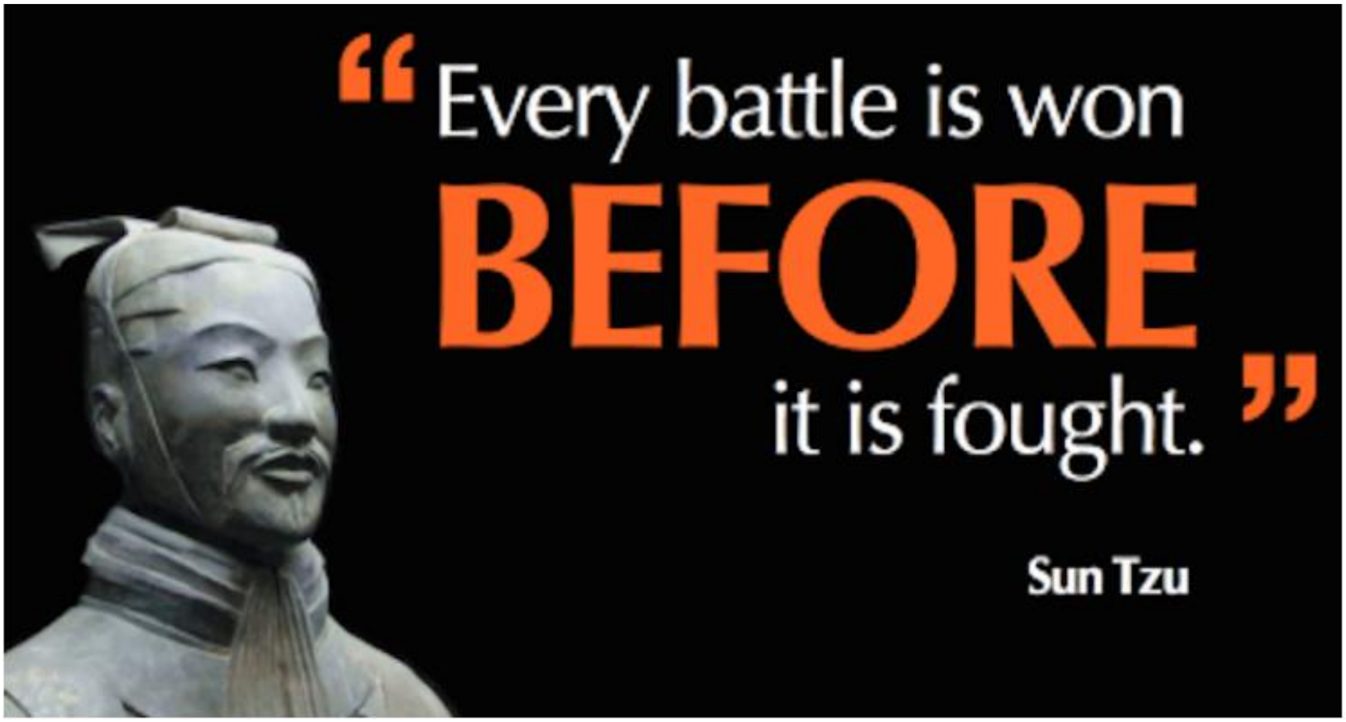

THE ART OF JUNIOR MINING M&A:
Lessons Learned from M&A in Junior Mining

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*Illegitimi non carborundum**

Good news! M&A in the resource sector started to gain some serious steam late last year which has continued through Q1 2019. If history is any guide to the future, M&A upticks are usually a leading indicator and prelude to a major resource sector turnaround. The result? Investment in-flows. If this is indeed the case, a heads up to junior mining execs with potentially economic, advanced resource assets in investor friendly parts of the globe -- be prepared for a wild-ride!

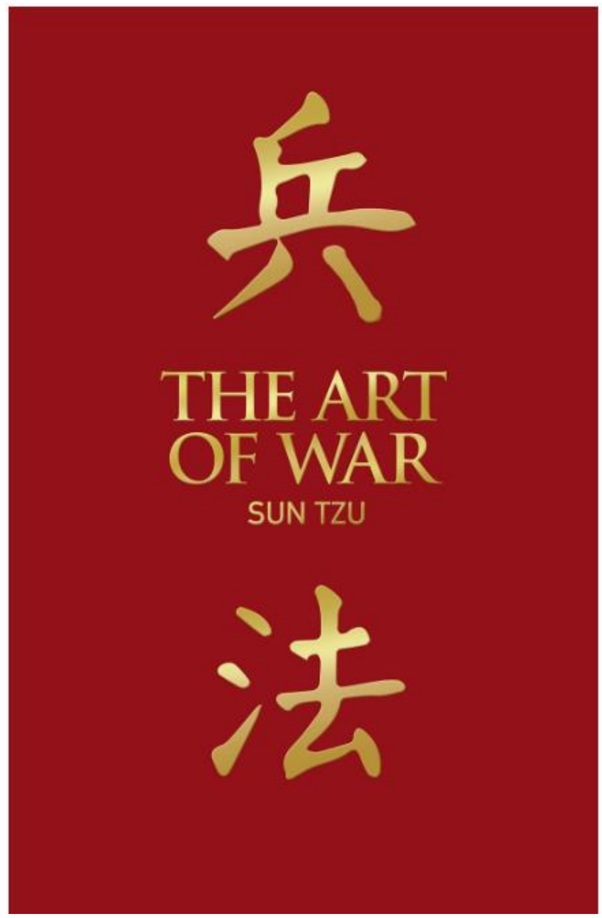
"There's no life's like it"

As army recruiting ads tell us, "there's no life like it." And this is equally true about mining. The diversity of career experiences in the resource business is one of the things that I've most enjoyed over the last 30 years. The first half of my career was spent "*paying my dues"* in the field, in both wonderful and often less wonderful places around the globe. The 2nd half, while doing more *"dues-paying*" (**note to young mining execs: "*paying dues"* never ends, it simply changes shape) also involved a front row seat in some M&A transactions – upfront, live and in-person. Over the last 15 years as either an executive or a director of six different junior mining companies, I navigated M&A transactions totalling over $2 billion in value. While each deal was bigger fish swallowing smaller fish, they've all been very different transactions. I've seen many Star Wars Cantina moments. I went to battle with massive egos. And I talked down first time wannabe mine-building teams experimenting with shareholders money looking to prove a point.

My junior mining deal credentials:

- Defiance Mining (2004) – $55m
- Riddarhyttan Resources (2005) – $275m
- Weda Bay Minerals (2006) – $300m
- Caledon Resources (2011) – $500m
- Prodigy Gold (2012) – $350m
- Integra Gold (2017) – $600m

Each had a myriad of complex elements and variables that defined the transactions. But they also had a few distinct similarities, whether in the circumstances that led to the deal or in the deal negotiations themselves.



Sun Tzu, a legendary 5th Century BC Chinese military tactician, famously wrote The Art of War a to-do list on how to prepare for and wage war. Upon reading more than five different versions of *Sun Tzu and the Art of War,* I find myself drawing parallels to M&A strategies in the resource business.

Despite the risk of you saying that Sun Tzu's quotes and sayings are massively over-used in so many different contexts of the modern world, I have written a checklist of personal musings from 15 years in the M&A trenches. When the wind starts to blow, when the bite is on, when the cab driver starts to ask you whether he should start buying junior miners, or when you are heading into battle yourself, I offer you this guide.

THE ART OF JUNIOR MINING M&A

Laying Plans

1) When the markets turn in the resource business, the turn is sharp.
   When the M&A appetite of major mining companies switches on, its switches on very fast. Be ready. Have your offense and defence prepared. Never get caught unprepared for an aggressive market turn-around. Instead, position your company or your asset for the future. Being prepared doesn't necessarily require huge amounts of capital.

2) Standing still and waiting to be taken over is a <u>losing proposition</u>.
While market forces and lack of capital can often drive this narrative, junior mining companies and your shareholders can be waiting a while before a takeover. There is a time-value to money and most capital is <u>not</u> patient. As a junior miner, you must be prepared to advance the resource asset as far as you can. You must even be prepared to eventually build it and operate it, if that is within your means. Even if it isn't you should represent it.

3) Have a Plan A. And a Plan B.
Plan A: *"We can build and operate this on our own"* scenario and Plan B: *"This larger scale, bigger-than-Mount Everest mine is beyond our means, but let us dare to dream big"* scenario. Optionality of scale and finance-ability on your asset are both key to staying in the game. Five of the six M&A transactions that I've been a part of have had this trait, a Plan A and a Plan B, each with at least one scenario that was financeable by the junior.

4) A resource asset without a plausible financing and development scenario is a no-go.
Having a resource asset with no plausible development scenario within your company's financing means is a detrimental to valuation. A $25m market cap company aiming to build a $650m mine is not a winning strategy. This strategy only works with a truly one-of-a-kind, top tier resource assets that are bought at an early stage with huge premiums. These are the mining industry's "unicorns." And we haven't seen one since Arequipa in 1997 and Francisco Gold in 2002. *(Arequipa: $0.60/sh to buyout price of $30/sh in just nine months based on a massive discovery in Peru. Francisco's El Sauza discovery in Mexico went from nothing to a take-over $40/sh based on exploration alone).*

5) Investors need things to get excited about.
Make sure there is more to your story than just the PEA or the feasibility study. Investors aren't investing and bidding you up because of what you did, they're investing because of what they believe you're going to do. As crazy as it sounds, try to ensure that whatever economic study, resource estimate, etc, you put out is stale-dated by the time it is made public, because of what you are about to do next and what's to come.

6) Majors are valuable strategic partners.
Having a major company take equity ownership in your junior company is an excellent thing. Don't get too fussed on 9.9% vs 14.9% vs 19.9% (…many do). Contrary to what some bankers may believe, a corporate position in your stock does not stymie competitive tension in future M&A and is worth it 100% of the time if you have that luxury. It might mean more work when the M&A discussions begin and competitive tension is desired, but that's what advisors get paid to do. Four of the six transactions that I've been part of, had corporate ownership of some form on the registry.

7) Leverage board "been there, done that" experience.
Having someone on your board or executive team who has *"been there, done that"* is key during M&A activity. Especially when nerves are frayed during late night/early morning negotiations and you are being stared-down by the other side, by your own shareholders or both. Conversely, having people who have never *"been there, done that"* can be an impediment to M&A progress as fear takes

over, massive second guessing takes hold and chaos and confusion creeps in. All six of the deals that I've been a part of had at least one person on the team who was well versed on M&A.

8) The flipside: an inexperienced board.
If you have an inexperienced board, it is important to keep the M&A discussion and project development path topical with your board as you grow. This will avoid board and management level surprises in the 11th hour, when time is of the essence.

9) Spend time on your data room.
For the junior miner, its key to keep an open and level playing field with your project data and your asset. Spending significant time on this is well worth it, even if it means distracting (and pissing off) site management and staff with repeated site visits and due diligence reviews. Conversely, playing "hard to get", refusing to allow open access to any party who might want to buy you with good intentions and a CA, rarely works. I've seen this before from management groups, it's idiotic and it's driven by the either the desire to protect their jobs and lifestyles, or excessive ego.

10) Choose your M&A advisor wisely.
Your advisor is important, so when you choose them, choose wisely. Study how many files they have on the go to ensure that they aren't stretched too thin. Make sure that they make your file a priority. Ensure their desired outcome is aligned with your desired outcome. And the best interests of your shareholders. Of late, I've had some excellent experiences with advisors. In the past, I've also had some terrible ones.

Waging War

11) Prepare to finance.
Preparing to finance and build your mining asset is usually a great catalyst for M&A. Four out of the six M&A transactions that I've been involved in were triggered this way.

12) Don't let egos get in the way.
Massive egos in the resource business are one of the biggest impediments to creating shareholder value. A bit of ego is a good thing, a lot of ego destroys ideas and shareholder value. Don't let ego get in the way of M&A or any other business deal that makes sense for shareholders. Just because you've had successes in the past and have made money for shareholders on a past deal does not give you license to put you own ego between the Company and its shareholders. Often an ego is just a disguise for having been lucky enough to have had investors throw money at you in a hot market.

13) Turn off the background noise.
Initially, M&A discussions must be held between the smallest group of executives as possible, on both sides and without bankers and advisors in the room. This helps eliminate background noise, mixed messages, unrealistic objectives, pre-maturely heightened posturing, etc. There will be plenty of time for round-table discussions later in the business cycle, with advisors and board members present.

14) Avoid analysis-paralysis.

Having a board and management group experienced in both M&A and in successfully building mining operations is hugely valuable as it allows for that constant reality check through the course of negotiations: *"Am I better to sell this or risk building it?"* The absence of this leads to board impasse, or "analysis-paralysis."

15) It's all about the math.

At the end of the day, the decision to sell or not sell an asset is mostly about math and risk value adjustment: "*How much is this asset going to cost us to build; what will it be worth once it's successfully built; and how do we risk-adjust that value to properly reflect the risks involved in getting it running versus what is a 3rd party is willing to pay for it*." A seasoned management team and board can wrap their heads around this risk adjusted valuation math fairly quickly.

16) Contrarian for contrarian's sake.

Beware of the contrarian individual who will pop up, internally or externally, during the negotiation process. The "devil's advocate" will play this card at key decision points usually because they are understudied, unrehearsed, feeling threatened or lack experience. They can be one of your own or one you are negotiating with. It is important to listen to critical analysis to hold yourselves accountable at all times, it's equally as important not to go against the grain just for the sake of it.

17) It's not personal.

Above all, never take whatever is said about you or your company personally, while you are "in-play" or negotiating. Trash talk from all sides is part of the dance, part of the negotiation. Understand that you will never make everyone 100% happy. You will find some shareholders, even some of your own colleagues, who will not be happy with the transaction. Sold too early, sold too late, sold too low, didn't fully flesh-out the upside…? You can't please 'em all!

Manoeuvring

18) Don't burn bridges.

Always be prepared to walk from the deal, but if you do, <u>walk away nicely</u>. Memories are long in the resource business and our world is small.

19) Dance partners will come and go.

M&A negotiations are a dance. The music plays fast and slow. If your partner leaves the dance floor, don't take it personally, and don't panic. They usually come back. If they don't, move on. *Raise money,* push growth and make the asset bigger/better and more expensive for when they come back. I've been part of companies who have had to do this several times, and it works.

20) Go with the flow.

There is a natural ebb and flow to M&A negotiations. There will be times when it looks like the deal is sealed, other times when it looks like the deal is on the rails and ready to implode. Be ready for it, don't be surprised by it. A number of times I've been involved in M&A discussions that have switched off for reasons ranging from legitimate, like the market imploding, to banal and bizarre - 3rd party rumors, fund managers berating CEOs because they've had a bad day, a bad quarter, gold is down, or they've lost on some other investment.

21) Play along.
Expect to hear things such as, *"I'd love to do this deal, but I don't know if I can get my board or chairman over the line, so there's a risk here…".* It's corny. And it's just tactics. Just play along.

22) Keep the drill bit running.
If you can afford to, always keep a drill turning on your project while you are negotiating. It provides for additional leverage in negotiations.

Variation in Tactics

23) Premiums exist. In the right market.
Especially true <u>right now</u>: this is not the first time we've seen low premium M&A deals in our industry. They are typical at the very bottom of the market cycle, with opportunistic groups and sellers selling out of desperation. The day of the high premium M&A transaction always returns, and it's part of the natural cycle. The premium offered in M&A I've been involved in ranged from 20% to 51%. Yes, a huge range, but always in line with the market forces of the time. Set your expectations right in terms of premium deals, aligned with the market context you are in.

24) Pause and retreat.
If a series of negotiations take too long, it's ok to pause and retreat. No one profits from prolonged warfare or lengthy negotiations.

25) Major miners can make bad deals.
Major mining companies can make rushed and very often bad decisions when their backs are to the wall and they are desperate to remain relevant. Personal experience: I worked at two major mining companies over a period of 11 years, where we would spend years showing the senior execs excellent, undervalued, world-class assets to buy, only to get pushed back with a firm NO. Then a competitor would make a move and we would hear the instant directive from HQ, "*we need your top 3 M&A ideas in a week. We need to buy something now."* This strategy, or lack thereof, most often leads to bad M&A decisions by the majors. While this might not help in getting an M&A deal done, it's helpful for the junior mining CEO to know this.

***Don't let the bastards grind you down.**

Throughout all stages of the M&A process, a junior mining CEO should keep in mind that our landscape is littered with burning wrecks of juniors who have tried and failed to build mines for the first time, on their own. It's risky, but sometimes you have to go all the way. Mine building is a specialized skill set that even the major miners get horribly wrong sometimes.

Make no mistake, every junior mining company should enter into a project with the view to advance an asset as far as you can, within the means to do so. If this means building and operating, then great.

Throughout the build-up to M&A and the M&A process itself, stay focused on the Latin proverb, "*Illegitimi non carborundum."* Don't let the bastards grind you down. Put it up on a banner in the office, tattoo it your wrist, make T-shirts saying this. Those that will wish to take you down will certainly try from all sides, both internally and externally. Do not lose the moral battle.

Lastly, a special message for young CEOs reading this. Enjoy the experience when you can, it's a complete thrill-ride. A one-off chance to get to see people at their best and at their worst. Don't take yourself too seriously during these times and don't get too *"high on your supply"* when the rocket launches. Times like these don't come by too often. When they do, enjoy them! They don't last forever. And remember, you are only as good as your last deal.