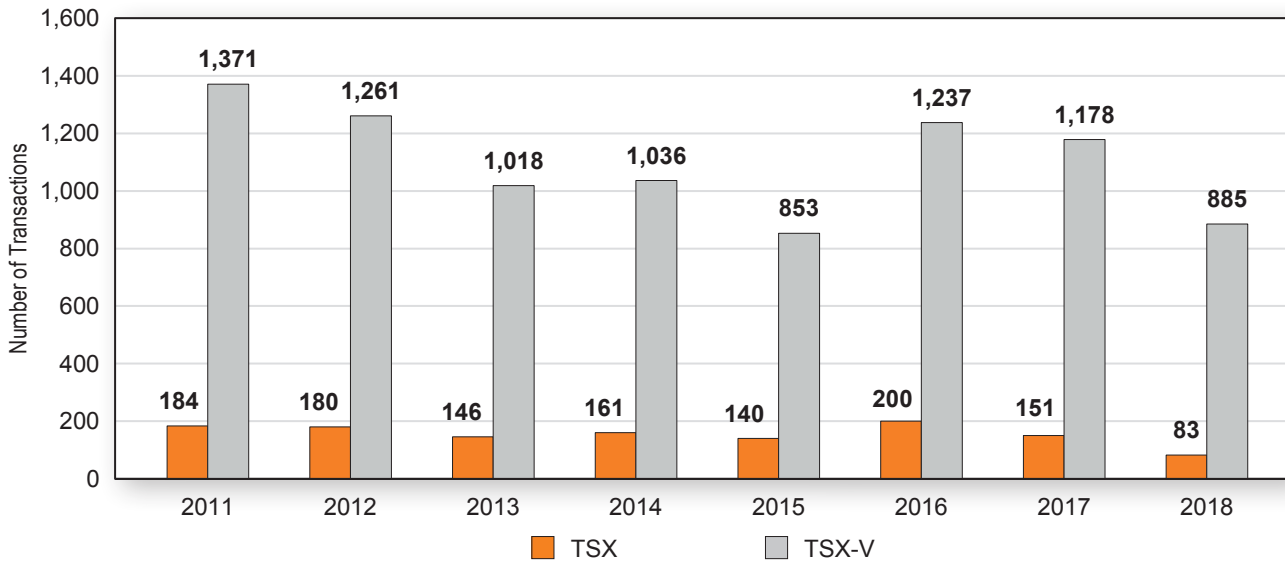
Chart 2.9: Juniors' Financing by Exchange (\$B)



Source: Oreninc

Chart 2.10 outlines the number of transactions completed by juniors on each exchange.

Chart 2.10: Juniors' Financing by Exchange (# of Transactions)

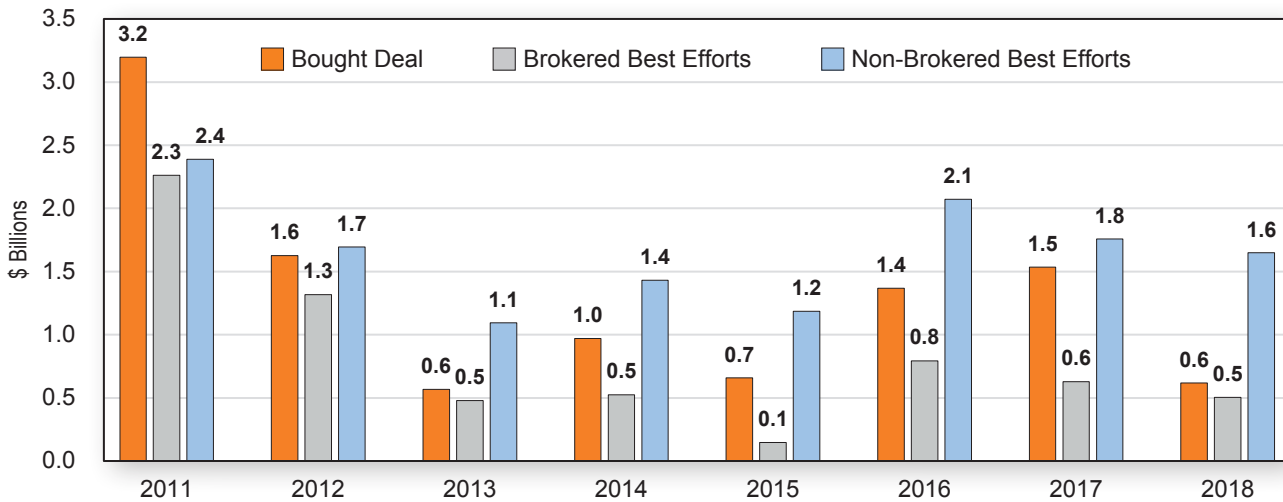


Source: Oreninc

While 2017 marked a recent high in the value of equity raised on the TSX-V, the number of transactions declined year-over-year, which may indicate a narrower distribution of funds across market participants. The ~25% decline in 2018 transactions completed on the TSX-V is commensurate to the 23% decline in value, suggesting a similar distribution of funds to 2017.

Chart 2.11 compares the aggregate value of non-brokered and brokered best-efforts transactions to bought-deal transactions in the junior mining sector.⁴ The 2017 picture was mixed as a small increase in bought deals was offset by declines in both brokered and non-brokered best-efforts transactions. A clear negative trend was established in 2018 as modest declines in brokered and non-brokered best efforts transactions (~20% and ~6% respectively) were accompanied by a staggering 60% decline in bought deals, from \$1.5 billion in 2017 to \$0.6 billion in 2018. Notably, the amount of capital raised via bought deal in 2018 matches 2013-2014 lows.

Chart 2.11: Aggregate Value - Brokered vs. Non-brokered Transactions

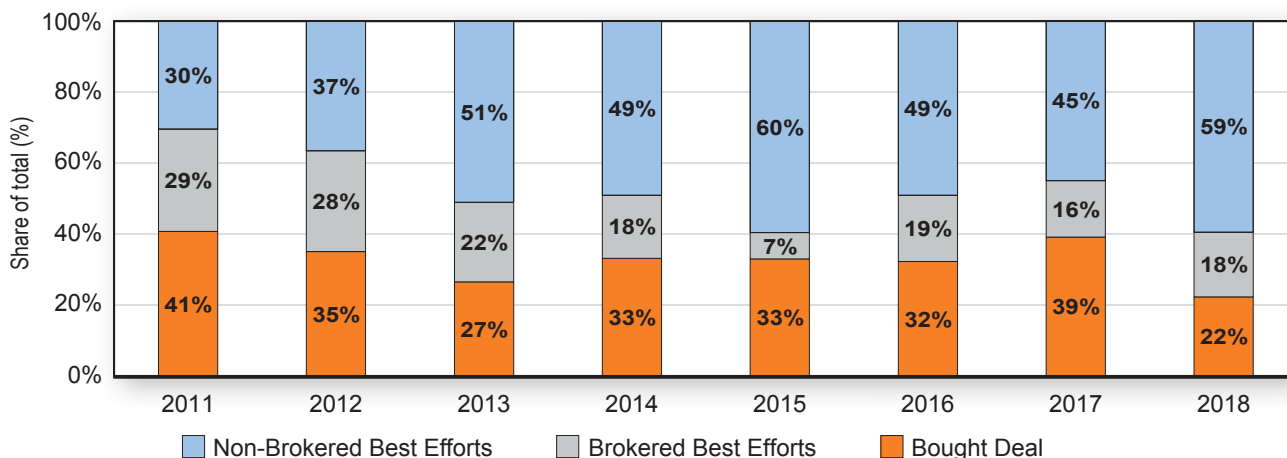


Source: Oreninc

Chart 2.12 presents the relative distribution of each transaction type. In line with the significant decline in total value of bought deals in 2018 was a reduction in the overall proportion of this mechanism as a source of funds.

The construct of bought-deal financing inherently exposes underwriters to greater financial risk. With this in mind, the significant decrease in both absolute value raised, and the relative share of bought deal transactions in 2018, indicates that financial institutions are becoming increasingly unwilling to take on the financial liabilities associated with bought-deal financing for junior mineral exploration companies.

Chart 2.12: Brokered vs. Non-brokered Transactions (% of Total Funds)



Source: Oreninc

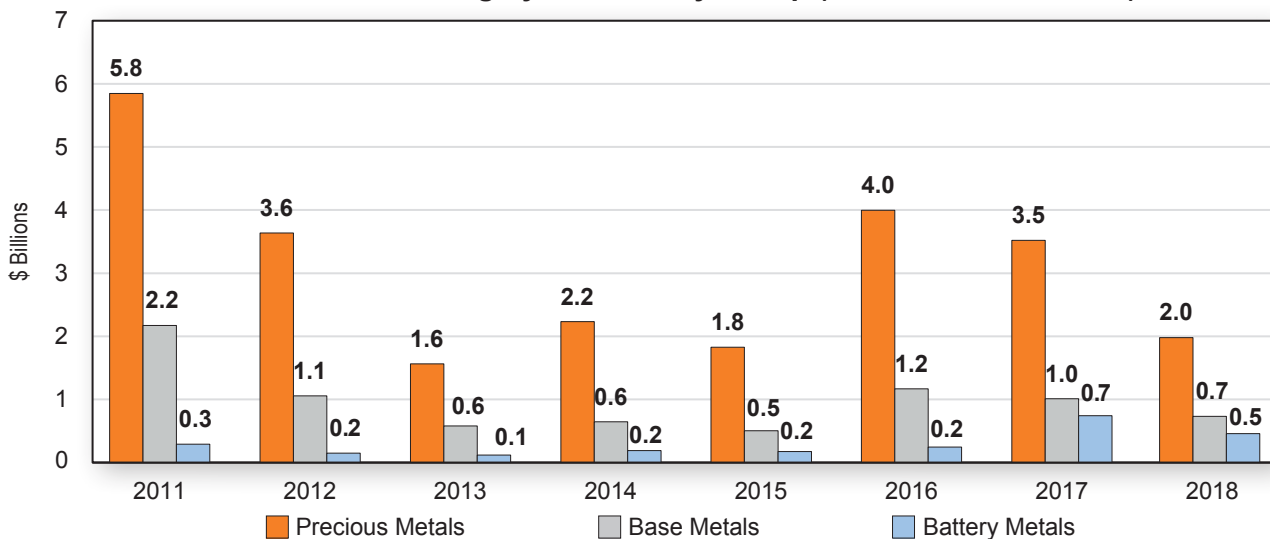
⁴ A “bought-deal” is a securities offering in which an underwriter commits to buy the entire offering from the client company. On the other hand, in a “best-efforts” transaction the underwriter promises to make its best effort to sell as much of a securities offering as possible, but is not obliged to purchase the entire amount being offered. Best-efforts transactions can be either brokered or non-brokered.

Next, we examine funds raised by junior mining companies on Canadian exchanges with respect to value and number of transactions, based on the following commodity grouping:

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

Chart 2.13 displays a decline in funds raised for projects of all metal types in 2018. While 2017 was a breakthrough year for battery metals, as project financing tripled year-over-year (from \$247 million to \$741 million), they joined the declining trend in 2018, with funds raised decreasing by nearly 40%.

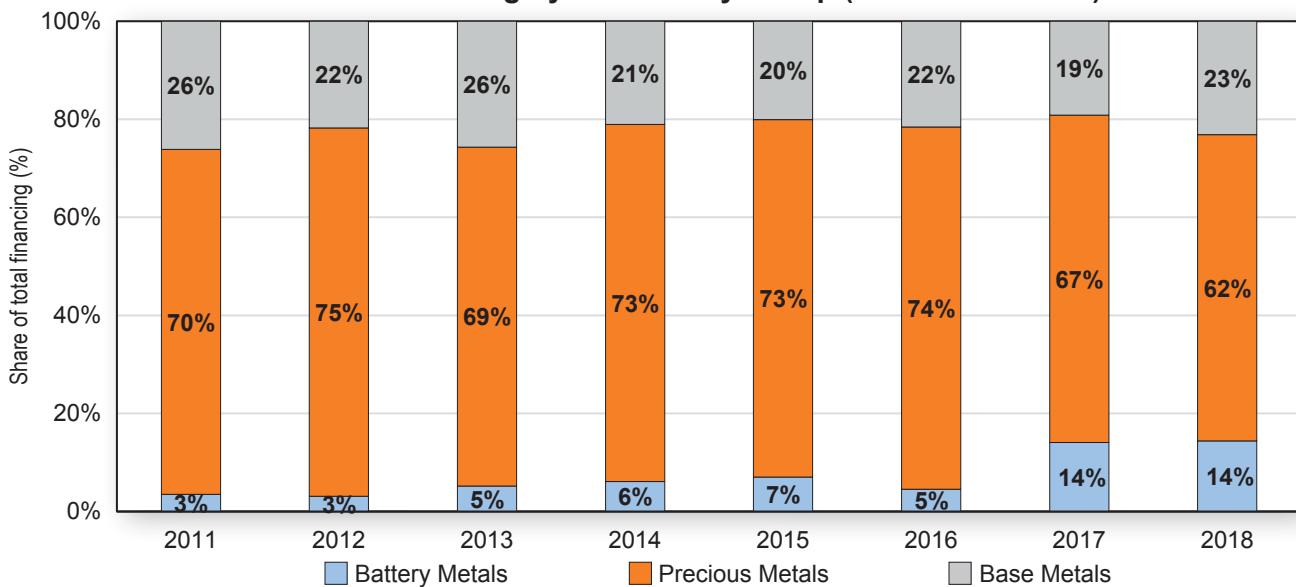
Chart 2.13: Junior Financing by Commodity Group (Amount Raised in \$B)



Source: Oreninc

The relative share of each metal group is outlined in Chart 2.14. Although total funds raised for battery metals declined in step with other metal types, the proportion of total financing matches the high point achieved in 2017. Interestingly, 2018 precious metals project funding reflects the smallest share of total funds for this group across the observed period from 2011-2018.

Chart 2.14: Junior Financing by Commodity Group (% of Total Funds)



Source: Oreninc

Chart 2.15 shows the distribution of financings completed on Canadian exchanges in 2018 based on the specific targeted commodity. It shows that nearly 60% of funds raised in 2018 targeted three key commodities. Gold leads by far with 42.9% of the funds raised, followed by copper (7.9%) and lithium (7.4%).

Chart 2.15: Financing of Juniors by Commodity Type (2018)

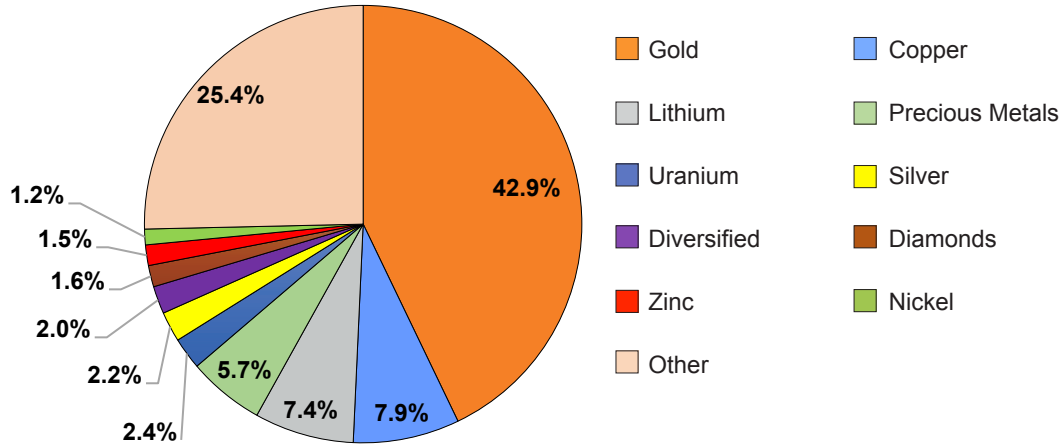
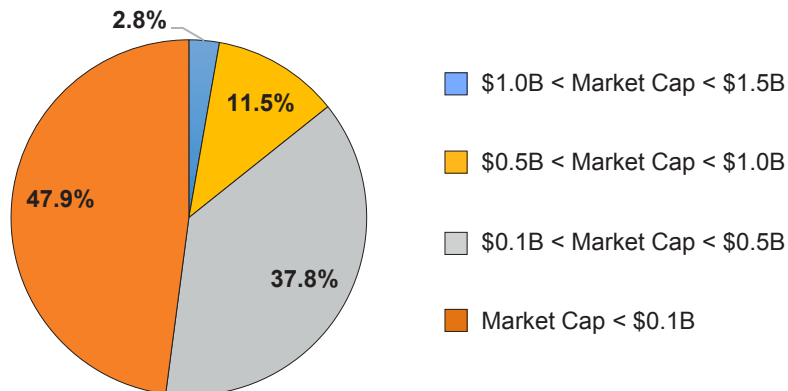


Chart 2.16 shows the distribution of total private placement funds raised between 2011 and 2018 disaggregated by market capitalization of the issuers. Nearly half of all junior funds raised were by companies with a sub-\$100 million market capitalization, while less than 15% of the funds were raised by companies with market capitalization above \$500 million. Possible explanations for this dynamic is that larger companies tend to target public transactions or those in excess of the \$100 million threshold, and therefore do not appear in the Oreninc database. Another potential reason is that larger companies with greater public market liquidity typically have a broader set of financing options such as debt, strategic investments and royalty/stream sales to fund activities.

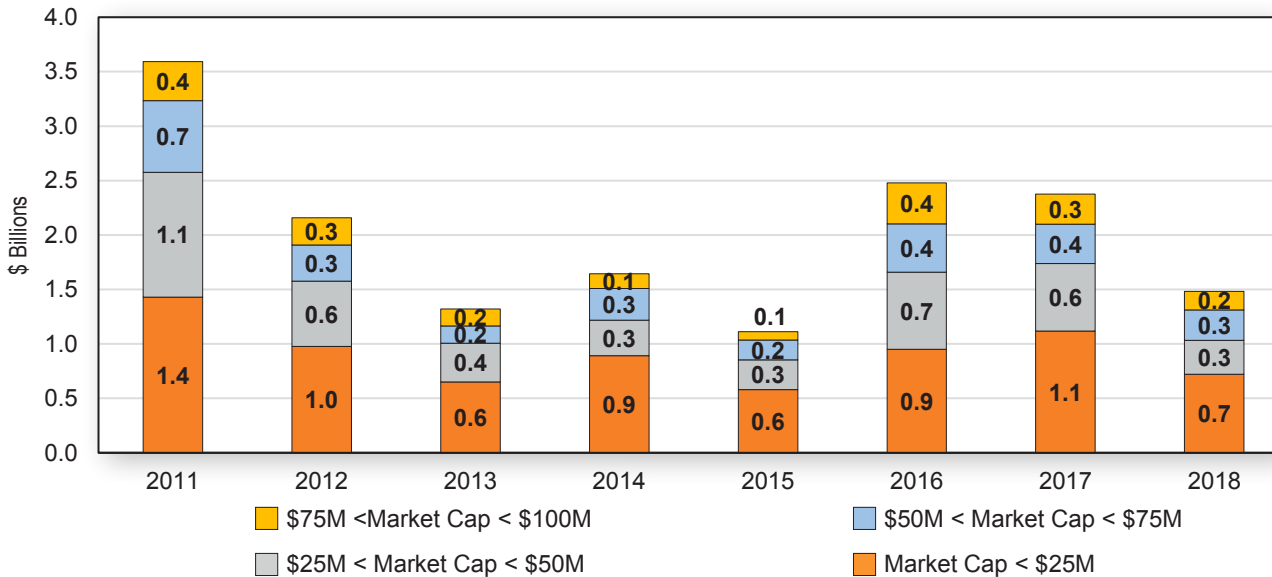
Chart 2.16: Junior Fundraising Distribution by Market Capitalization



Source: Oreninc

Chart 2.17 focuses on companies with market capitalization of less than \$100 million. Funding for this group declined by 38% year-over-year, from \$2.4 billion to \$1.5 billion. The decline is more pronounced than the 30% drop in funding for all juniors in the sub-\$1.5 billion market cap bracket, which indicates that smaller companies suffered most in 2018. In particular, the \$0-\$25 million and \$25-\$50 million market cap brackets saw funding decreased by nearly 40% and 60%, respectively, versus 2017.

Chart 2.17: Financing for Juniors Under \$100M Market Capitalization



Source: Oreninc

Chart 2.18 presents the Oreninc Index, a proprietary tool, which was created and launched in January 2011. The Index is intended to measure the overall health of the junior mining sector in terms of financing activity.

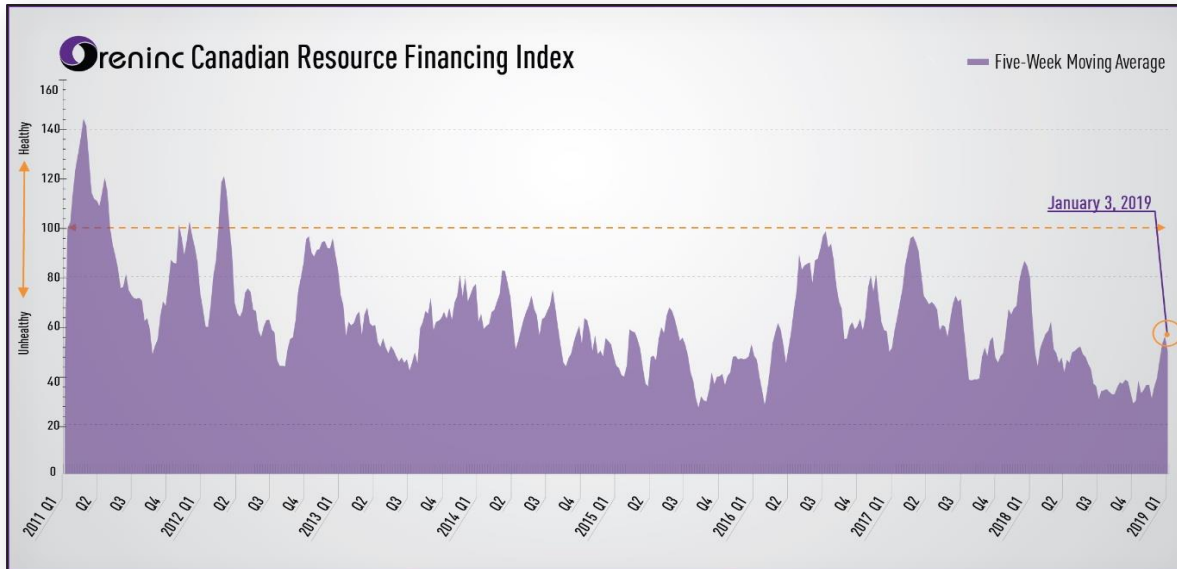
The weighted index measures three factors on a weekly basis:

- 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 the index rebounded in early 2018, it peaked in the first quarter and subsequently declined over the course of the year towards a low-point established in 2015, which reflects the deterioration in the health of the junior sector throughout the past year.

While the recent spike identified in Q1/2019 is encouraging, sustained market activity over the year will likely be required to vault the index into a healthy range.

Chart 2.18: Oreninc Index



Oreninc collects the location of company headquarters and projects, as well as the intended use of proceeds from financings. This allows tracking of flow of funds raised on Canadian exchanges to different regions. Table 2.3 outlines the number of transactions and the global distribution of funding. While ~40% of funds were directed to Canadian projects, ~60% of funds raised in Canada went abroad, with the U.S. and Africa as key destination. Most notable in 2018 is the year-over-year increase in funds flowing to Africa (from 5.7% to 12.4%) and the decrease in funds flow to South America (from 23.0% to 14.8%).

Table 2.3: The Flow of Funds to Canada and Abroad

Region	2017			2018		
	Number of Transactions	Funds Raised (\$M)	% of Total Value	Number of Transactions	Funds Raised (\$M)	% of Total Value
Africa	67	267	5.7%	64	382	12.4%
Asia	20	40	0.9%	14	32	1.0%
Australia	7	66	1.4%	12	17	0.5%
Canada	812	2,021	43.3%	584	1,282	41.6%
Mexico & Central America	58	380	8.1%	53	288	9.3%
Europe	42	215	4.6%	27	60	1.9%
Oceania	11	34	0.7%	5	8	0.2%
South America	134	1,076	23.0%	86	456	14.8%
United States	170	571	12.2%	133	561	18.2%
Total	1,321	4,671	100%	978	3,085	100%

Source: Oreninc

SECTION 3: Exploration Trends

In the previous section, financing for the mineral industry was examined with a focus on equity capital raised by the junior mining sector. This section will further analyse equity funding, focusing specifically on exploration financing and related expenditures.

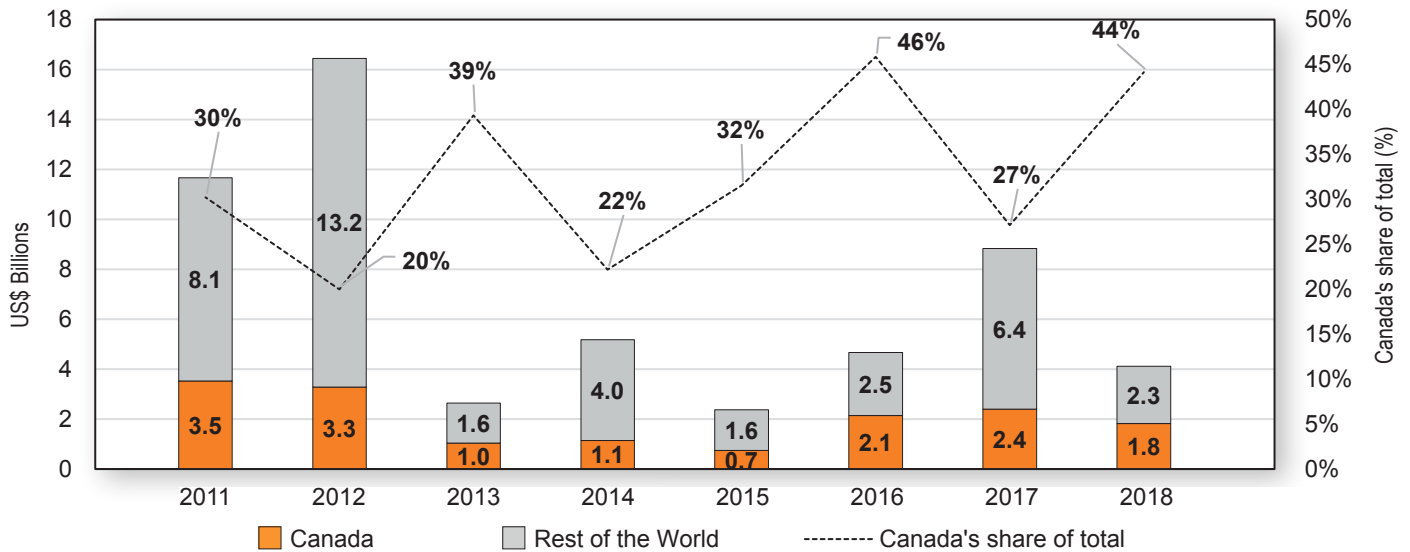
Financing for Mineral Exploration Drops

Global mineral exploration funding troughed in 2015, after declining materially from peak years in 2011 and 2012. Funding subsequently improved in 2016 and 2017 to post 98% and 89% year-over-year increases, respectively. However, as Chart 3.1 shows, global financing for exploration more than halved in 2018.

It is worth noting that the 2017 global figure is materially impacted by 3 outlier transactions. Excluding these, the recent year-over-year changes in global exploration funding would have more-closely matched the dynamic observed on Canadian exchanges.

In line with the global trend, Chart 3.1 shows the multi-year recovery in exploration funding on Canadian exchanges reversed in 2018, declining by nearly 25% year-over-year. One positive indicator is that the rate of decline in Canadian exploration funding was well below the rest of the world. The dashed line in Chart 3.1 illustrates the significant role of Canadian exchanges in exploration funding as they, on average, account for roughly 1/3 of funds raised globally.

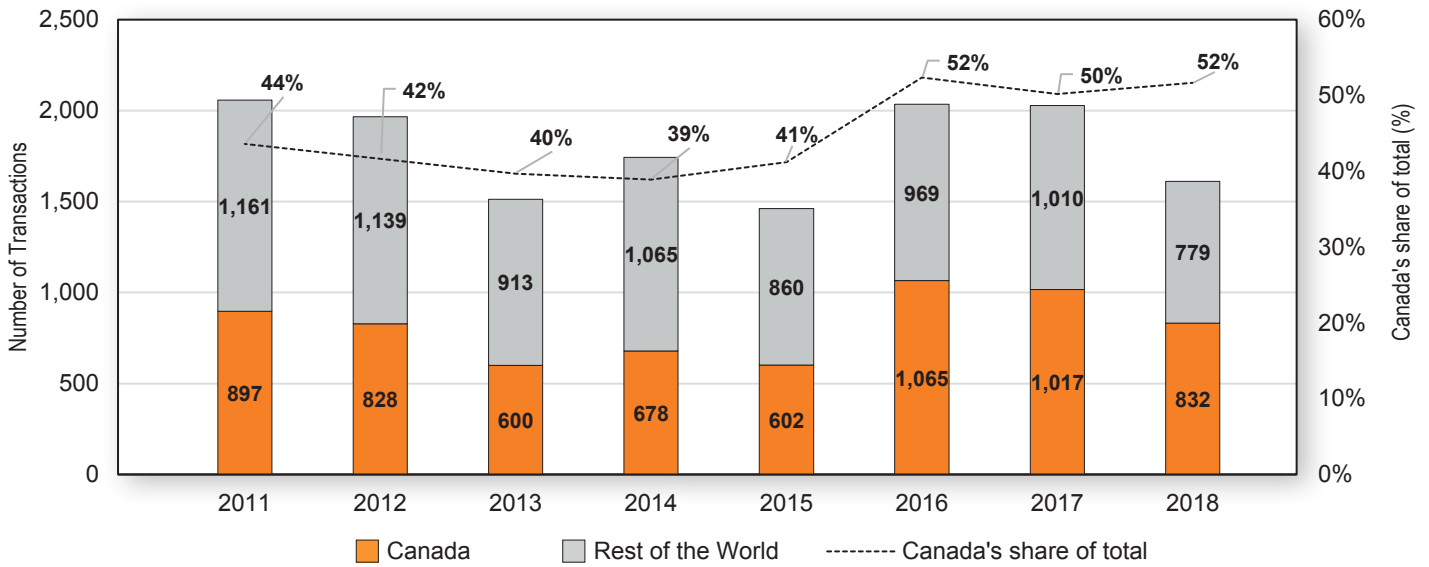
Chart 3.1: Global Equity Financing for Exploration (US\$B)



Source: S&P Global Market Intelligence and PDAC analysis

Chart 3.2 displays the number of exploration equity financings completed both globally and in Canada. From this, we see similar activity levels in 2016 and 2017 that provides context on the significant increase in value over this period and the impact of a small number of outlier transactions. The chart also reinforces Canada’s increasingly important role in equity financing for exploration as over 50% of global transactions in the last three years were completed either on the TSX or TSX-V.

Chart 3.2: Global Equity Financing for Exploration (# of Transactions)



Source: S&P Global Market Intelligence and PDAC analysis

Global Exploration Spending at Odds With Financing

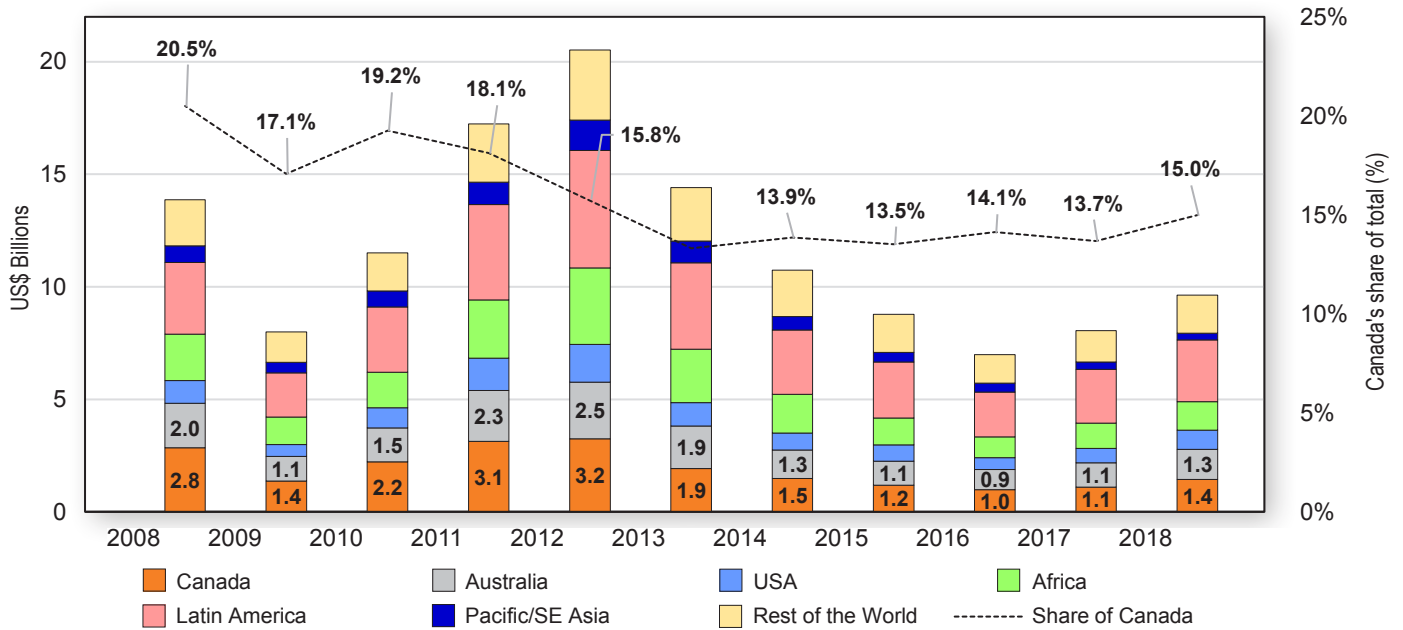
The following section examines exploration expenditures, both globally and in Canada, broken down by region/province, stage of exploration, company type and commodity type.

Regional Characteristics

Chart 3.3 illustrates mineral exploration expenditures by region. Global exploration spending decreased 20%-30% annually between 2013 and 2016, mirroring the decline in financing for mineral exploration. In 2017 global exploration expenditures increased to US\$8.05 billion, 15% higher than the 2016 level, and in 2018 the upward trend continued with additional increase of ~20%, to US\$9.6 billion.

It should be noted that exploration expenditures are a lagging indicator for the state of the industry at any point in time and typically reflect investor appetite and funding activity from the previous year. With this in mind, subdued financing activity in 2018 relative to 2017 may point to a slowdown in exploration spending on the horizon in 2019.

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



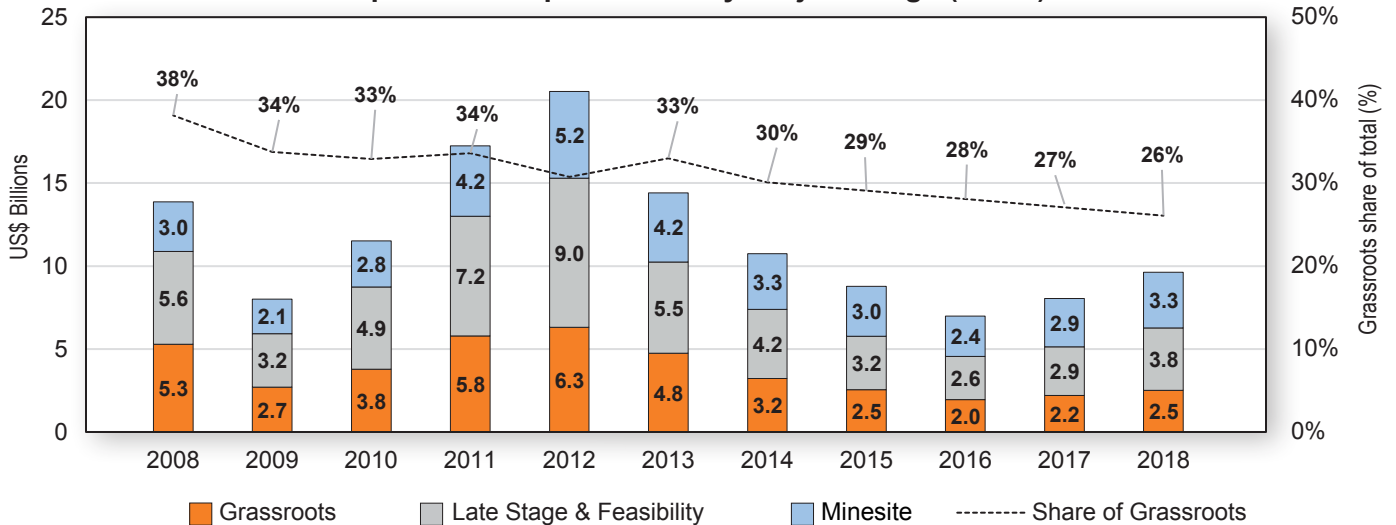
Source: S&P Global Market Intelligence and PDAC analysis

Canada and Australia remain the two leading countries in terms of exploration spending, attracting 15% and 13.8% of global exploration expenditures in 2018, respectively. These figures exclude ferrous exploration spending, which, if included, would position Australia as the top destination for global exploration. Furthermore, despite a slight year-over-year increase in Canada's share of exploration spending, it is in a long term declining trend and 2018 remains well below the 20.5% level achieved in 2008.

Project Stage and Company Type

Analyzing global exploration spending by project stage highlights a worrisome decline in grassroots exploration, as indicated in Chart 3.4. The share of grassroots exploration decreased from 38.2% in 2008 to 26.1% in 2018. This decline is concerning as it can directly link to the rate of discovery of new deposits—and a lack of new discoveries will negatively impact the number of future mines.

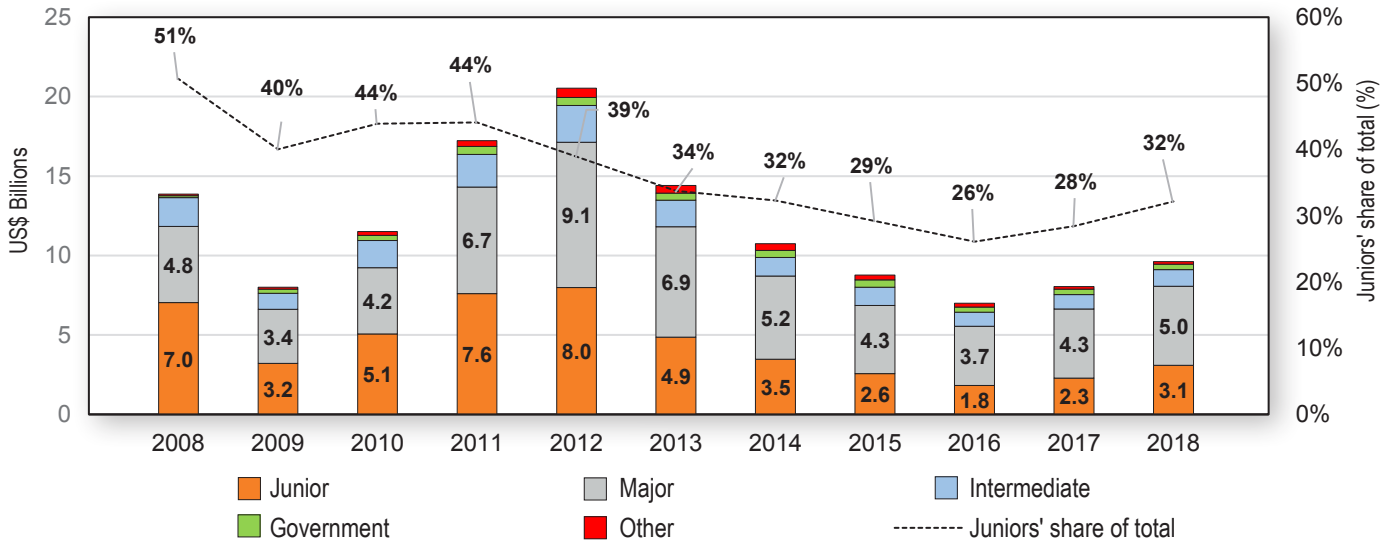
Chart 3.4: Global Exploration Expenditures by Project Stage (US\$B)



Source: S&P Global Market Intelligence and PDAC analysis

As shown in Chart 3.5 below, the share of exploration expenditures by junior companies as defined by S&P Global (companies with revenue <US\$50M) nearly halved from 2008 to 2016, before recovering slightly over the last two years.

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



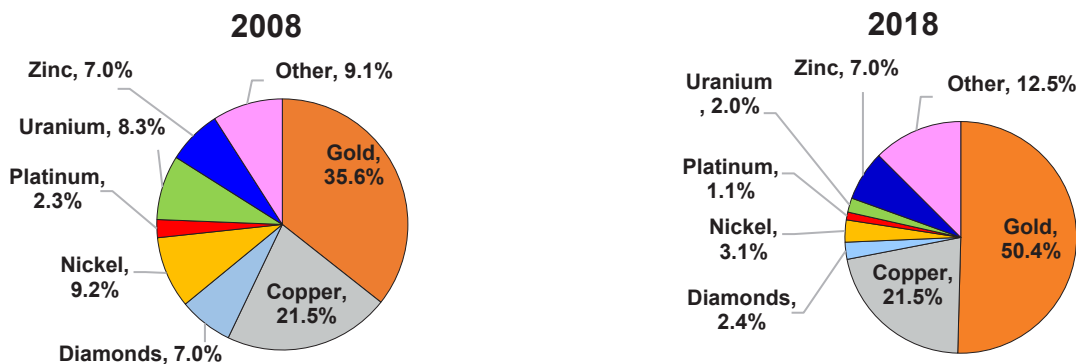
Source: S&P Global Market Intelligence and PDAC analysis

A decline in junior company exploration spending is concerning as, over time, they have shown greater efficiency in making new discoveries, relative to larger peers. Previous research has shown that the ratio of in-situ discovery value to money spent on exploration is significantly higher for junior exploration companies (0.83) compared to senior producing companies (0.63)⁵

Commodity Type Distribution

Between 2008 and 2018, exploration activity changed scope with respect to commodity type, as shown in Chart 3.6. Gold exploration spending has expanded materially over this period to account for over half of all dollars spent in 2018. This expansion has been offset by long-term decreases in the shares of exploration for uranium (from 8.3% share in 2008 to 2.0% in 2018), nickel (from 9.2% to 3.1%) and diamonds (from 7.0% to 2.4%).

Chart 3.6: Global Exploration Expenditures by Commodity (2008 vs. 2018)



Source: S&P Global Market Intelligence and PDAC analysis

5 Richard Shodde, MinEx Consulting, Canada’s discovery performance and outlook, March 2015 (Presented at PDAC 2015) <http://www.minexconsulting.com/publications/R%20Schodde%20PDAC%20Conf%20March%202015%20FINAL.pdf>

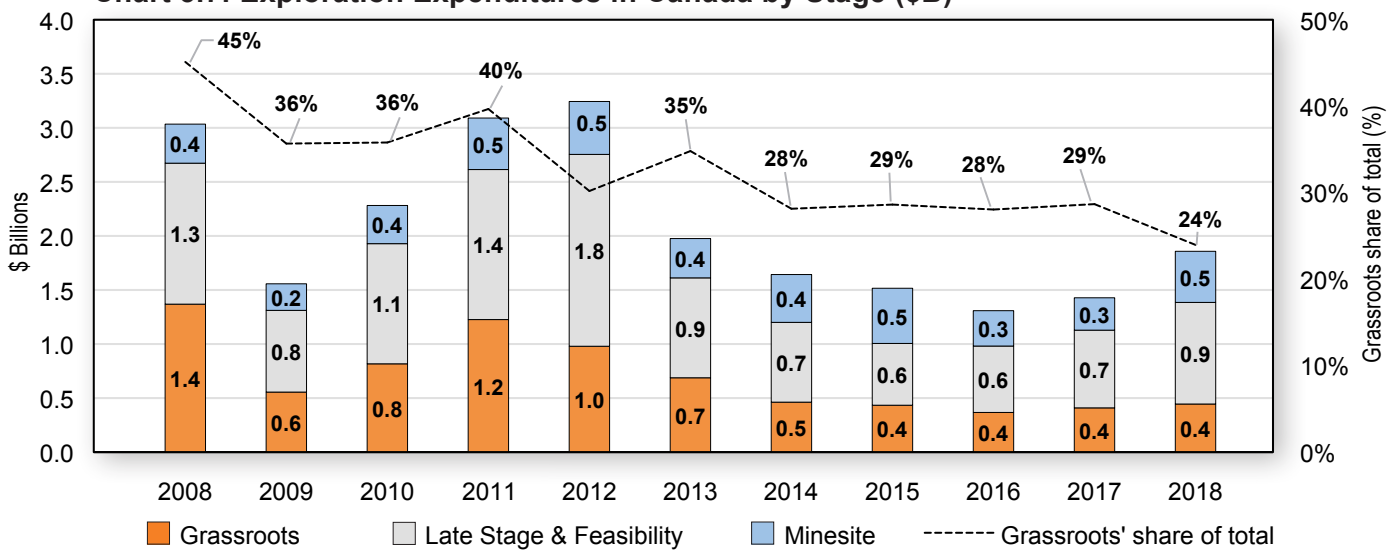
Canadian Exploration Continues to Climb

As indicated earlier, exploration spending in Canada declined by over 60% from 2012 to 2016. In 2017, Canadian expenditures increased by approximately 10%, to \$1.43 billion. This trend continued into 2018 with expenditures reaching \$1.85 billion, a 30% increase year-over-year. However, as noted above, the year-over-year spending increase in 2018 is a lagging indicator that is likely more reflective of increased financing activities in 2017.

Project Stage and Company Type

Domestic exploration expenditures by project stage outlined in Chart 3.7 reconciles with the trend globally, reflecting a sharp decline in grassroots activity in Canada—grassroots exploration spending dropped from over 45% in 2008 to 24% in 2018. Notably, grassroots exploration expenditures in Canada have been stagnant since 2015.

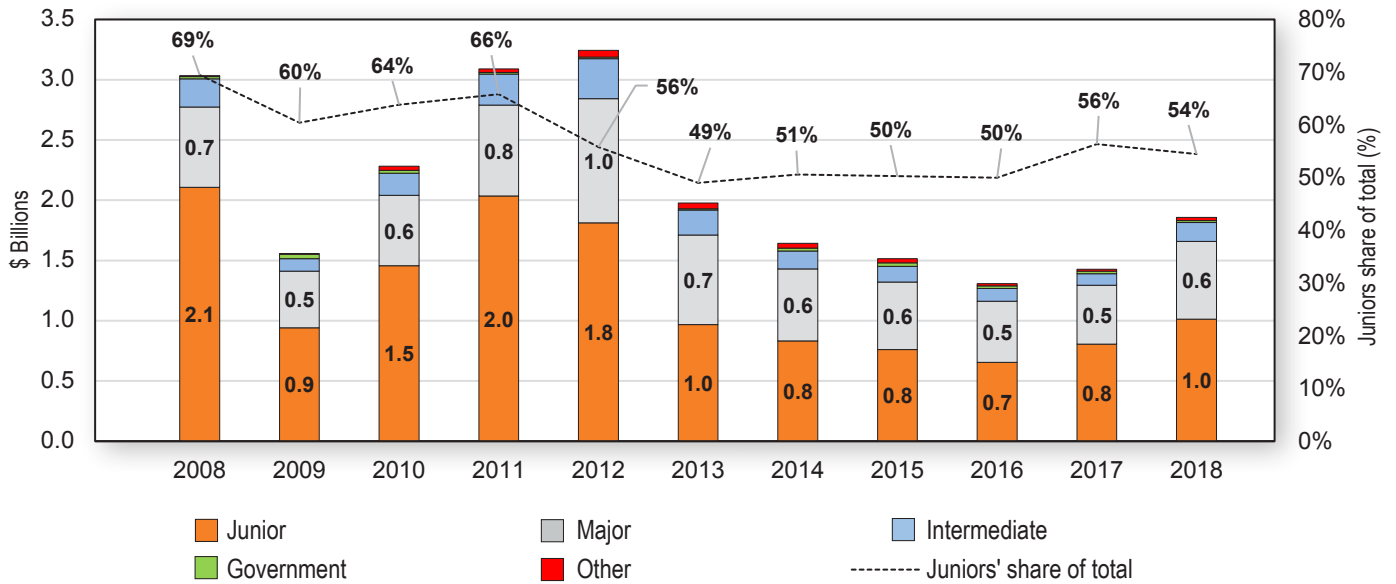
Chart 3.7: Exploration Expenditures in Canada by Stage (\$B)



Source: S&P Global Market Intelligence and PDAC analysis

Chart 3.8 shows exploration expenditures in Canada by company type and demonstrates how the share of exploration expenditures by junior companies has declined from nearly 70% in 2008 to less than 55% in 2018.

Chart 3.8: Exploration Expenditures in Canada by Company Type



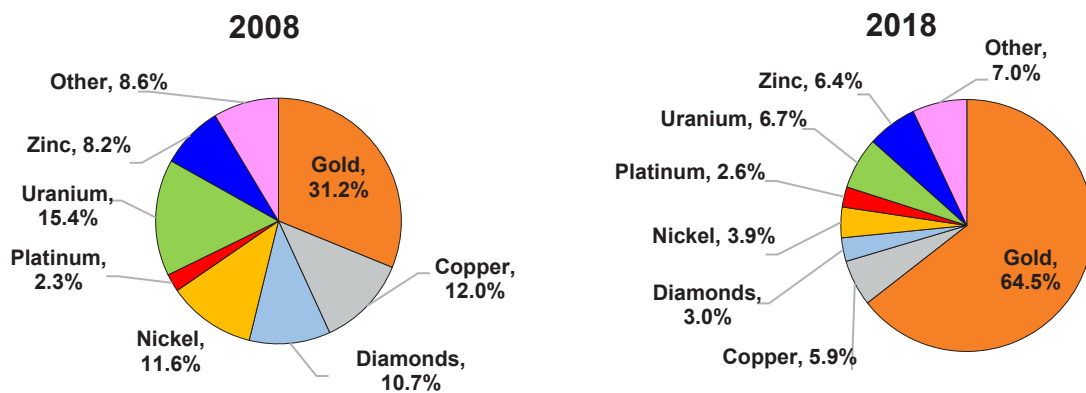
Source: S&P Global Market Intelligence and PDAC analysis

Commodity Type Distribution

Between 2008 and 2018, there were significant shifts in commodities being targeted by exploration in Canada. Over this period, gold exploration jumped from just over 30% to nearly 65% of total Canadian expenditures.

The increase in the share of gold was offset mostly by long-term decreases in the relative share of the funds spent on exploration targeting copper, diamonds, nickel and uranium, as can be seen in Chart 3.9 below.

Chart 3.9: Canadian Exploration Expenditures by Commodity (2008 vs. 2018)



Source: S&P Global Market Intelligence and PDAC analysis

Province/Territory Characteristics

Table 3.1 outlines the distribution of exploration expenditures across Canada's provinces and territories. Between 2011 and 2018, 55%-61% of exploration expenditures were spent in three provinces—Quebec, Ontario and British Columbia.

According to spending intentions of companies as reported by Natural Resources Canada (as of October 2018), eight out of the 12 provinces and territories (PEI is not covered) saw exploration expenditures climb in 2018.

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

	2011	2012	2013	2014	2015	2016	2017 (p)	2018 (i)
Newfoundland and Labrador	157	200	117	81	47	25	42	48
Nova Scotia	14	15	12	7	10	5	18	18
New Brunswick	27	28	28	29	9	14	16	20
Quebec	834	621	382	317	260	297	574	623
Ontario	1,068	961	562	468	440	394	540	568
Manitoba	140	106	61	28	47	47	41	48
Saskatchewan	335	411	222	245	257	229	191	187
Alberta	47	35	39	26	18	17	25	33
British Columbia	645	734	493	449	346	232	303	336
Yukon	332	233	101	107	92	90	169	249
Northwest Territories	94	109	78	102	101	73	91	86
Nunavut	536	423	258	158	215	205	177	144
Canada - Total	4,227	3,875	2,352	2,017	1,842	1,629	2,186	2,360

Source: Natural Resources Canada

SECTION 4: Fiscal Incentives and Capital Market Reforms

As we have shown in this report, Canada is a top destination for attracting not only mineral exploration activity but also for attracting capital to the mineral industry. 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/TSX-V. Moreover, according to the Fraser Institute's Annual Survey of Mining Companies 2017, Canada is a top destination to explore for commodities, with three provinces ranked in the Top 10 as the most attractive jurisdictions for mineral project investment, and seven provinces were ranked among the Top 21 jurisdictions.⁶

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. This section will highlight key aspects of relevant frameworks for the mineral industry.

The Flow-through Share Regime

Canada has established fiscal policies at the federal, provincial and territorial levels that help with efforts to enhance mineral investment and exploration activity.

At the federal level in Canada, the most impactful policy supporting mineral exploration financing is the flow-through share regime. 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.

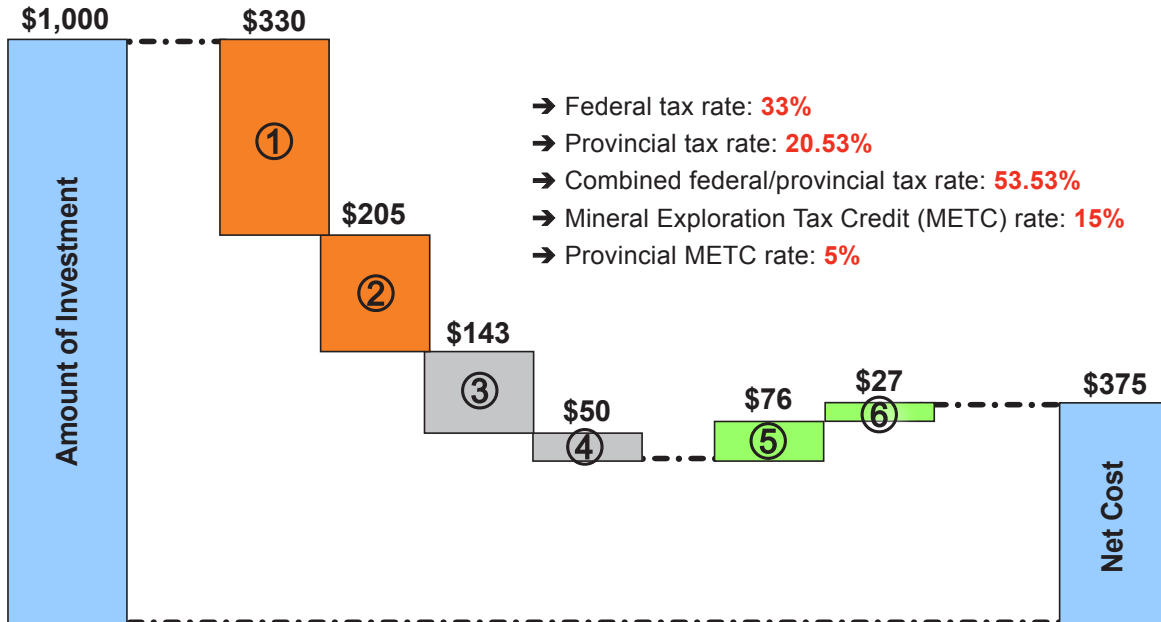
The mechanism allows public companies to issue a unique type of equity that allows individual and corporate investors to deduct the purchase cost from their personal/corporate income for tax purposes, provided the company issuing the shares spends the funds on prescribed exploration and development expenses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

Chart 4.1 outlines a sample calculation by an individual investor residing in Ontario, demonstrating how an investment of \$1,000 in flow-through shares of a company exploring in Ontario results in a net cost to the investor of only \$375.

⁶ Fraser Institute, Annual Survey of Mining Companies 2017, February 2018:
<https://www.fraserinstitute.org/sites/default/files/survey-of-mining-companies-2017.pdf>

Chart 4.1: Flow-Through Net Cost Calculation



Calculations

Decrease of taxable income

- 1. Federal Tax Deduction = Investment * Federal Tax Rate
- 2. Provincial Tax Deduction = Investment * Provincial Tax Rate
- 3. Federal Tax Credit = Investment * (1-Provincial METC rate) * Federal METC Rate
- 4. Provincial Tax Credit = Investment * Provincial METC Rate

Increase of taxable income

- 5. Income Tax on Federal Tax Credit = Federal Tax Credit * Federal/Provincial Combined Income Tax
- 6. Income Tax on Provincial Tax Credit = Provincial Tax Credit * Federal/Provincial Combined Income Tax

Source: Natural Resources Canada

First Multi-Year Renewal of METC in 2019

In the Fall Economic Statement (FES) on November 21, 2018 Finance Minister Bill Morneau announced that the Federal Government will renew the METC for five years until 2024. This is the first multi-year renewal of the METC since its inception in 2000, something PDAC has long championed and advocated for.

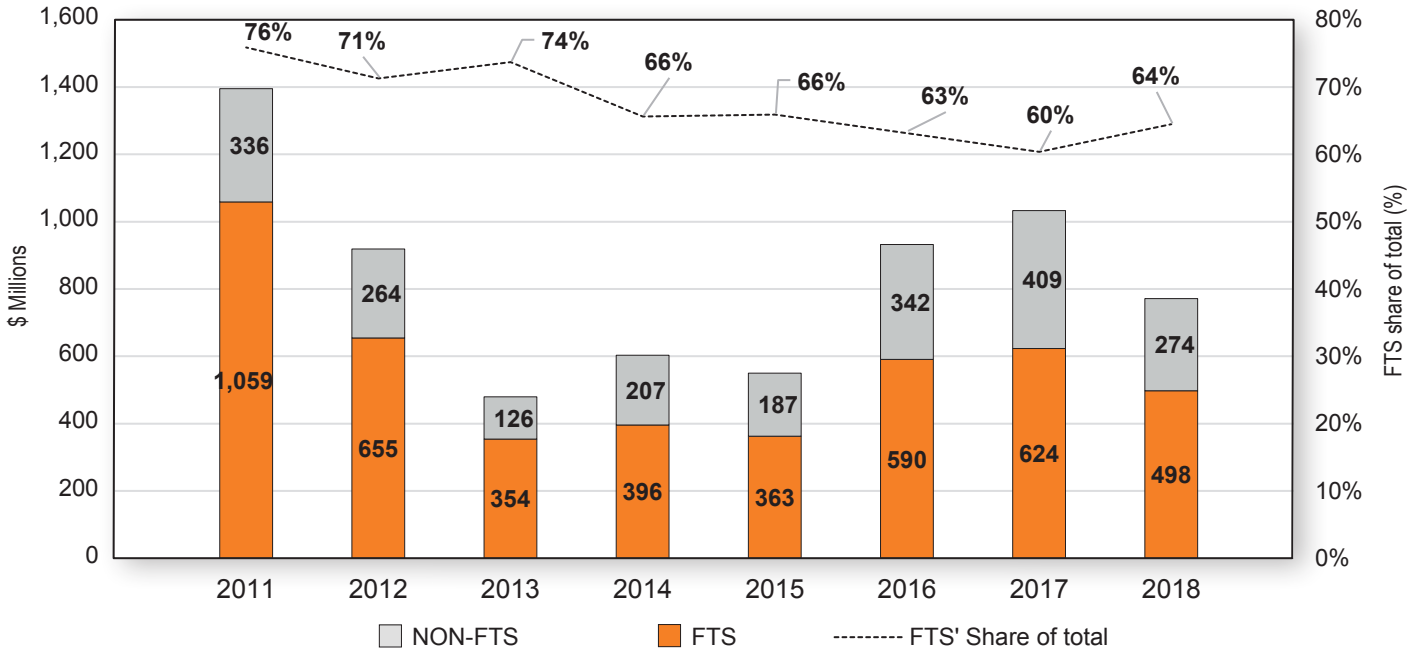
Renewal of the METC for five years will help to provide greater certainty and allow longer-term planning, which is vital for exploration programs as mineral deposits are carried out in stages over an extended period of time. Therefore, this change will help to boost investor confidence and signals government’s appreciation of the importance of the junior exploration sector to Canada’s economy.

Another positive incentive decision occurred in January 2019, when the Government of British Columbia announced the adoption of the BC mining task force’s recommendation to make the provincial METC and the Mining Flow-through Share (MFTS) tax credit permanent incentives. This is a positive development, which hopefully will encourage an increase in exploration funding in B.C. and motivate other provinces with similar provincial METC mechanisms to take similar actions.

Flow-through Shares Are Critical to Canada

Chart 4.2 shows the aggregate value of equity raised on both the TSX and TSX-V 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.

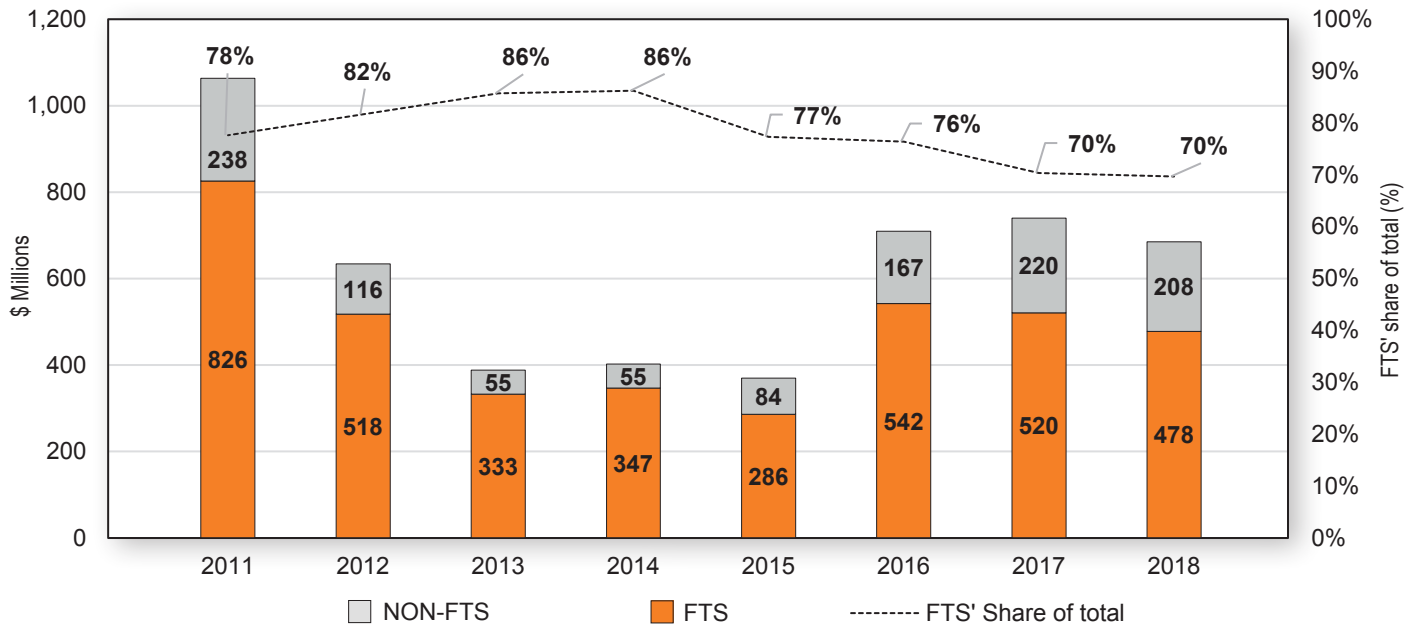
Chart 4.2: Equity Financing in Canada for Exploration in Canada (\$M)



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

Data displayed in Chart 4.2 points towards a diminishing proportion of flow-through equity throughout 2013-2017, which may reflect reduced exploration financing opportunities during a time of weakening commodity prices. That said, analysis of smaller exploration companies by exclusion of any transaction higher than \$20 million points to a different trend in flow-through equity proportion as outlined in Chart 4.3.

Chart 4.3: Equity Financing In Canada for Exploration in Canada (\$M)
(Excludes Transactions >\$20M)



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

From Chart 4.3, it is evident that the flow-through share mechanism has a greater impact on smaller transactions as the FTS proportion of funding, at 78%, jumps by ~10% when large transactions are excluded. 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 share financing for smaller-scale exploration companies.

Canadian Exploration Expenses (CEE) Eligibility Expands

In order to comply with the flow-through share framework, funds raised for exploration must be eligible as Canadian Exploration Expenditures or Canadian Development Expenditures (CEE or CDE), according to the provisions of the *Income Tax Act (Canada)* as elaborated upon by guidance offered by the Canada Revenue Agency (CRA).⁷ Prior to 2016, there were a number of additional expenses incurred by mineral exploration companies that did not qualify as 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. Following that decision, PDAC has continued to work with the CRA in an effort to make the guidance regarding CEE eligibility clearer for industry and other concerned parties.

⁷ Investors often focus on flow-through share offerings where the funds expended are on qualifying CEE, rather than on CDE.

Technical Interpretation of the CEE Guidelines: In May 2018 PDAC submitted a request to CRA for a technical interpretation regarding the impact of the amended definition of CEE to the CEE guidelines released by CRA in January 2017. The request outlined a hypothetical scenario that involved a number of expenditures (e.g. capacity payments, environmental assessments and legal documentation) on which CRA was asked to provide an interpretation regarding their eligibility as CEE. The technical interpretation of CRA, which was released on November 15, 2018 confirmed (subject to meeting certain conditions) that all related items are considered as CEE eligible. CRA also stressed the importance of documentation and appropriate referencing throughout the process in order to provide clarity which will help CRA determine whether the purpose test⁸ has been met. The full interpretation of CRA is available online⁹.

Regulatory Developments in the Canadian Capital Markets

Another key 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.

In this capacity, the advocacy work done by PDAC is divided between easing the burden within the prospectus system and improving small issuers' ability to attract capital without preparing a prospectus, by expanding the exempt markets to additional categories. Next, developments in the Ontario exempt market will be reviewed.

The Use of New Prospectus Exemptions Increased in 2017

Following extensive advocacy of PDAC and other stakeholders, during 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. In Ontario, four new exemptions were added: 1) offering memorandum; 2) family, friends and business associates; 3) existing security holders; and, 4) crowdfunding.

In the past two years, the Ontario Securities Commission (OSC) has published reports that monitor and summarize capital raising activity by non-investment fund issuers in Ontario's exempt markets and provide some insights about the uptake of the new exemptions since they were adopted (2015/16) and through to the end of 2017.

According to these reports, it seem that most exemptions did not gain traction within the mineral industry.

- **Crowdfunding Exemption:** The crowding exemption has not been used at all since its introduction. However, the OSC noted that several exempt market dealers and other registered entities have facilitated a crowdfunding-like model to raise capital predominantly from accredited investors (~\$100 million in 2017).
- **Existing Security Holder Exemption:** This exemption has not been significantly used, as only 24 issuers raised a collective \$2 million in 2016, and 30 issuers raised another \$2 million in 2017.
- **Offering Memorandum Exemption:** This exemption's use increased significantly over the review period. In 2016, 104 issuers raised \$68 million using this exemption, and 158 issuers raised \$136 million in 2017. However, the bulk of issuers employing this exemption are from real estate and financial sectors, and no material use of this exemption by mineral industry issuers was reported by the OSC.

⁸ According to the Income Tax Act, the purpose test for mineral exploration will be met if the exploration program will be conducted for the purpose of determining the existence, location, extent or quality of a mineral resource located in Canada.

⁹ CRA's technical interpretation can be found at: <https://miningtaxcanada.com/wp-content/uploads/2018/12/Document1.pdf>

- **Friends, Family and Business Associates Exemption:** This exemption is the only exemption that was a material source of funding for mineral exploration companies. The total use of this exemption climbed from \$63 million raised by 302 issuers in 2016, to \$191 million raised by 452 issuers in 2017. The OSC did not track mineral industry figures separately in 2016, but they did delineate natural resources issuers, and in that group, approximately 130 issuers raised \$13.2, which is 21% of the funds raised using the family, friends and business associate exemption. In 2017 OSC did provide figures specific for mineral industry, and according to that from the amount raised in 2017, roughly 6%, or \$11.5 million, were raised by 162 mineral industry issuers.

While it is encouraging to see some uptake by mineral industry issuers, it is worth noting that the total size of the Ontario exempt markets in 2017 was \$91 billion, which makes the new exemptions a negligible component of the current market. As the OSC noted, the lion share of funds raised in the exempt market were completed using the *Accredited Investor* exemption. Given the dominance of this exemption, PDAC has advocated in the past, and will continue to advocate in the future, for modification of this exemption to include non-financial criteria (e.g. expertise, education, experience) in order to expand the pool of eligible investors and capital accessible through the exempt market for small exploration companies.

Advocacy for Reduction of Securities Regulatory Costs

In April 2017 the Canadian Securities Administrators (**CSA**) published a consultation paper (CSA Consultation Paper 51-404, *Considerations for Reducing Regulatory Burden for Non-Investment Fund Reporting Issuers*), asking stakeholders to provide comments.

The consultation paper identified a number of options to reduce the regulatory burden associated with both capital raising in the public markets (i.e., prospectus related requirements) and the ongoing costs of remaining a reporting issuer (i.e., continuous disclosure requirements). The comment period closed on July 28, 2017, and by that time CSA had received 57 comment letters from various stakeholders across Canada.

In March 2018 CSA published CSA Staff Notice 51-351, which provided an update regarding CSA's next steps following the analysis of responses to CSA Consultation Paper 51-404. Based on consideration of the feedback received, the CSA announced it is planning to initiate in the near term, six options as CSA policy projects.

The six areas identified by CSA are as follows:

1. Prospectus requirements

- Potential alternative prospectus model:* CSA will consider an alternative prospectus offering model for reporting issuers with disclosure more concise and focused than under the current short form prospectus regime.
- Facilitating at-the-market (ATM) offerings: Through the consultation paper CSA identified that the current prospectus regime does not exempt ATM offerings from certain provisions, which makes ATM offerings in Canada impractical in practice. In light of feedback received, the CSA intends to initiate a policy project in this area.
- Revisiting the primary business requirements:* It was suggested that CSA revisits the interpretation of Item 32 of Form 41-101F1, which outlines the historical financial statements required to be included in an IPO, as there were certain inconsistencies between staff's interpretation of these requirements across the CSA. In light of feedback received, CSA staff is considering ways in which it can provide greater clarity to issuers preparing an IPO prospectus regarding these issues.

2. Continuous disclosure requirements

- i. *Removing or modifying the criteria to file a business acquisition report (BAR)*: The preparation of a BAR entails significant time and cost, and the information necessary to comply with the BAR requirements may, in some instances, be difficult to obtain, while the value of the BAR disclosure was questioned in the feedback received. Therefore, a CSA policy project will be pursued in this area.
- ii. *Revisiting certain continuous disclosure requirements*: Following receiving a number of comments pertaining to existing continuous disclosure requirements as set out in National Instrument 51-102 *Continuous Disclosure Obligations* (NI 51-102), a CSA policy project will be initiated to review certain continuous disclosure requirements, with a view to reducing the burden of disclosure on issuers, while enhancing its usefulness and understandability for investors.

3. Other securities regulation requirements

- i. *Enhancing electronic delivery of documents*: As some market participants are of the view that reporting issuers continue to incur significant costs associated with printing and delivering various documents required under securities legislation, feedback received from the public was generally supportive of developments which would further facilitate electronic delivery of documents and, in particular, switching the current default to electronic delivery. In light of this feedback, a policy project will be initiated in this area.

As a next step, the CSA intends to initiate each of the above projects in the near term. In November 2018, the CSA approached a number of stakeholders, including PDAC, asking for additional feedback regarding an alternative prospectus model as a first step in addressing the six priorities listed above.

In addition, on January 14, 2019 OSC published a consultation paper (Staff Notice 11-784) asking Ontario stakeholders to comment regarding regulatory burden reduction. The consultation paper will be followed by a round table that will be held on March 27, 2019 and will engage stakeholders who commented on the consultation paper. PDAC intends to submit a response, on behalf of its members, to the OSC paper and welcomes the opportunity to participate in the upcoming roundtable.

In representing our more than 8,000 members, PDAC uses the analysis contained in this report to support ongoing advocacy efforts that aim to improve access to capital for the mineral industry. This report is just one of the many publications and tools produced by PDAC to support member efforts. To find out more about PDAC advocacy, available reports and tools, Please visit www.pdac.ca.



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