

Sprott's Thoughts

Patrick Donnelly

President, First Mining Finance Corp.

First Mining Finance President Patrick Donnelly joins Sprott's Steve Todoruk to discuss some exciting new developments at his company and the potential opportunity provided by the GDXJ rebalance.

Don't forget the 2017 Vancouver Natural Resource Symposium is coming up on July 25-28.

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Transcript (edited)

Steve Todoruk: Today, I'm speaking with Patrick Donnelly, the President of First Mining Finance. I'm going to ask him a few questions here leading up to our Sprott Natural Resource Symposium in Vancouver in late July. Hope you can join us there.

Patrick, since we spoke a year ago, has your business strategy changed at all?

Patrick Donnelly: Steve, thanks for having me on. Absolutely as you're well aware, a lot has happened in the past year. Right around the conference last year, we had a significant change in the sentiment for gold. In the aftermath of Brexit, we saw gold prices go up and we saw a change in the market, there was a lot more capital coming in, liquidity came back, and valuations came up.

We had planned to do a couple more deals last year. However, the targets that we were going after either got way more expensive and beyond what we were willing to pay or simply were able to raise capital and weren't in as bad condition as they were before. We also were able to raise \$27 million last summer.

So given all these things, we felt, maybe at this point, it's time to take a step back. We had done 8 deals in just over a year and we thought it was a good point to take a step back and show the market what we have. It was getting harder to do deals, and we



PATRICK DONNELLY has a broad range of experience in mineral exploration and capital markets. He began his career as a project geologist almost 20 years ago exploring for precious and base metals, and diamonds in Western and Northern Canada.

Subsequently, Mr. Donnelly worked for a Canadian securities firm as a base metals mining analyst. Mr. Donnelly also served as Vice President of Corporate Development for an emerging copper development company with assets in Southern Africa.

In his latest role, he held the position of Vice President, Corporate Communications at Trilogy Metals Inc. (formerly NovaCopper Inc.), a copper development company holding assets in Alaska.

He holds a B.Sc. in Geology (Honors) from the University of British Columbia and has an MBA from the University of Toronto.

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knew we had to do something, so we decided to take some of the money we raised and put it back into the ground.

Last November, we announced a \$20 million exploration program for a number of our assets to show the market that these assets are viable. And also, to create some news flow because I think we are back into a market that responds to positive news flow. So, we've been drilling at our Goldlund Project. We just finished the first stage of that. We drilled around 24,000 meters. We'll go back in a few weeks to drill some more holes. And we've been issuing press releases. We've had three press releases come out regarding drilling at Goldlund in the last couple of months and we'll have some more news soon.

We're moving ahead with the preliminary economic assessment on our Springpole Project which has five and a half million ounces. And hopefully in the next couple of months we'll have news on that.

So that being said, we're still looking for opportunities but they have to meet our criteria.

Steve Todoruk: What is your current overall gold resource and what's the value of that per ounce?

Patrick Donnelly: We have seven million ounces of measured and indicated gold and five million ounces of inferred. Our current market capitalization is about \$360 million plus we have about \$23 million in cash. So all in, I would say we are trading at about CA\$30 an ounce.

And just for comparison, our peers are trading CA\$40, CA\$50 an ounce. So, we're considerably undervalued. These are Canadian dollars. In US dollars, we're probably trading somewhere are US\$22, US\$23 an ounce. And our peers are probably US\$30, US\$40. So again, we're very undervalued.

Steve Todoruk: The VanEck GDXJ fund is creating quite a bit of havoc lately. They're rebalancing. How is that affecting your current share price and how did the announcement of the rebalance in April affect your stock?

Patrick Donnelly: That's a pretty good question. And obviously, we were admitted to the VanEck ETF last December. And last April, they announced they're going to rebalance the fund and change the upper threshold to allow some more mid-cap producers into the ETF which has resulted in them having to trim the underlying holdings in the ETF.

And I think currently, we have something like 70 million shares on the VanEck. And they'll need to get down to about half of the value by the end of this week. So, it has put pressure on our share price.



RICK RULE has dedicated his entire adult life to many aspects of natural resource securities investing. In addition to the knowledge and experience gained in a long and focused career, he has a worldwide network of contacts in the natural resource and finance worlds.

As Director, President, and Chief Executive Officer of Sprott U.S. Holdings, Inc., Mr. Rule leads a highly skilled team of earth science and finance professionals who enjoy a worldwide reputation for resource investment management.

We are trading at well over 80 cents to a buck before this happened. We think we closed today at around 67 cents or 66 cents.

Since that time, there has been a lot of pressure. That being said, I think there were a lot of phone calls, a lot of interests from potential shareholders. This has changed our business plan and we're well-cashed up. We don't need to raise any money. And for us, it's business as usual. So in this way, it's a compelling opportunity for investors to get into First Mining Finance.

To put this in perspective, we're just financing about 80 cents and here we are at 66 cents and we got plenty of cash and lots of news flow coming out. So overall, it has put pressure on the share price and we still have a pretty good liquidity. And I think it's a short-term distortion. I think we'll get through it pretty quickly. I think in the next few weeks after this is all said and done, we'll be back to where we were.

So, it is a bit annoying and certainly it creates a little stress for our shareholders but that being said, it is business as usual over here.

Steve Todoruk: You had said earlier that you've changed your business strategy somewhat. Are you still being offered any assets or anything to buy? Are you looking at all or has it totally changed?

Patrick Donnelly: That's a great question, Steve. I got that question all the time. And absolutely, it's interesting. I still get phone calls and it's still very difficult for the small cap explorers to raise money. While liquidity has come back, it's a lot more selective. Certainly the developers—the explorers and developers—have been doing better. And there is still compelling value out there.

So yes, absolutely, we are looking. We've done a couple of small bolt-on acquisitions in the last few months. I am working on a few other potential opportunities. There are companies out there that have interesting assets and are run by really poor management teams. I get phone calls from shareholders of some of these companies saying, "Listen, our share price should have been doing much better right now. But this management team is killing us. And we need someone to come in there and clean house and deliver shareholder value."

So yes, absolutely, we are still looking for deals and I am still getting phone calls. And there are still opportunities out there. You just got to look a little bit harder. But if you're patient, disciplined, and you do your homework there is compelling value to be had still.

Steve Todoruk: Regarding the share price, I'm going to assume getting through the GDXJ rebalancing is probably your nearest and quickest catalyst. Rebalancing and the on-going drilling, would be the likely catalyst for the foreseeable future?

Patrick Donnelly: I think so. The GDXJ is a great opportunity for people to get in the first money because, like I said, I don't know when this window of opportunity is going to be opened again in terms of pricing. And that being said, at Goldlund we drilled 104 holes and we've only released something like 33 or 34 holes so far. We still have another 65 or 70 holes to release. That would represent 5 or 6 press releases with drilling. And so there will be lots of news coming out on that.

And just to put into context, out of the 33 or 34 holes we've drilled, 30 of them had compelling intersections of gold mineralization. It's looking pretty good. So yeah, lots of more news on Goldlund.

Then on Springpole, which is our flagship asset (five and a half million ounces), we're currently redoing the Preliminary Economic Assessment. We've been able to add additional value by working on the metallurgy there and we redid the mine plan and a few other areas. We're somewhat optimistic, positively optimistic, that the new [Springpole] PEA is very positive. And we think Springpole has the potential to be very similar to the Cote Project that IAMGOLD holds which they just entered into a partnership with Sumitomo to move that project forward. And it's very, very similar to Springpole.

We're also going to start drilling at the Cameron Project in the next week or so with 9,000 meters. Give us a couple of months and we'll have news flow on that. We're also going to go over to Newfoundland to our Hope Brook Project and drill another 9,000 meters.

So, we're going to have a tremendous amount of news flow coming out over the weeks or months and probably well into the fall and maybe even into early next year.

Steve Todoruk: Is First Mining Finance focused solely on gold or would you consider looking at any other metal type of deposits?

Patrick Donnelly: That's a good question, Steve. I'll be honest with you. It's primarily gold. I've always said we look at London Metal Exchange metals. In other words, metals that are liquid. So, we looked at copper, zinc, silver, sulfide, nickel, platinum, and palladium. Those are the metals we look at.

I'm fairly bullish on copper. My background, I was a base metal analyst for a while and I've always remained very bullish on copper. But it's very difficult to find decent copper assets. I think

everybody is looking for copper. I do like platinum a lot. But again, it's very difficult.

So, the focus will be on gold but that being said, if there's something really compelling then yes, we would look at it. But like I said, it's very difficult.

Steve Todoruk: You're pretty well solely focused on North American gold. What would it take for you to make an acquisition outside of North America?

Patrick Donnelly: We've been looking at North America. We like Ontario and Quebec a lot. We're very picky about jurisdiction. Would we go outside of North America? Sure we would. We have looked at some projects in Latin America. We've been looking at Mexico. We do like Chile, Peru, and Argentina. I've looked at some stuff in Brazil, Colombia, and Ecuador.

But there hasn't been anything that stood out in terms of doing a deal. So, we do have the experience to work in Latin America. As I mentioned before in the past, we worked at the First Majestic office. That's our sister company and they are focused solely on Mexico. We certainly have the infrastructure to manage Latin American projects. And if there's something compelling at the right price and it's economic at \$1,200 gold then certainly we would take a good hard look at it.

Steve Todoruk: Is there anything else you'd like to mention?

Patrick Donnelly: We've grown considerably in the last year. So, we have a very strong technical team and we're going to have lots of news flow going forward. I think since last year, people said, "OK, you're doing a good job of getting assets." And the sponsors said, "What do you have and how do we know they're compelling?" And so, I can talk until I'm blue in the face but I think ultimately you have to get the drills out there, the geologists on the ground, the engineers on the computers, and demonstrate to the market that these assets we've acquired are compelling. That's what we're doing.

We're putting our money where our mouth is. And as you mentioned before, this GDXJ is a bit of an overhang but we have two and a half years of cash and lots of news flow. It's business as usual for us. I think it's a great opportunity for shareholders or investors to come in and get stock of a company that's well-run. It's led by Keith Neumeyer who founded First Quantum Minerals and First Majestic Silver.

I met one large fan in New York last week. He was just rubbing his hands because he sees the GDXJ situation a great

opportunity to get some shares and some really quality names at a good price.

Steve Todoruk: I appreciate your time and look forward to seeing you guys at our conference in July in Vancouver.

Patrick Donnelly: Absolutely, Steve. I look forward to seeing you again and all the Sprott clients and I'll be there myself and it will be great to see everybody.

To learn more about Patrick Donnelly and First Mining Finance visit their website: <http://firstminingfinance.com>

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