THE IMPORTANCE OF SOUND FINANCIALS IN THE EXPLORATION PROCESS

I have to admit that I kind of shied away from a more thorough financial analysis when looking into Junior Miners. In a way, it is for me the project that is exiting. What is there below the ground? Of what quality (read metal grade). Can the resource be expanded etc etc. That is the part for adventurers. The financial part is for office boogies. Or not?

WHAT DOES THE FINANCIAL STRUCTURE OF A JUNIOR LOOK LIKE?

Well, in case you don't like financial analysis, I have good news: Analysing Juniors is way less complex than analysing producing companies. At least, it is ok to start with a rather uncomplicated way for assessments. It is good enough to sort the capable from those that could drown.

Juniors, luckily, don't produce anything (exception: some earn income by selling options on projects; but we don't go into too much detail here). They actually burn money to pay for exploration and development, and use some for admin costs to pay an office and a few people. That's more or less it. Oh, and they need to acquire fresh money too, but people decide to give it to them less on their quality of bookkeeping than by how exiting their project is.

Ok, this is a bit oversimplified, but more or less the way it works.

The point I want to make is that this simple structure however needs to be in order. In case it is not, it can, and most likely will, pull down the whole project and the whole company.

In other words, while of course what matters most in Junior Mining is below the ground, a good enough mess in your financial structure can kill everything.

WHAT IS A NEGATIVE FINANCIAL STRUCTURE?

I noticed one when I glanced through a number of Juniors earlier the week. I am constantly seeking new ‘pray’, so I go through project presentations and other sources regularly.

I found a company which I really liked initially. The company is called First Mining Gold. They are working on two relatively large gold assets in Quebec and Ontario. They have a PEA and a PFS ready respectively, i.e. they have quantifiable resources. In other words, two rather big projects, with resources, in two prominent jurisdictions. For around USD 110mio.

Sounded good. When I looked at the financials, it became less attractive. Much less.

Have a look here:

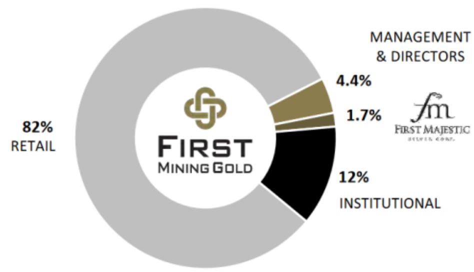
CORPORATE OVERVIEW

FIRST MINING GOLD

SUMMARY DETAILS

Shares Issued & Outstanding	**963 Million**
Options and RSUs Outstanding	82 Million
Warrants Outstanding	85 Million
Fully Diluted Shares Outstanding	**1,130 Million**
Market Capitalization – Basic	**$130 Million**
Cash-on-Hand	~$10 Million
Debt	Nil
Marketable Securities (1)	$3 Million
Enterprise Value – Basic	**$117 Million**
Future Cash and Share Payments (2)	$17 Million
Implied Value of JV Interests (3)	$22 Million
Average Daily Volume (Past 3 Months)	Canada: 2,200,000 U.S.: 660,000

CURRENT OWNERSHIP



ANALYST COVERAGE

Cantor Fitzgerald	Cormark Securities Inc.	H.C. Wainwright & Co.
Matthew O’Keefe	Richard Gray	Heiko Ihle

Note: Market data as at August 8, 2024

(1) Marketable securities includes shares held for sale, including shares of NexGold

(2) Future cash and share payments: US$5 million from First Majestic in cash and shares for sale of 50% silver stream on Springpole; C$3 million cash payment from FireFly; C$5 million cash payment from NexGold; C$2 million cash payment from Big Ridge Gold

(3) Value of Joint Venture Interests represents the implied value of First Mining’s 20% interest in Pickle Crow upon FireFly’s earn-in to 80% of the project derived from FireFly’s market cap prior to Green Bay Copper-Gold project acquisition; and the implied value of First Mining’s 20% interest in Hope Brook upon Big Ridge’s earn-in to 80% of the project derived from Big Ridge’s existing market cap

3 points I want to raise, and a 4th in a second:

1) Outstanding shares: Junior Mining companies need to issue shares, but also warrants and options to acquire capital from the market. But, if market capitalization is constantly decreasing, and no one else gives you money (more on that below), you have to constantly issues new stocks, options and warrants. In this case, all 3 categories amount to more than 1 billion! This is crazy, and not a good outlook for the future. Companies with a market cap of around 100mio normally have below 100 mio shares, or slightly above (maybe up to 150, or even 180 mio). In any case, one billion is way beyond.

2) The share structure (circle diagram on the upper right). This is the opposite of a 'tight share structure', and one of the reasons why they have to dilute so much. 82% retail investors (i.e. misfits like me) is too much. Management ownership of just about 4% is too little (should be two-digit). There are too few serious investors: Institutional only 12%, no HNWI or Family offices. No major partner. Hence, going through retail is their only option, hence they would need to continue to dilute. NOTE: Diluting takes away value from your stocks.

3) Cash-on-hand is not very good for this market cap, and for this level of development. It would be of if you have just started or are doing an MRE, but more is needed to go to a DFS.

This is of course mutually re-inforcing. The result is a loss of trust, a loss of serious people to give your money and advance your projects etc. The result is this:

The company is on the downside since 7 years (!). Yes, Juniors can face decreasing stock prices, even for extended time, but seven years tell you there is something wrong. The bad financial structure is, in my view, a key reason, as the projects as such look great.

WHAT DOES A GOOD FINANCIAL STUCTURE LOOK LIKE?

Again, instead of going too much into detail, I paste another copy of a financial statement below. This is from a company where I am not yet invested, but will be soon. It is called Kenorland Minerals, and operates a number of mostly earlier stage projects throughout Canada.

Share Structure and Financial Information

KENORLAND MINERALS

Share Capitalization

Common Shares Outstanding (basic)	75,122,390
Options	9,042,855
Fully-Diluted Shares Outstanding	84,165,245

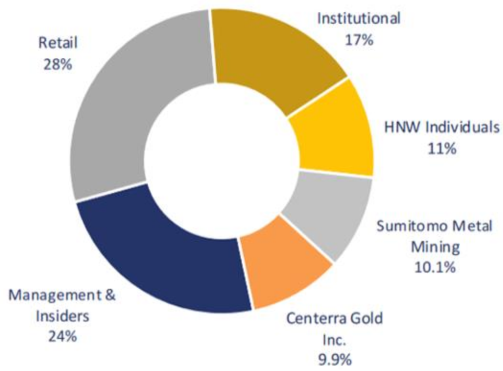
Current Assets & Revenue (C$)

Working Capital (approximate as of May 28, 2024)	$32,562,000
Equity Interests (including private holdings)*	$3,551,000
Approximate 2024 General and Administrative Costs	$3,880,000
Estimated 2024 Cash Inflow**	$3,589,000

2024 Preliminary Exploration Budget (C$)

Partner-Funded Exploration (preliminary)***	$17,367,000
Sole-Funded Exploration	$7,732,000
Total 2024 Exploration Expenditures***	$25,099,000

Share Ownership Structure



Significant Shareholders

- *Sumitomo Metal Mining Co., Ltd, Centerra Gold Inc.*
- Quebec-based institutional funds: *SIDEX, FTQ, SDBJ, CDPQ*
- Other significant institutional ownership: *Commodity Capital, Euro Pacific*
- Largest individual shareholders outside of management: *John Tognetti, Paul Stephens*

****Based on valuations on May 28, 2024***
*****Cash payment, management fees, and refundable mining tax credit***
******Partner-funded exploration budgets are preliminary and subject to change***

TSX.V:KLD 6

I hope with the context that we have established above, you can already see the differences:

1) The amount of shares fully dilluted is at roughly 84 million.
2) The amount of working capital is very good. Plus this company has additional earnings through selling projects in which they had options (i.e part ownership).
3) The structure of share ownership is looking good too: Management owns a whopping quarter. HNWI and institutional investors own roughly a third. They have mining majors as partners: Centerra Gold and Sumitomo.

Again, without going into detail regarding their projects, this is an example of a financial structure that bodes well for future workings. This also tells you that management has ideas and capacities to build a solid structure.

This is a good basis, and makes a deep look at the projects worthwhile!