www.pwc.com/ca/juniormine

Time for change

Unconventional strategies to disrupt the downturn
Junior mine 2015

The junior mining sector remains caught in the midst of an unparalleled downturn. Equity and debt markets have dried up and cash reserves are reaching new lows. Waiting is no longer a viable strategy: junior miners need to take urgent action now, before crisis hits, and do whatever it takes to find the cash to keep their businesses and projects moving forward.

Junior mine 2015, looks at the challenges facing junior miners and the unconventional solutions that deserve serious consideration. We explore aggregation, de-risking, non-traditional financing and dealing with periods of financial distress—and share insights from junior mining leaders whose determination and willingness to embrace new thinking is creating future value.

Top 100 financial highlights and analysis

As the slump continues, miners need to take action

Our analysis of the top 100 junior mining companies listed on Canada's TSX Venture Exchange (TSX-V) paints a grim picture—but not an unexpected one. Key financial indicators show a steady, ongoing decline across the sector.

Market capitalization

The market capitalization of the TSX-V's top 100 miners has dropped significantly, from CAD$7.9 billion last year to CAD$4.8 billion at June 30, 2015 (Fig 1). Mining's share of the total TSX-V has also continued to fall: once making up more than half of the exchange's total market cap, mining now contributes only 36%.

The pain is shared across the sector, as the average market capitalization of explorers, producers and developers alike has fallen sharply over the past year. While the total market capitalization has declined slightly (11%), explorers' total market cap has dropped by 45%—and producers' total market cap has plummeted 57% (Fig 2).

Figure 1 TSX-V market capitalization 2007–2015 ($ billions CAD)

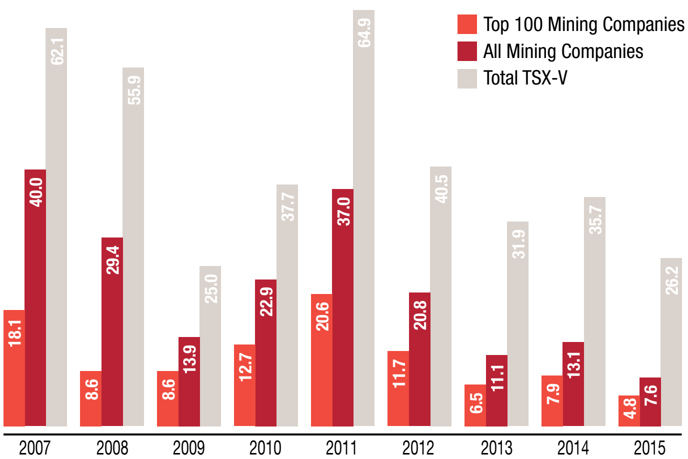
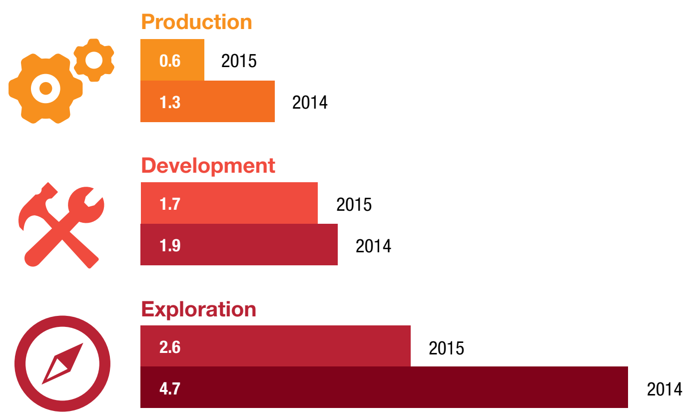


Figure 2 Total market capitalization by stage of mining ($ billion CAD)

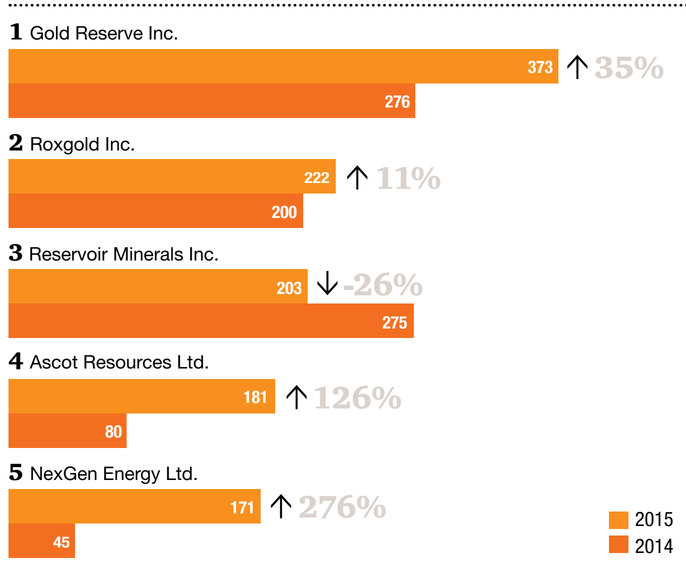


Top 5

The top 5 juniors in 2015 illustrate just how much the sector has shrunk over the course of the downturn. This year's top 5 are significantly smaller than their 2014 predecessors: four of them wouldn't have made last year's list.

Figure 3 Market capitalization analysis ($ millions CAD)

2015 top 5 companies



Reviewing the financial highlights for the top 100 companies echoes what we've heard in our conversations with mining leaders across the country. Cash is tight, revenue and income are falling alongside lower commodity prices, and financing is incredibly hard to come by.

Cash reserves are dwindling

Despite prudent steps to reduce spend, cash is running out: the top 100's cash position fell nearly one-third (31%) since last year and total cash reserves are at an all-time low. On average, the top 100 junior mining companies have CAD$7 million on hand, down from CAD$10 million last year (Fig 4).

Revenue and income

Across the top 100, overall revenue is down 28% from last year, a drop of nearly CAD $195 million. That's balanced, slightly, by an 18% reduction in overall net losses.

Financing

It's becoming increasingly hard to find new sources of funding. Across the top 100, cash provided by financing has dropped 27% since last year, and shareholders' equity has fallen 30%.

The top 100 raised CAD$515 million in new equity financing in 2015, down 25% from the previous year (Fig 7). While 74 companies raised equity last year, 15 companies raised 86% of it. The vast majority raised less than $1 million each, most of which came through private placement.

It's the same story for debt financing. Overall, 24 companies among the top 100 raised CAD$278 million in new debt financing in 2015, down approximately 27% from 2014 (Fig 7), with more than two-thirds (69%) of that amount being raised by four miners.

Figure 4 Average cash, Top 10 and Top 100 ($ millions)

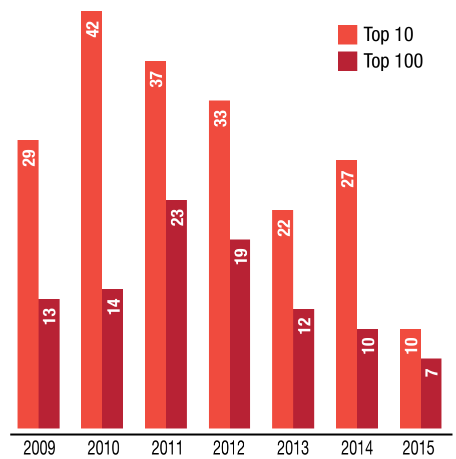


Figure 5 Financial highlights, Top 100

($'000 CAD)	Total 2015	2014	Change
Cash flow statement			
Net cash provided by (used in) operating activities	(248,739)	(261,010)	-5%
Cash used ininvesting activities	(516,936)	(669,865)	-23%
Cash provided by financing activities	651,948	888,935	-27%
Balance sheet			
Cash & ST investments	671,127	967,864	-31%
Property, plant and equipment (net	3,518,431	4,496,898	-22%
Total liabilities	1,512,539	1,422,961	6%
Shareholder's equity	3,294,291	4,690,828	-30%
Income statement			
Revenue	495,399	690,352	-28%
Net income (loss) for the year	(533,029)	(652,462)	-18%

Figure 6 Cash raised from financing, Top 100 ($ millions CAD)

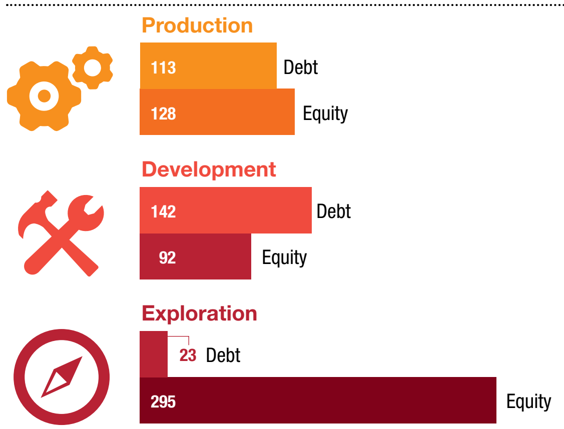


Figure 7 Proceeds raised from financing, Top 100 ($ millions CAD)

Equity

$515

2015

25%

Debt

$278

2015

27%

Embracing unconventional strategies

Non-traditional financing

"It's all about who you partner with. By partnering with the right groups, you can accomplish anything."

Paul Huet, *President, CEO and Director*, Klondex on securing funding for the acquisition of Midas Mine.

"You want to make sure you get what you pay for—and nothing you're not expecting. Don't be in a hurry [with due diligence]."

Rick Van Nieuwenhuyse, *President and CEO*, NovaCopper, on obtaining non-traditional financing through an asset acquisition.

Market aggregation

"There's a certainty in putting companies together with strong financial partners and a good cash balance."

John Burzynski, *President and CEO*, Oban Mining on aggregating juniors to improve shareholder value.

"Sometimes you have to get aggressive, and be prepared to have to get into the trenches and fight for it."

Pat Donnelly, *President*, First Mining Finance, on pursuing strategic acquisitions to build a mineral bank.

Embedding a culture of innovation

"It hadn't been used here [North America] before, but that didn't deter us at all. It's not as if we can only use things that we've seen here."

Gordon Bogden, *President and CEO*, Alloycorp, on adopting Ropecon technology to innovate their Avanti Kitsault mine.

Realizing value of distressed companies

"[We're] taking a risk-based approach and being very prudent. Looking for the best return, the nearest payback with the least amount of risk, is very key."

Derrick Weyrauch, *CFO*, Jaguar Mining on managing the business after a restructure and recapitalization.

De-risking project financing

"You've got to find some creative ways to keep moving, without significant dilution."

Steve Filipovic, *CFO*, Premier Gold Mines on de-risking project financing through partnerships.

Explore the full report at
www.pwc.com/ca/juniormine

Contacts

Liam Fitzgerald
Partner, Tax
National Mining Leader
416 869 2601
liam.m.fitzgerald@ca.pwc.com

Dean Braunsteiner
Partner, Assurance
Ontario Mining Leader
416 869 8713
dean.braunsteiner@ca.pwc.com

Mark Platt
Partner, Assurance
B.C. Mining Leader
604 806 7093
mark.r.platt@ca.pwc.com

Nochane Rousseau
Partner, Assurance
Quebec Mining Leader
514 205 5199
nochane.rousseau@ca.pwc.com

Calum Semple
Partner, Consulting
Global Mining Consulting Leader
416 815 5323
calum.k.semple@ca.pwc.com

James Lusby
Partner, Assurance
416 365 8181
james.m.lusby@ca.pwc.com

Mark Patterson
Partner, Assurance
604 806 7160
mark.patterson@ca.pwc.com

© 2015 PricewaterhouseCoopers LLP, an Ontario limited liability partnership. All rights reserved.
PwC refers to the Canadian member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. **4913-01** 1015