

EXPLORATION

insights

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# The Art of a Deal

## *Majors Interacting With Junior Explorers*

AME Roundup, January 2018 – Vancouver, Canada

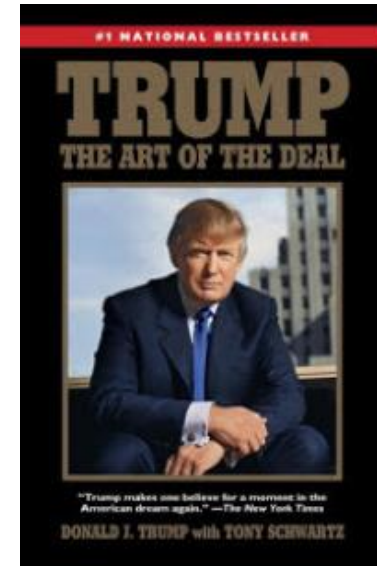
Turning Rocks into Money

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# The Art of a Deal

- How did we get here?
- How are the majors coping?
- What's the attraction?
- Let's make a deal
- Summary and conclusions



# The Art of a Deal

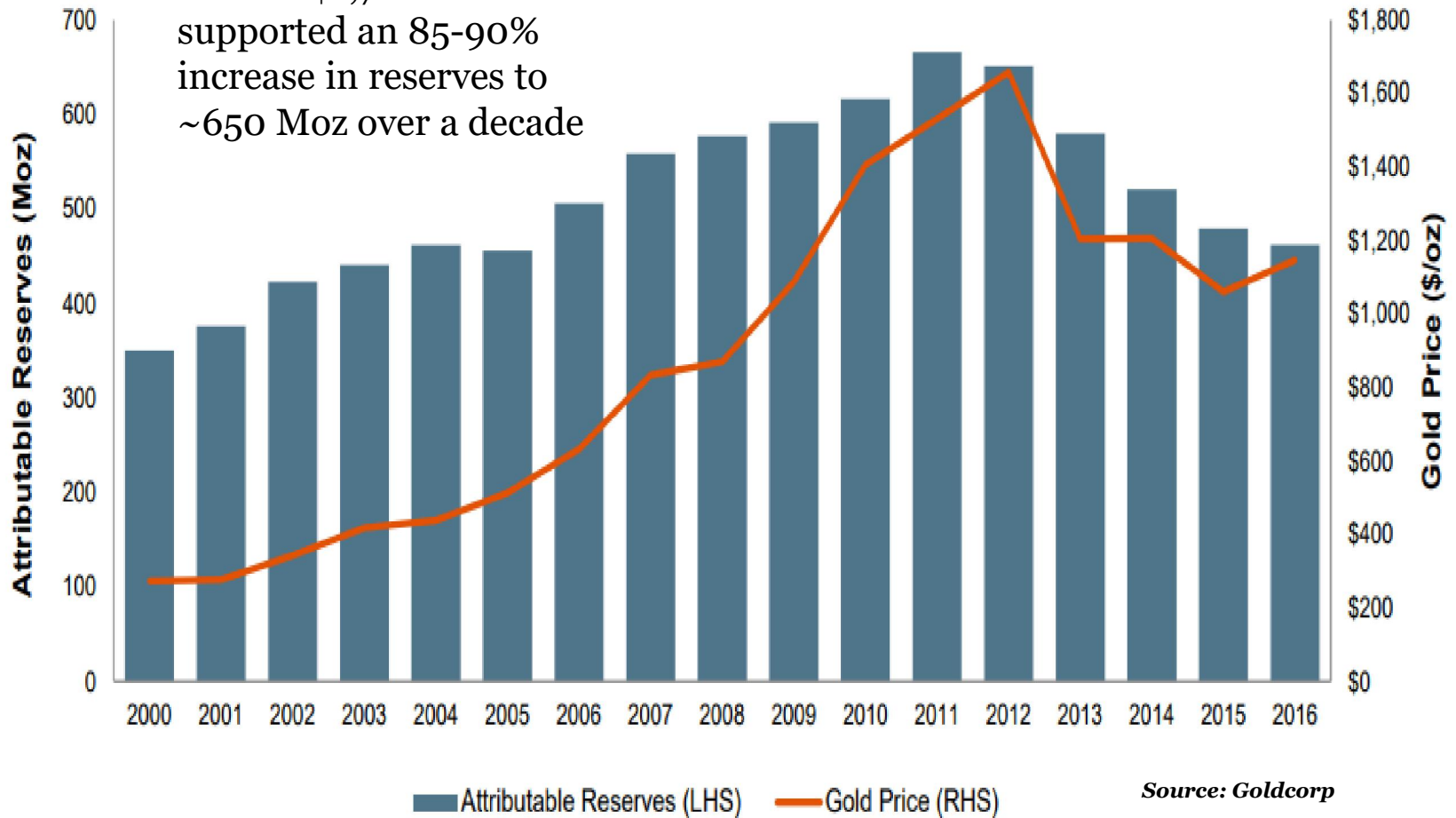
- How did we get here?
  - Drop in reserve and grade
  - Low cash generation
  - Declining grassroots exploration
- How are the majors coping?
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# Gold price giveth and the gold price taketh away

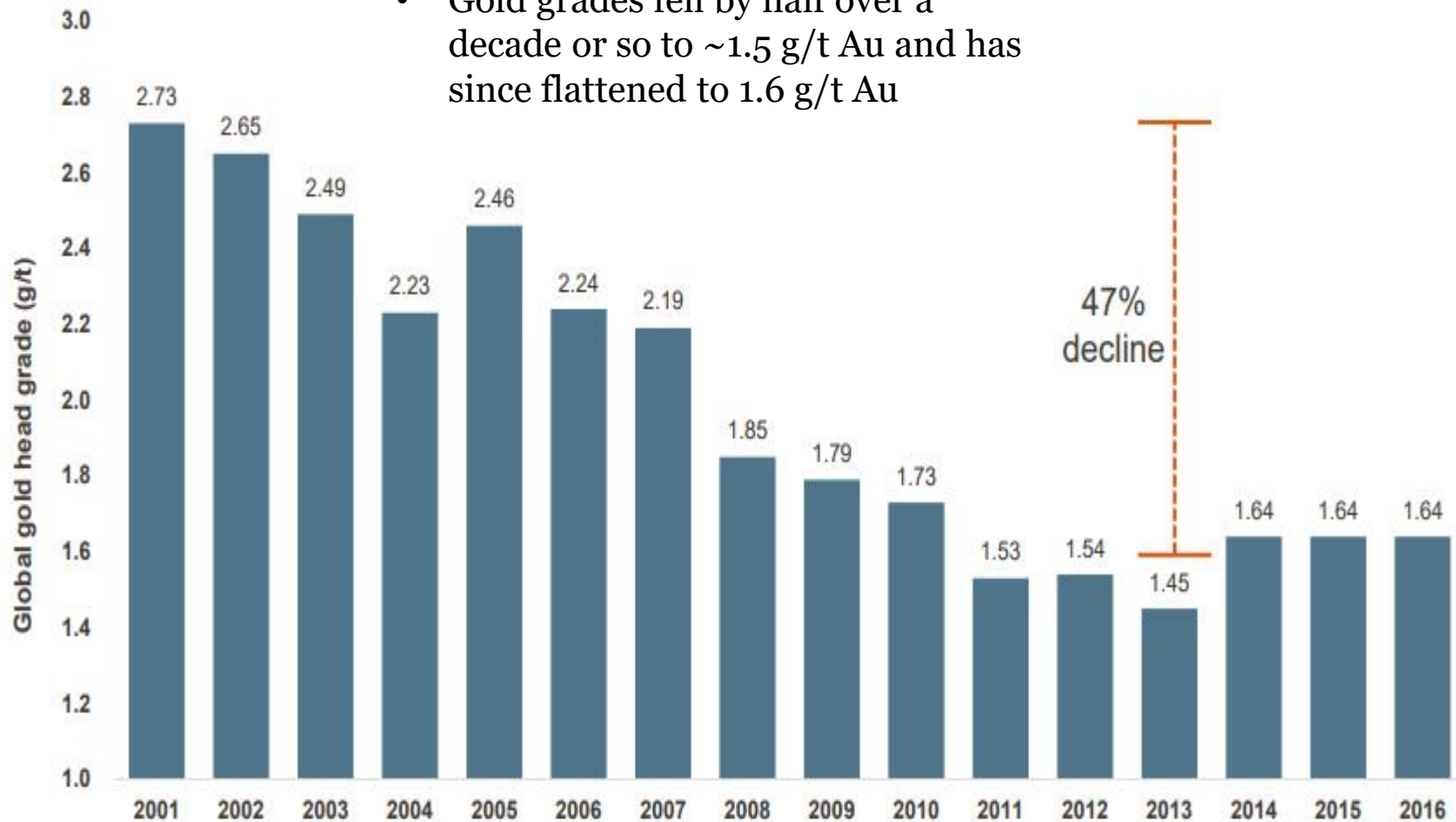
- Gold price move up (up 385% or +US\$1,200) to over US\$1,700 supported an 85-90% increase in reserves to ~650 Moz over a decade

- Gold price fell to US\$1060 (down 40% or US\$600) dropped global reserves by over 200 Moz to just over 400 Moz



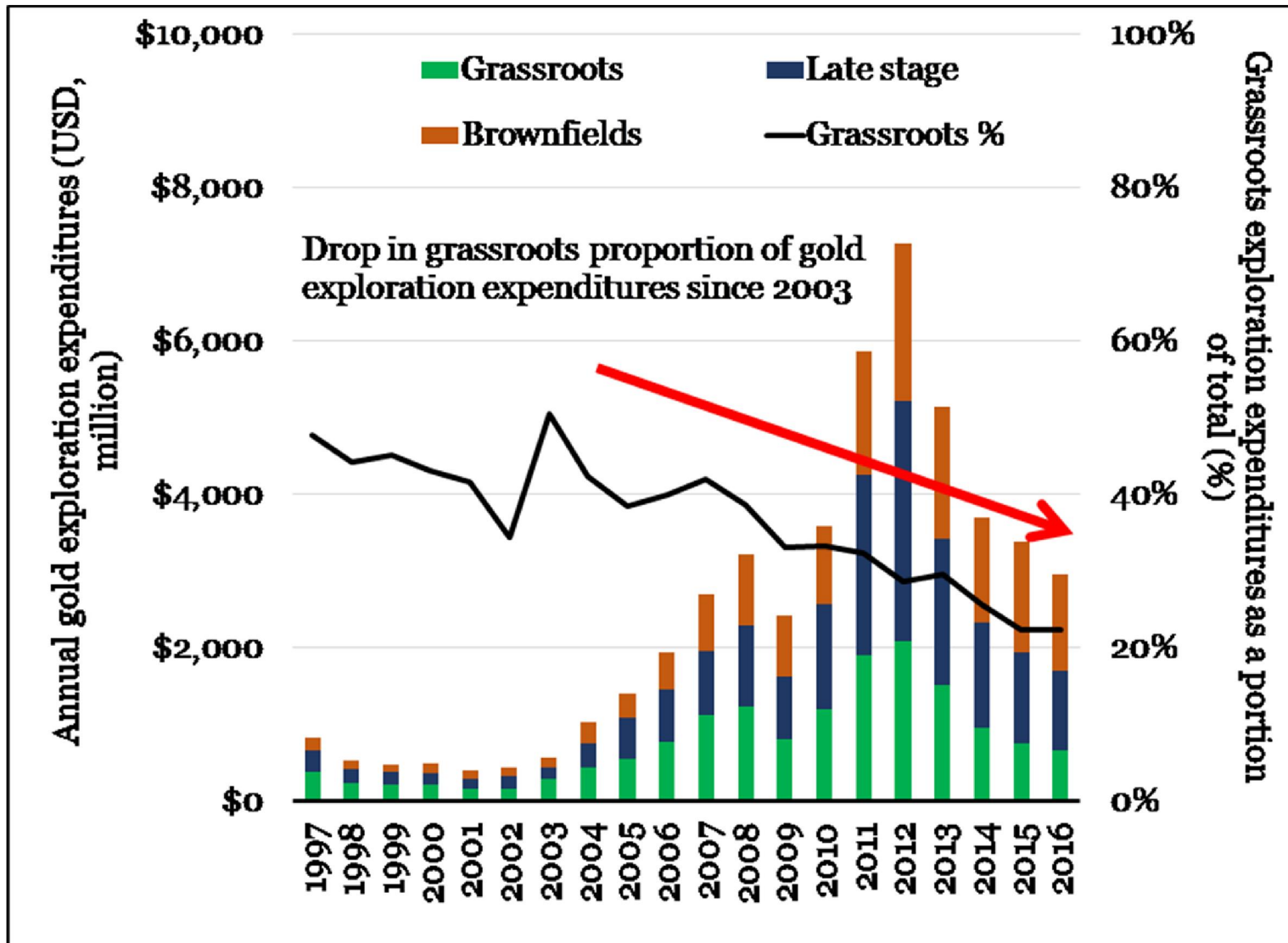
# Low grade ounces added from 2001-2013

- Gold grades fell by half over a decade or so to ~1.5 g/t Au and has since flattened to 1.6 g/t Au



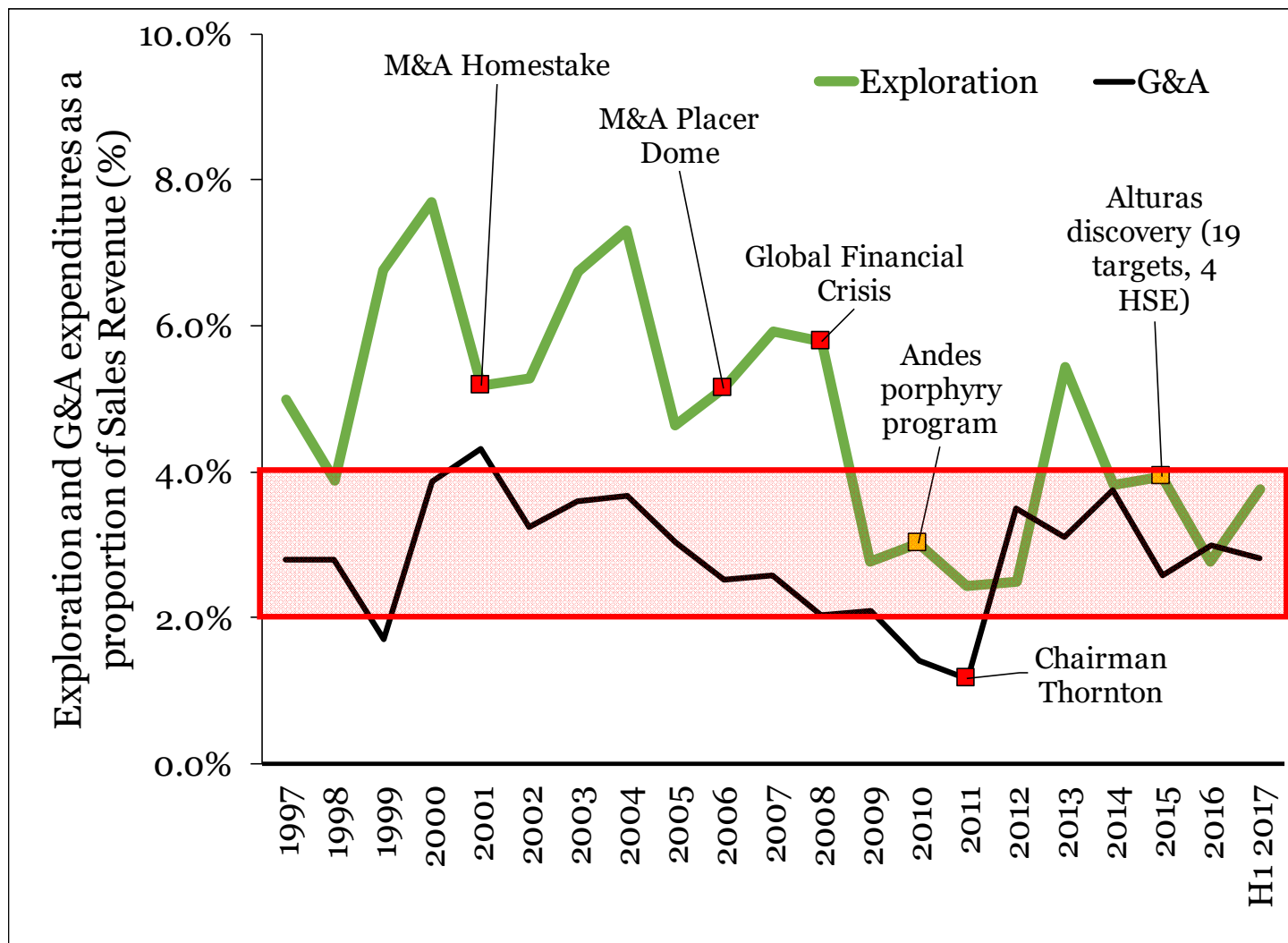
Source: Goldcorp

# Grassroots gold exploration declining since 2003



Source: S&P Global Market Intelligence and Exploration Insights

# Barrick's exploration expenditures flatten



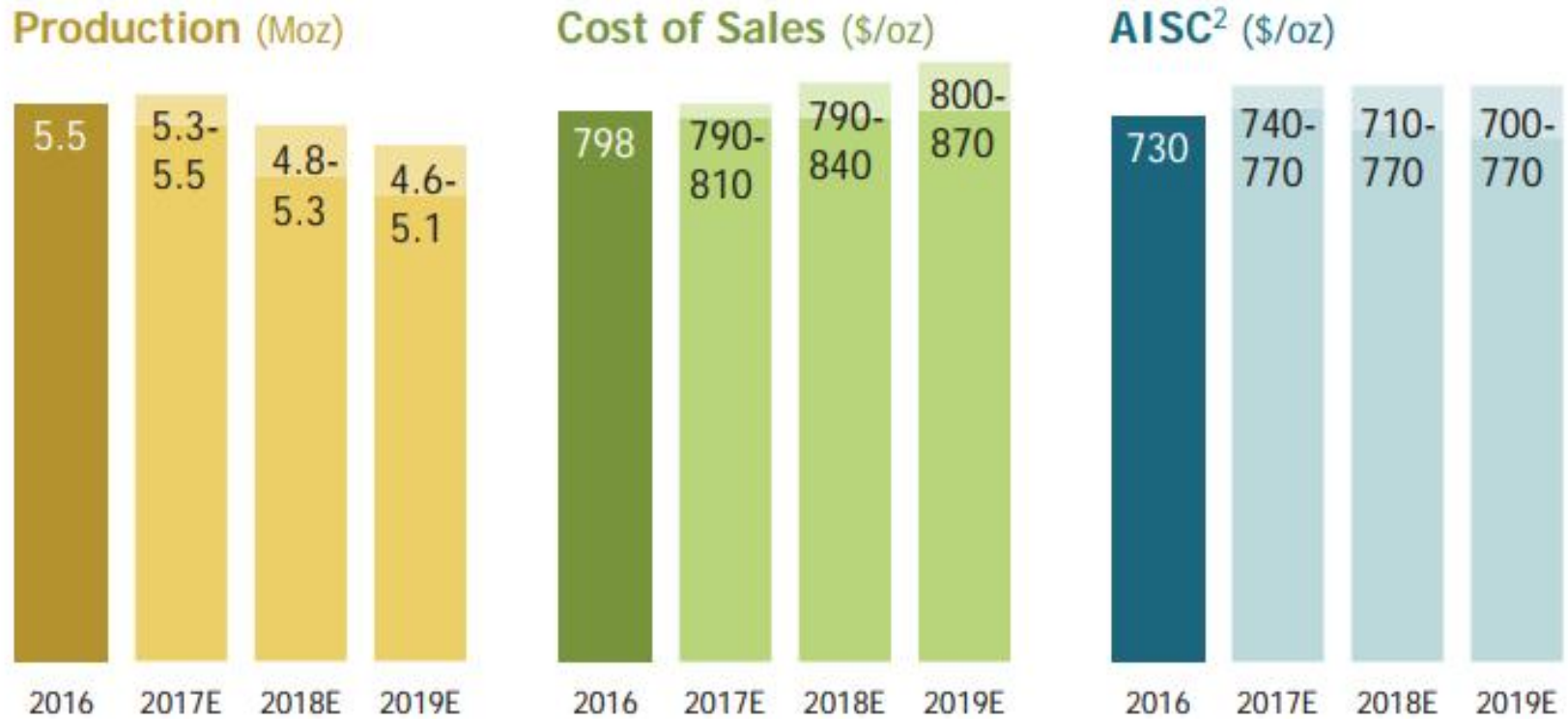
Source: Barrick Gold and Exploration Insights

# ABX production profile shrinks to flatten AISC

## Three Year Production and Cost Guidance<sup>1</sup>



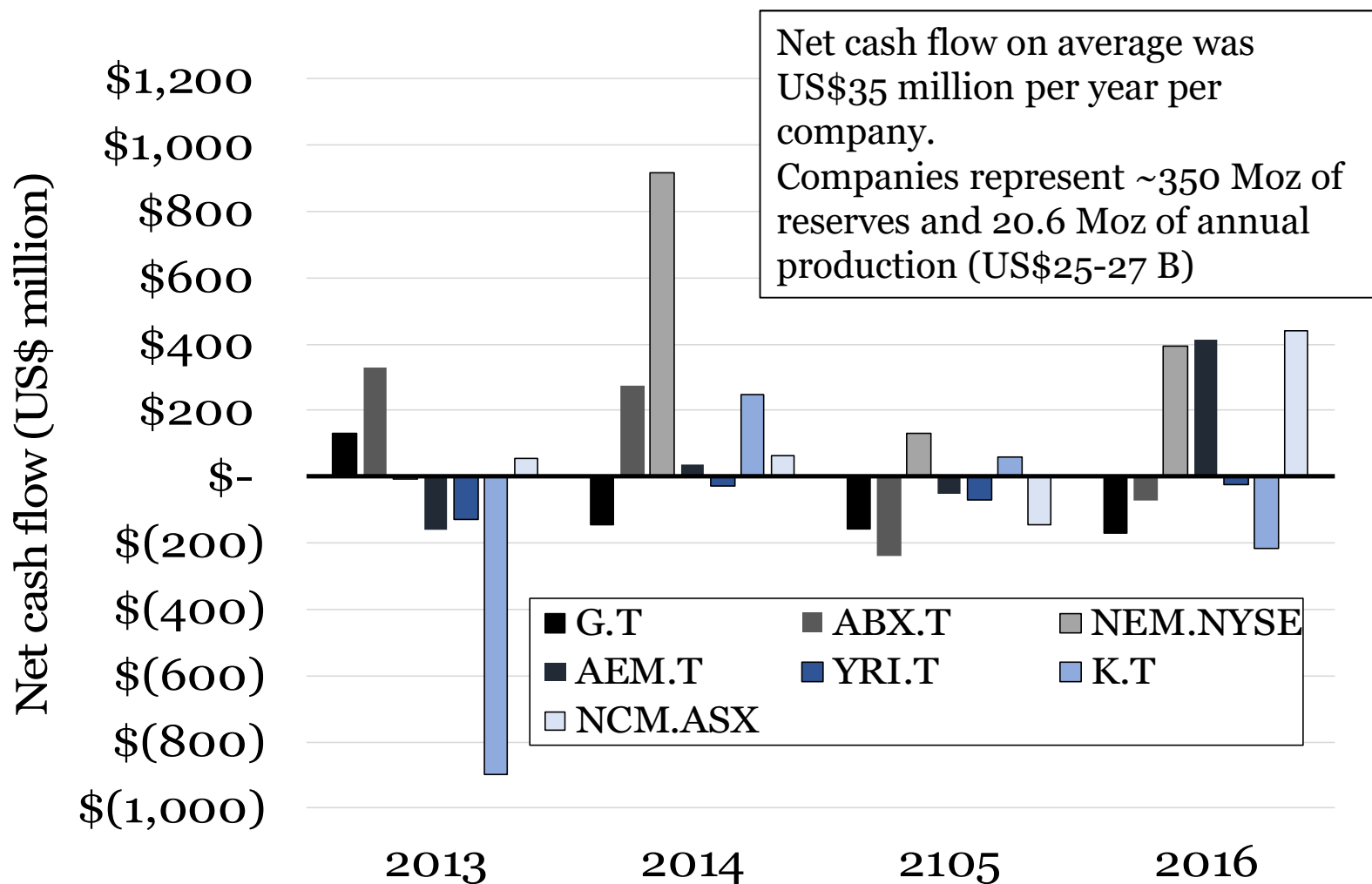
(Estimates for 2017 are as published by Barrick as at Oct 25, 2017 and estimates for 2018 and 2019 are as at Feb 15, 2017)



Source: Barrick Gold



# Major gold producers generated US\$35 M/y



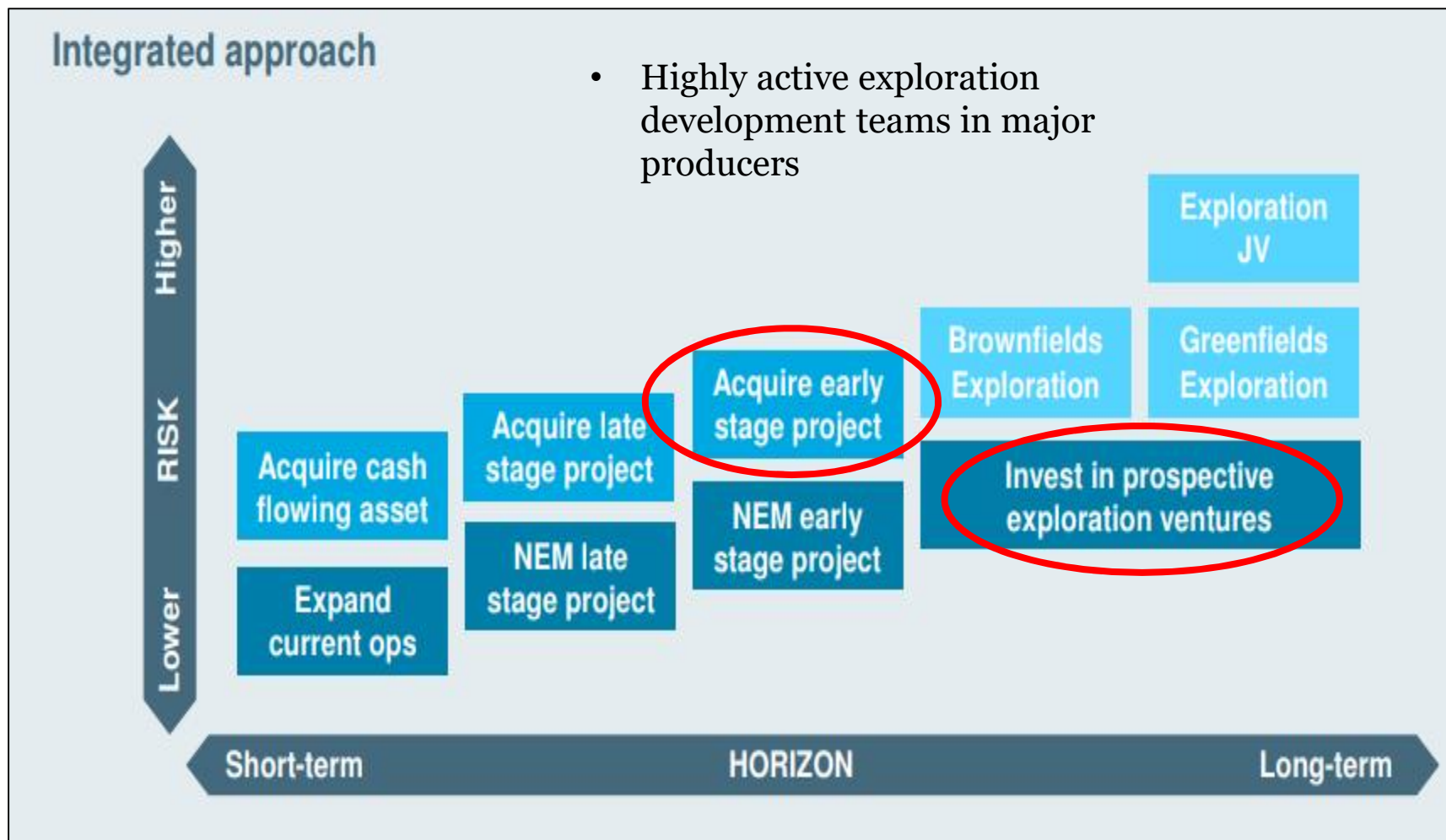
Source: Investing.com, Company financial reports and Exploration Insights

# The Art of a Deal

- How did we get here?
- How are the majors coping?
  - Junior explorers getting financed
  - Majors funding juniors
- What's the attraction?
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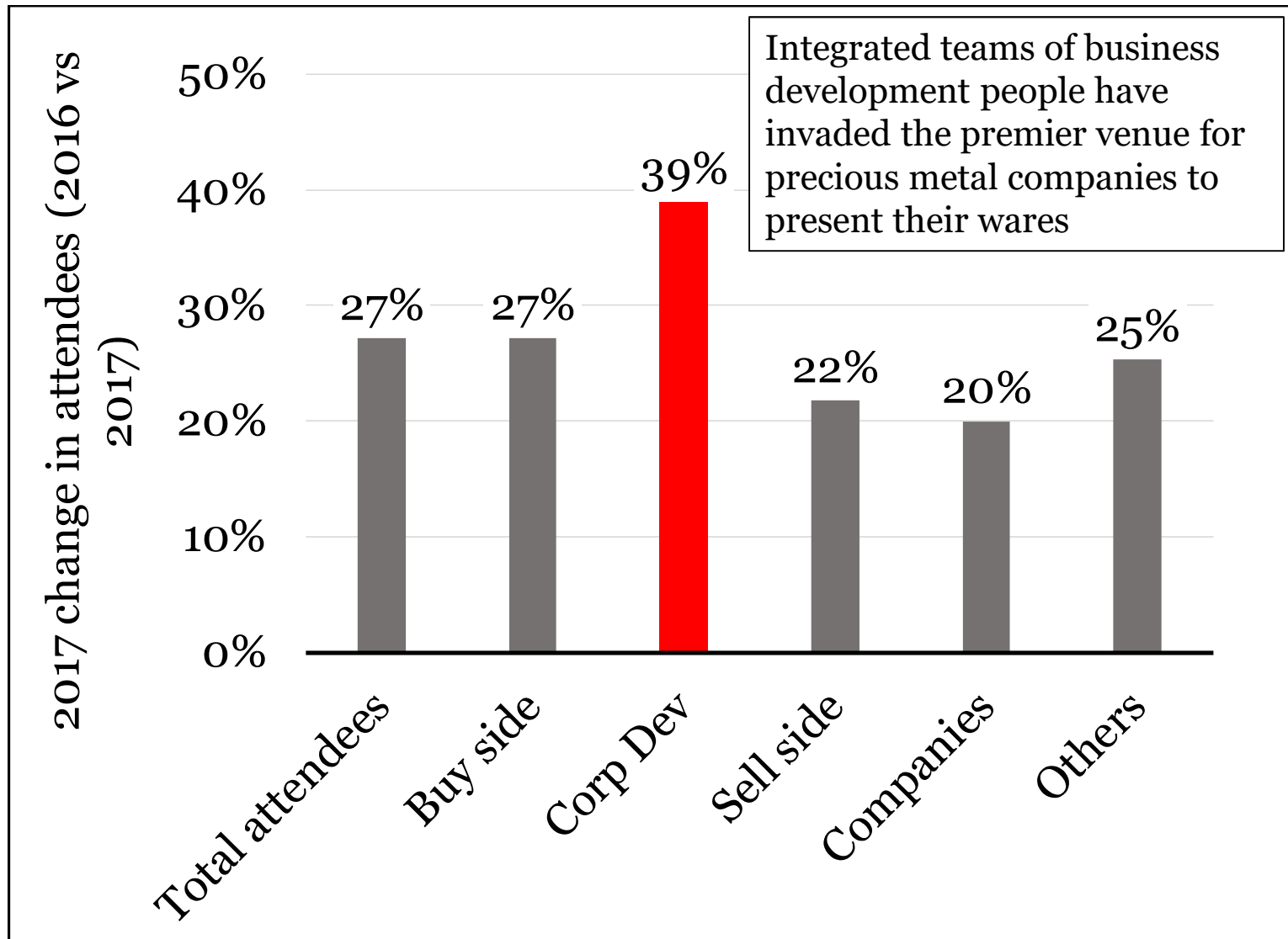


# Part of an integrated approach to LT strategy



Source: Newmont Mining

# Looking in all the right places

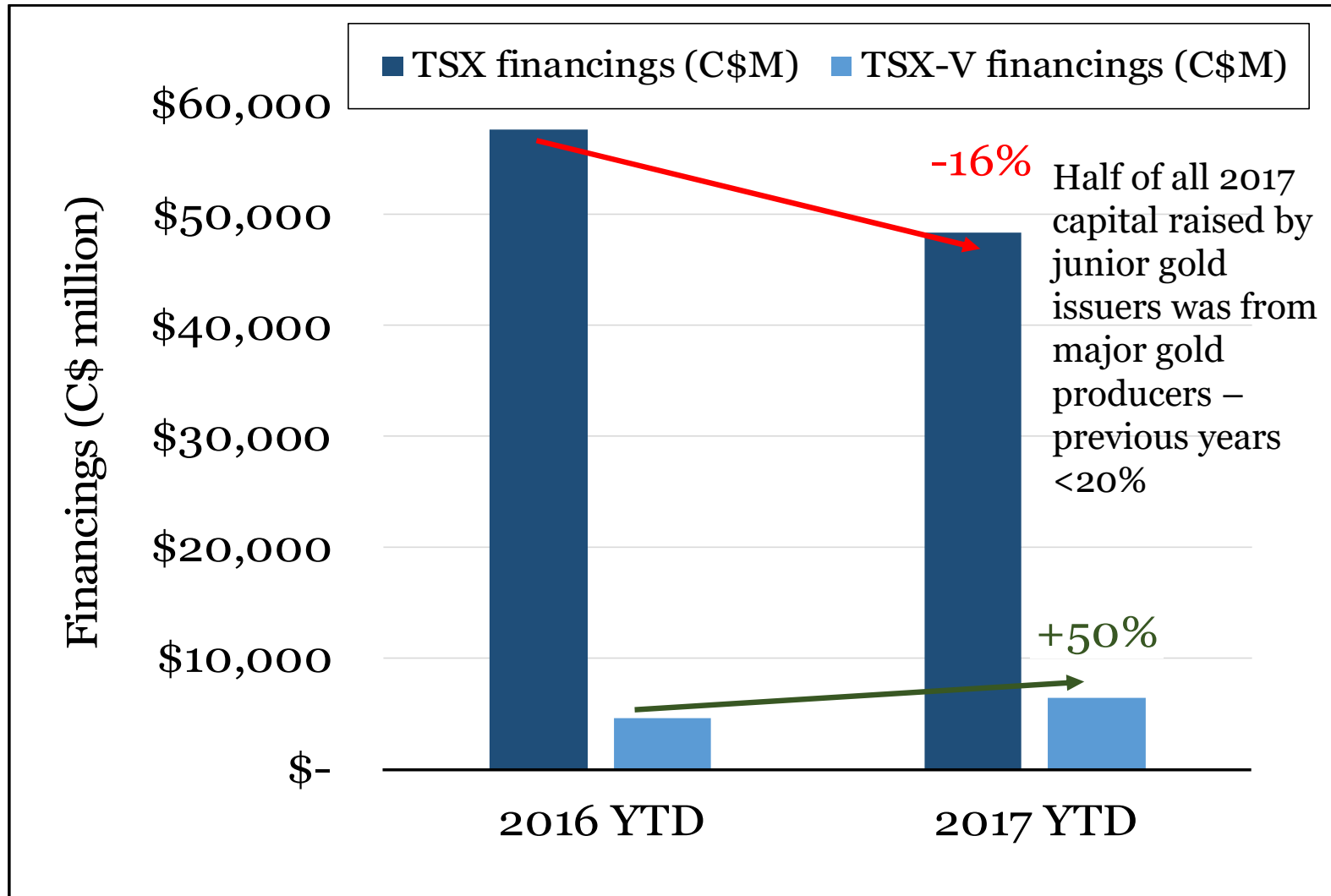


Source: Precious Metal Summit and Exploration Insights

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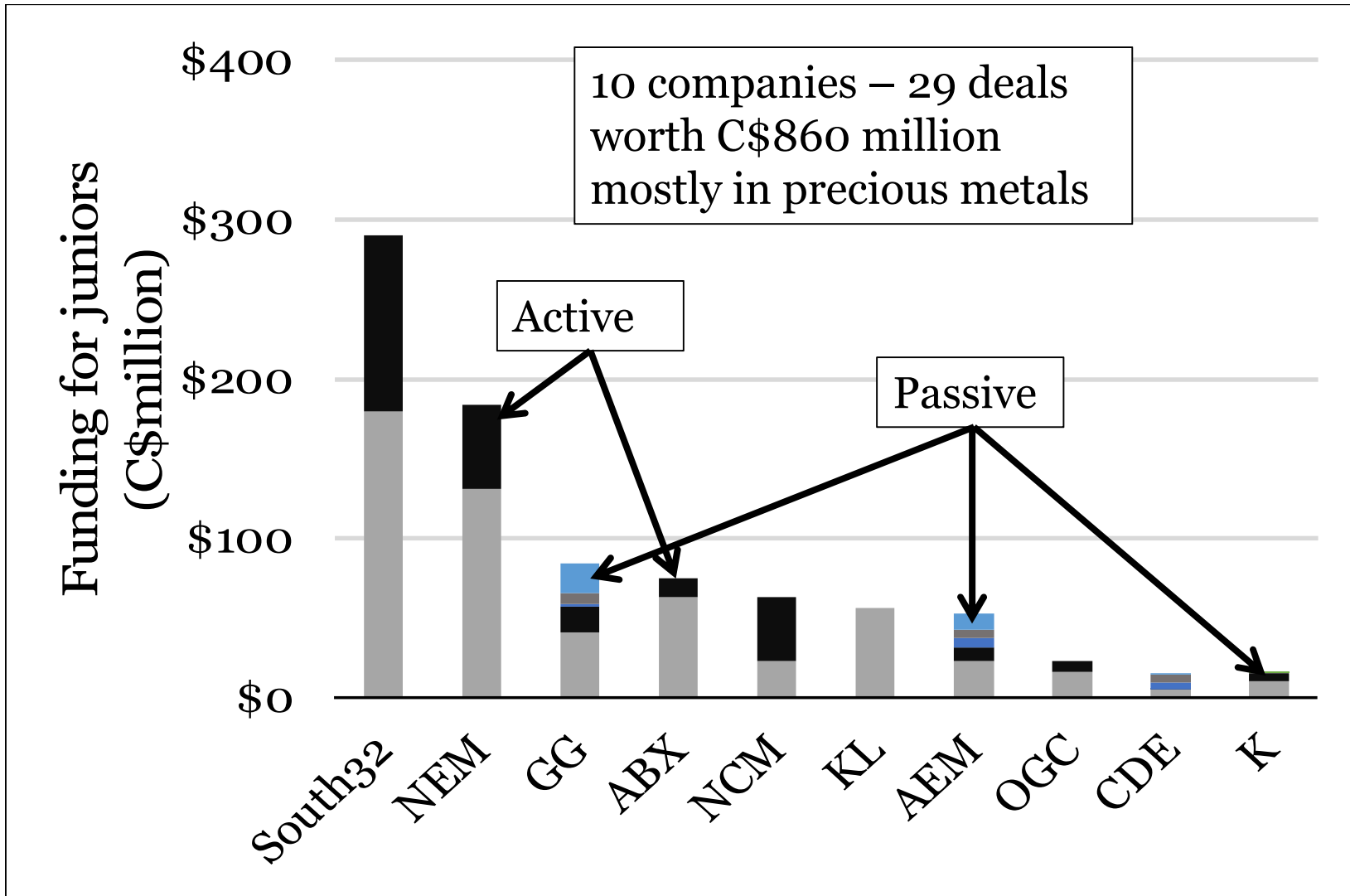
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# Financings for juniors was +50% in 2017



Source: [www.resourcestockdigest.com](http://www.resourcestockdigest.com), TMX Group and Exploration Insights

# C\$860 million in potential funding from majors



Source: Company press releases and Exploration Insights

## Passive versus Active

- Technical support
- Programs are wholly run by junior
- Only equity investment, no joint venture or earn-in
- January 2017 – Goldcorp (G.T, GG.NYSE) purchases C\$35 million (12.5%) of Auryn Resources (AUG.T) priced at C\$3.67, 50% premium with no warrants issued [C\$1.52]
- September 2017 – Kinross Gold (K.T, KG.NYSE) purchases C\$15.9 million (~9.9%) of Aurion Gold (AU.V) priced at C\$2.32, 9% discount with no warrants issued. [C\$0.84]

## Passive versus Active

- Technical support
- Transition to operator by major
- JV or earn-in with or without equity investment
- March 2017 – Gold Strike (GSR.V) forms a strategic alliance with Newmont Mining (NEM.NYSE) to advance the Plateau project with multi-stage 75% earn-in (C\$49 M) and equity placement (94% prem., C\$6.0 M, wnt) totaling C\$53 million. [C\$0.47 vs C\$0.20]
- April 2017 – Barrick Gold (ABX.T, ABX.NYSE) earn-in to Atac Resources' (ATC.V) Rackla gold project with multi-stage 70% earn-in (C\$55 M) and FT equity placement (19% prem., C\$8.3 M) totaling C\$63 million. [C\$0.50 FT vs. C\$0.53]



# The Art of a Deal

- How did we get here?
- How are the majors coping?
- What's the attraction?
  - Exploration target
  - Technical team
  - Jurisdiction, local knowledge
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- Summary and conclusions



## Barrick's Carlin play in the Yukon

- Phased and multi-year expenditures with option to pull out after 2-4 years
  - Stage 1 - 60%– C\$35 M to 2021
  - Stage 2 - 80%– C\$20 M to 2026
- Long term strategic plays (+5 years)
- Large district scale land package
  - Rackla >1,700 sq km
- Mining friendly jurisdictions
  - Yukon
- Leverage its own expertise
  - Carlin style

## Newmont's Pogo play in the Yukon

- Phased and multi-year expenditures with option to pull out after 2-4 years
  - Stage 1 - 51%– C\$17.4 M to 2021
  - C\$8 M in payments to GSR
  - Stage 2 - 75%– C\$21.4 M to 2027
- Long term strategic plays (+5 years)
- Large district scale land package
  - Plateau >350 sq km
- Mining friendly jurisdictions
  - Yukon
- Leverage its own expertise
  - Pogo style?

# The Art of a Deal

- How did we get here?
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  - Junior perspective
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## Dancing with the right partner

- Match project with JV partner (right size and fit)
- Bigger the better - Stand alone would attract multiple suitors, 20-30% of something for the junior is better than 100% of nothing
- Equity placements – At a premium
- Cash payments – Sustains junior, maintains share structure
- Operatorship – Up to resource definition but not for de-risking engineering studies (not area of expertise), management fee
- Technical support - Leverage expertise

## The Chess Match

- Staged earn-in with minimum expenditures
  - Opening - Well defined expenditures and program
  - Middle game - Incentivize JV partner to 'Go Big or Go Home'
  - End game - Funding to production or dilute to royalty (no buy back clause)
- News flow - Deliverables (drill meterage, geophysics, resource, PEA, FS) generate marketing documents for junior
- Fall back - If major does not complete earn in – project reverts to junior

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## Summary

- Higher gold prices lead to adding reserves with lower grades to 2013
- Grassroots gold exploration declining since 2003
- Little free cash flow generation over past several years
- JV projects held by juniors to boost project pipeline for high margin projects
- Big land packages, large deposit analogues, good jurisdictions, long term plays
- Juniors seek:
  - Endorsement
  - Cash
  - Expertise
  - Deliverables
  - Fall back
  - Financing to production or royalty



## Conclusions

- Major producers need high margin projects to provide the returns investors want.
- Few exist to replace what mining industry digs up.
- Decimated exploration budgets force majors to invest in juniors to fill pipeline.
- Trend will benefit top tier prospect generators and grassroots exploration companies which often have more grassroots exploration expertise than the majors.
- Grassroots exploration companies operating in mining friendly jurisdictions with competent technical teams have the highest probability of success in a highly risky sector.

# Exploration Insights

- Independent, unbiased and technical commentary on the junior mining sector
- Brent Cook - Independent exploration analyst with over 30 years of experience in both property economics and geology evaluations.
- Joe Mazumdar – Geologist (10 years), commodity analyst & trader, equity analyst (9 years), corporate dev/strategic planning (4 years)

