



Mineral Resources Review / CIM 2015

Prospectors Short Course

Business Development

November 04, 2015

St. John's, Newfoundland and Labrador



Disclaimer



Forward-Looking Statements:

This document contains "forward-looking statements" – that is, statements related to future, not past, events. In this context, forward-looking statements often address expected future business and financial performance and financial conditions, and often contain words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "see," "will," "would," or "target." Forward-looking statements by their nature address matters that are, to different degrees, uncertain, such as statements about anything. For me, particular uncertainties that could cause our actual results to be materially different than those expressed in forward-looking statements include anything, as well as other factors that may be considered "Risk Factors". There will be no undertaking to update any forward-looking statements. This document includes certain forward-looking projected financial information that is based on current estimates and forecasts. Actual results could differ materially. This document also contains financial information and third party data and this information may be informative to investors and prospectors only in a general sense. Nothing contained within or said during this presentation should be construed as a solicitation to buy or sell any securities. Seek the advice of a broker/dealer before making any investments.

Furthermore, I, Roland Butler make the following statements:

- I am not a geologist

I am not a professional geologist. I do not have a P.Geo. Designation and am not Registered with APEGNL. I do not offer any commercial services to anyone for any reason.

- I am not an investment advisor

I am not an investment advisor. I am not trained or registered with any related regulatory body. I do not offer or provide any investment advice. Always seek professional advice. I've lost money on my personal investments and you can too.

- I am receiving no compensation

I am doing this for free and am covering my own costs.

Acknowledgements

- Many of the slides in this presentation are from a series of presentations prepared by Richard Schodde of Minex Consulting.
- The presentations are publicly available at no cost at www.minexconsulting.com
- Other slides are derived from other third party sources as referenced on each slide.

Plan

- Prospecting is a business
- Every business needs a business plan
- Small business development normally requires 5 years

Plan

“In preparing for battle, I have always found that plans are useless but planning is indispensable”

- Dwight Eisenhower

Business Development

- **Financial**
- Marketing
- Negotiations
- Legal

Financial

*“Exploration is a capital-intensive business.
No capital – no business”*

- Paul van Eeden

Financial

Sources of financing

- Personal - Family and friends
- Government
- Industry
- Investors

Financial

Government sources of funding

- DNR Programs
- Economic development agencies

Financial

- Investors
- Angels and High Net Worth individuals
- Entrepreneurs
- Crowdsource



Financial

- Industry
- Venture Capital Seed Financing
- Grubstake
- Syndicate
- Partnerships

Financial

Investment Structures may include:

- Private company
- Partnership
- Syndicate

Financial

With all investment structures, consider the following:

- Prospecting is likely a long term endeavour. Relationships and circumstances change over time.
- Clearly define start points and “off-ramps” for others
- If a specific project, clearly define the area of interest

“There is no problem getting money for good projects, but the presentation has to be right.”

- Geologist, Exxon Mobil

Business Development

- Financial
- **Marketing**
- Negotiations
- Legal

Marketing

- Mineral exploration is a human endeavour, a people business
- Personal relationships and references are key
- Make sure materials are good quality and up to date

Marketing

- Learn what companies are seeking and try to meet their objectives
- Juniors seek something that has promotional appeal
- Majors seek scale and must fit their chosen criteria

Marketing

- Focus only on most reputable companies as customers
- Companies typically conduct due diligence and prospectors should do so as well
- Check background of company and key people: website, SEDAR, insider trading, securities organizations (BCSC, OSC)

Marketing

- Field visits are where relationships and decisions are made
- Logistics and materials are in order
- Carefully plan route and walk through the story
- Passion and enthusiasm

Marketing

“If you want to know what’s good about a property, ask the prospector. You can always hire an engineer or geologist to tell you what is wrong with it.”

- Thayer Lindsley

Business Development

- Financial
- Marketing
- **Negotiations**
- Legal

Negotiations

- Keep it simple, clear and firm
- Be organized and transparent when seeking multiple bids
- Negotiate in good faith with one party at a time
- Build trust during negotiations

Negotiations

Set an approximate realistic market value for your property

Why?

- Guides the negotiation of terms
- Determines the exploration program

*“If one does not know to which port one is sailing,
no wind is favorable.”*

- Lucius Annaeus Seneca

Negotiations

- Roscoe Postle Method
- Joint Venture Method
- Geoscience (Kilburn) Method
- Market Comparison Method
- Replacement Cost Method
- NPV Method

Negotiations

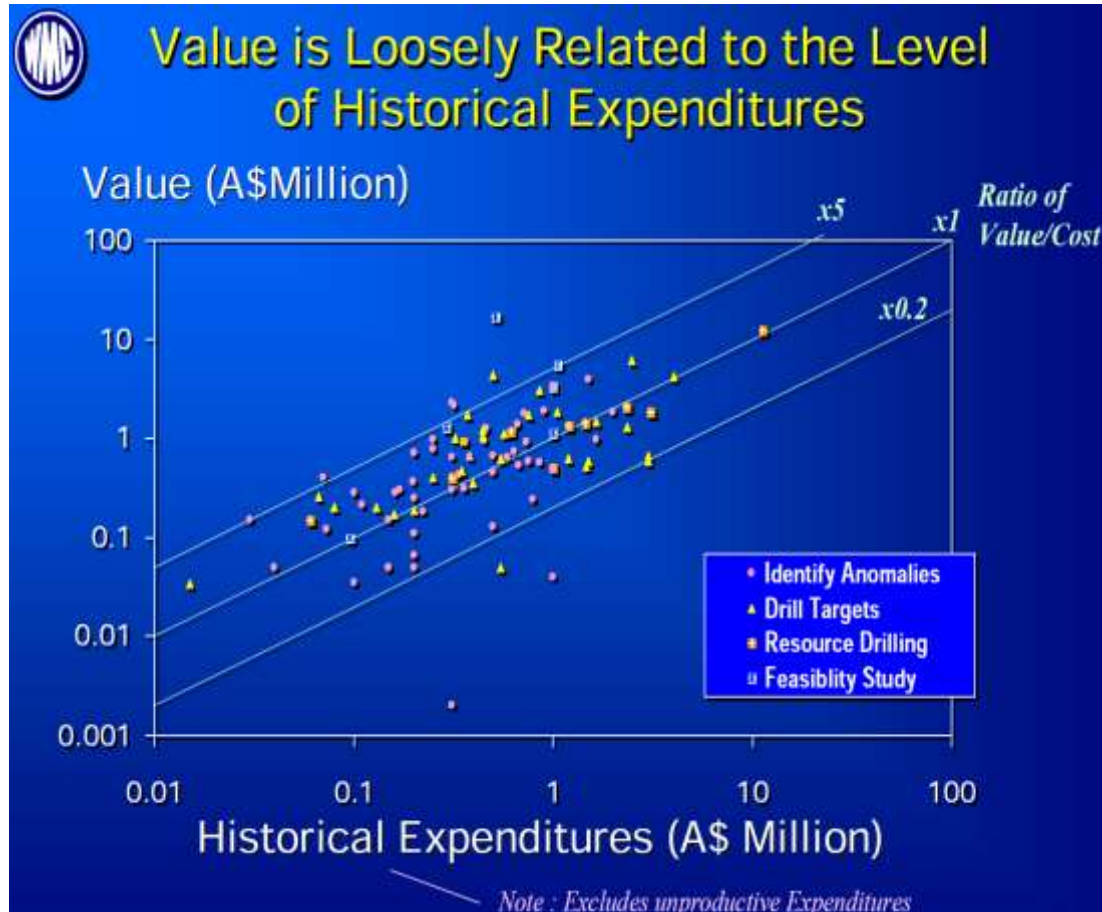
Roscoe Postle Method

- Past Exploration with factor + Future recommended exploration adjusted by a prospectivity factor
- Only use past spending that generated positive results
- Only count future exploration that is planned

Negotiations

Previous exploration expenditure multiplier

0.5x	Previous exploration discouraging
1x	Existing data supports more exploration
1.5x	Viable exploration target identified
2.0x	Drill target with previous intersections
2.5x	Resource definition probable
3.0x potential	Attractive resource with exploration



Negotiations

Joint Venture Method

- Value is determined by how much the earning party will spend
- Value = Exploration Spend / 3rd party interest *and*
- Value of 100% of project multiplied by owners share


Negotiations

- Company to spend \$2m/4 years to earn 60%
- Assume 20% probability it will be completed
- $\$2\text{m} \times 0.2 / 60\% = \670k
- $\$670\text{k} \times 40\% = \268k TOTAL = \$938k

Negotiation

Geoscience (Kilburn) Method

- Uses a scoring system
- Adjusts for market conditions
- Standard exploration is applied (\$ per square kilometer)



Kilburn Rating Criteria

Simplified Example

Rating	Off-Property Factor	On-Property Factor	Anomaly Factor	Geological Factor
0.1				Unfavourable Lithology
0.5			Extensive previous exploration gave poor results	Generally favourable Lithology on 25% of the Lease area
0.9				Generally favourable Lithology (50% Lease)
1.0	No known mineralisation in district	No known mineralisation on the leases	No Targets outlined	Generally Favourable Lithology (70% Lease)
2.0	Several old workings in district	Several old workings on the leases	Several well defined targets	Generally Favourable Lithology with structures
3.5	Historic production >200,000 ounces	Historic production >100,000 ounces		
5.0	Historic production >1 million ounces	Historic production >500,000 ounces	Several Ore Grade Drill Intersections	

Negotiation

Market Comparison Method

- Uses valuation of neighboring projects
- May not be comparable properties
- May be no neighbours

Replacement Cost Method

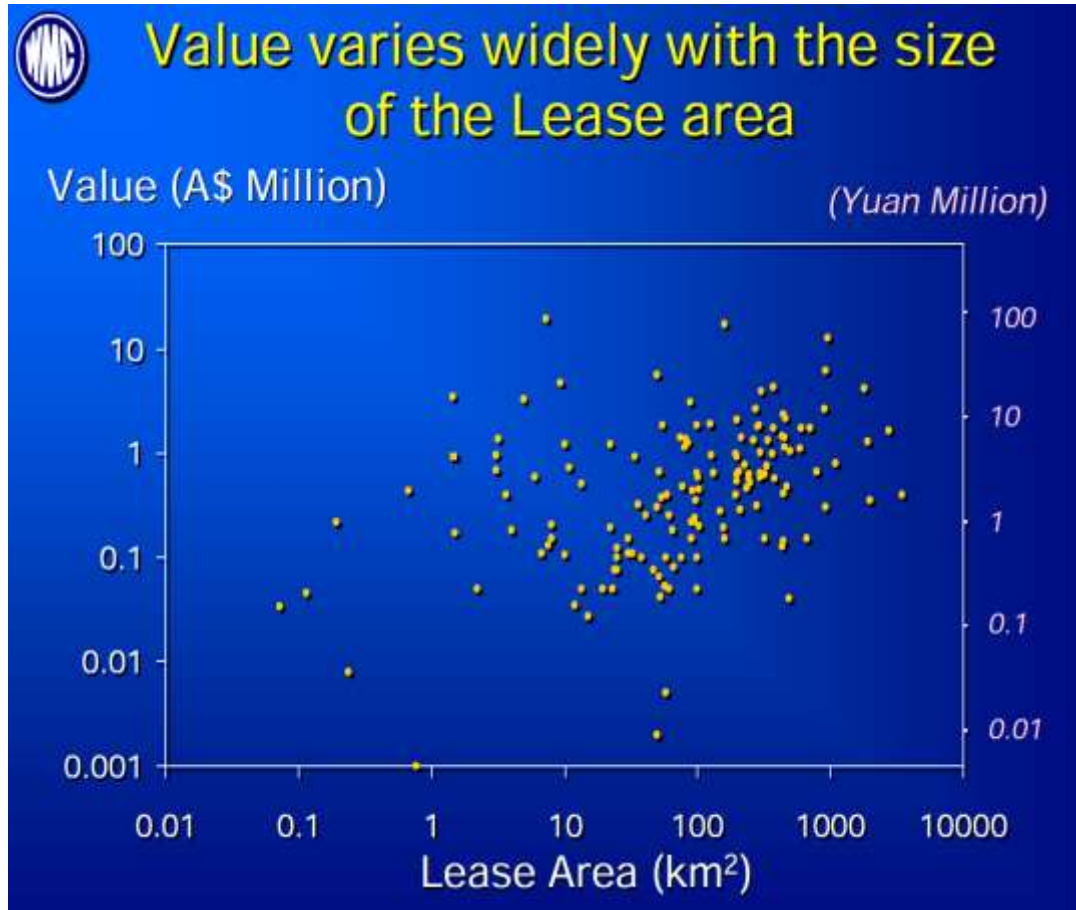
- Multiply a factor to the cost to generate a project and set price at the margin
- Estimate the cost to replicate
- Would need to factor in probability of replicating

Net Present Value Method

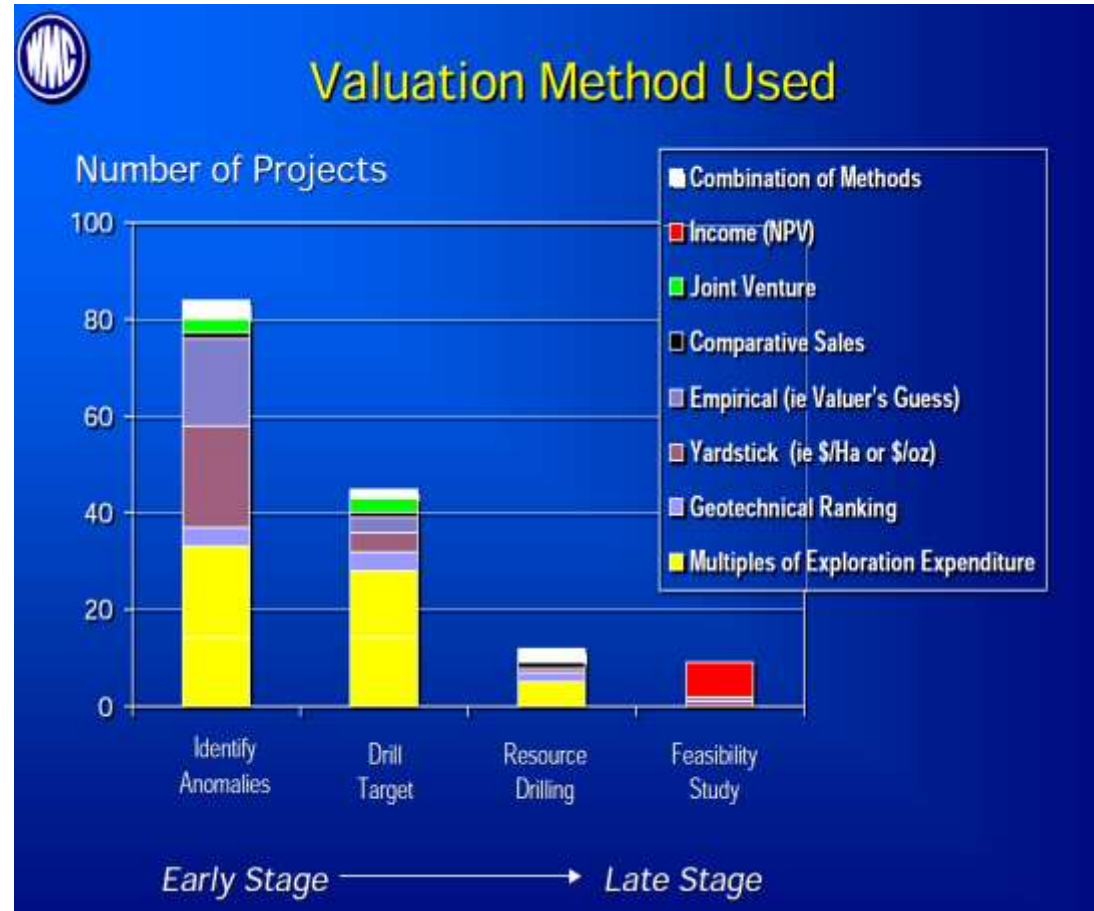
- Use Discounted Cash Flow to estimate value
- Applies to advanced projects
- For early stage projects all inputs are speculative

Other Valuation Methods

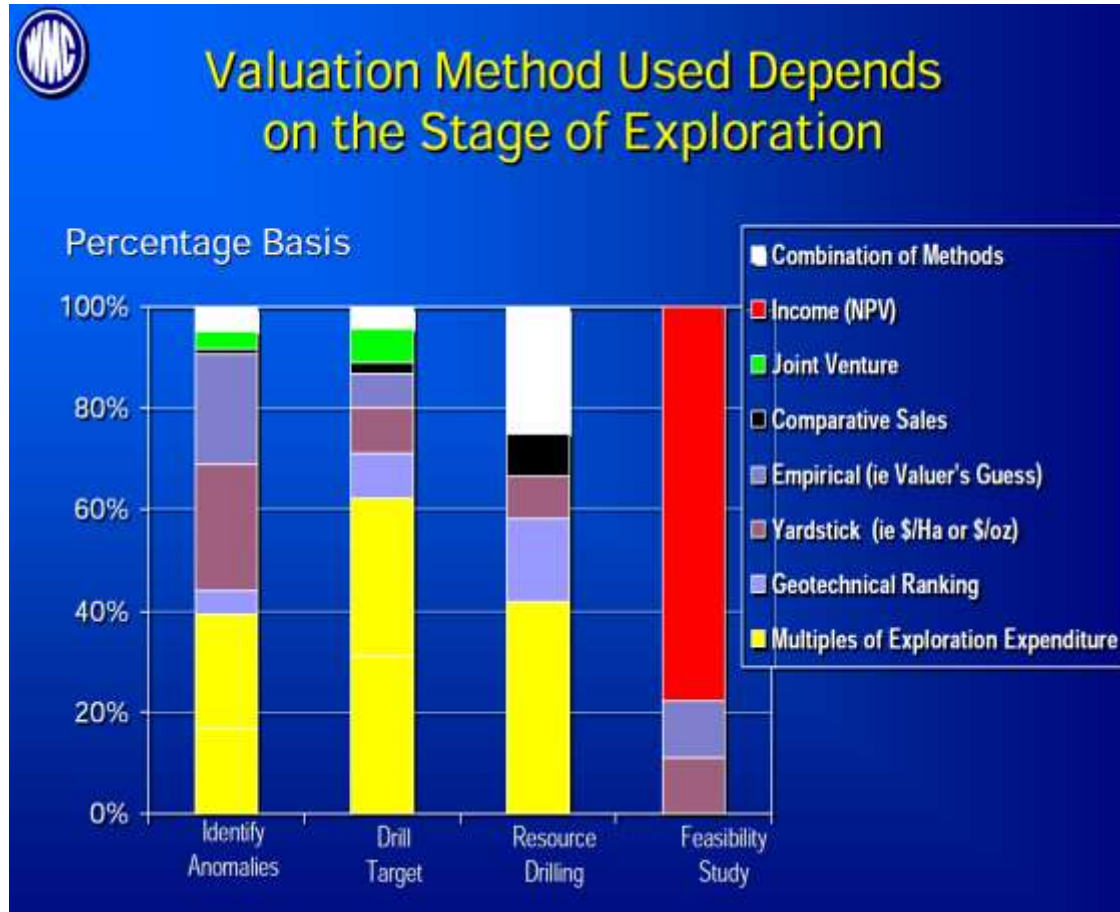
- Rule of Thumb – Value/Unit area x Total area
- Empirical Method – A “Best Guess”
- Statistical / Probability Method



Negotiations



Negotiations



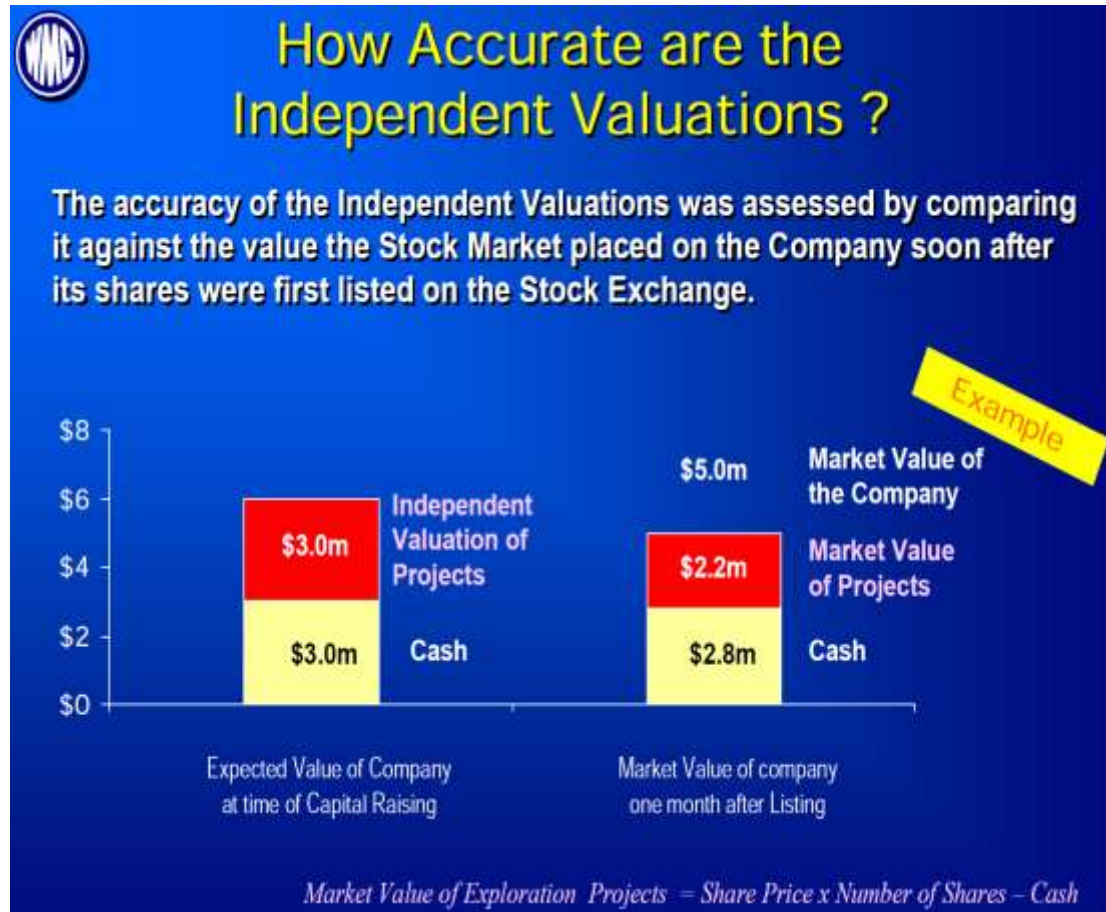
Negotiations

Stock Market Valuation

“In the short term, the stock market is a voting machine”

- Warren Buffett

Negotiations



Summary

From this study in Australia (2002)

- Early stage properties were most often valued using the Roscoe Postle Method or the Geoscience (Kilburn) Method
- Such projects ranged in value from 100K to \$1 million
- Projects were overvalued 40% compared to the stock market

Summary

- Most projects are of low value due to exploration risk
- Value is affected by expected costs, expensive terms, external risk factors or poor business environment
- Deals more likely to work if based on success factors

Negotiations

- Set realistic expectations early and stick close
- Understand the motivation the other party
- Make it about a great story
- Keep calm and carry on

Negotiations

- Time is on whose side?
- Make the first offer
- Only the truth
- Finish it

Negotiations

“You don’t get what you deserve, you get what you negotiate”

- Chester L. Karass

Business Development

- Financial
- Marketing
- Negotiations
- **Legal**

Legal

- Ensure your property has clean legal title
- No outstanding liabilities or unresolved historical issues
- If there are partners or former partners, these need to be informed and/or addressed and disclosed to the other party

Legal

- Confidentiality Agreements (CA's) are advisable
- Protects both parties
- A testing ground for negotiators and exchange of terms

Legal

- Best to seek legal advice
- Other party may seek assurance you have legal advice
- Ask to have a reasonable cost estimate compensated

Legal

- Be sure to register your agreement with the province
- Protects you in disputes
- Ensures your agreement and royalty is not overlooked in case of bankruptcy or merger

Legal

- The Royalty – it may be the most important part
- Often the last part but should be first
- Need some freedom to sell separately

Summary

“The interest is worth more than the principal”

- Proverb

Summary

- Prospecting for many is a serious business
- Every business needs to abide by certain business principles
- Every business needs a plan
- Prepare for Success!



End

