#### **OPTION AGREEMENTS**

#### A JUNIOR EXPLORATION COMPANY PERSPECTIVE

Peter Dimmell, P.Geo.

President – Krinor Resources Inc.



Mick / Steve Stares



Mineral Resources Review St. John's, NL. - Nov. 4/15



Tom Joe Brook - AK



Rambler Ming West

PDAC - Keats/Stares - Prospectors of the Year - 2005

#### **FORM of AGREEMENT**

- ◆ CASH / SHARES OVER TIME
  - ◆ Usually increase each year
  - ◆ company earns 100 % interest
- WORK COMMITMENTS
  - increase over time / staged / additive
- ◆ RETAINED INTEREST ie NSR
  - buyback of part usual
  - ♦ Advance Royalty against NSR
- WORK ON PROJECT FOR VENDOR
  - gives the vendor work if he/she wants it
- AREA OF INFLUENCE (AOI)
  - protects both parties re "tie on" claims



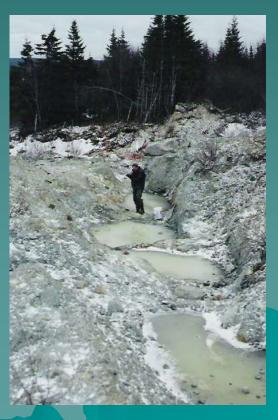
Gold Brass Buckle



Norm Peters



Buchans Lundberg Zone



Pastureland Road



#### **GENERAL FORM of AGREEMENT**

to earn a 100 % interest subject to a 2 % NSR with a 1 % buyback for \$1 M. Advance Royalties of \$15,000 per year payable from 5th anniversary on for 10 years.

Golden Promise



Wayne Carroll - NB

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2 <sup>nd</sup> Yr	
and M	



\$300,000 \$30,000 300,000



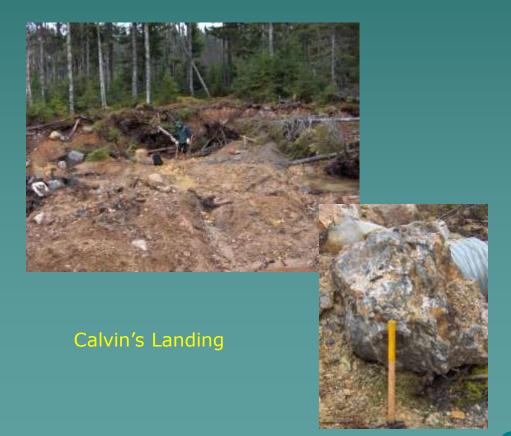
LePouviour - AT camp



Lewis Hills - AT camp

# WHY DO COMPANIES OPTION

- new showing
- new results from a known mineralized area
- hot area play w/ good geology
- commodity price increase





20th Brook







Marble Cove Baie Verte Peninsula













Virgin Arm - ASK



Gordex – Millican Lk Cape Spencer, NB.





#### **OBJECTIVE**

Aldina ON.



Brady

#### Company

- acquires the rights to the property
- time to explore the property with cash / share outlays which increase as results warrant
- ◆ Ultimate aim find a minable deposit
- can terminate at any time (subject to conditions)

#### Vendor

- shares in exploration success through
  - continued option payments
  - work if he/she wants it
  - NSR if a mine is found the "pot of gold"
- Should be fair to both parties



Goldenstar

## **VALUE OF PROPERTIES**

- Depends on
  - ◆ times
  - commodity prices
  - other properties available
  - ♦ location ie is there an area play ?
  - quality of property
  - exploration stage of property
- don't fall in love with your property







**Brady** 

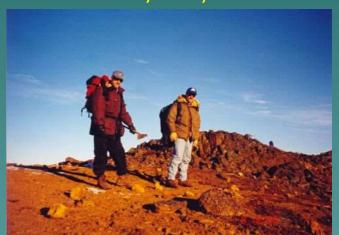


Clarence Strm NB



Goldenstar

Voisey's Bay







# **NET SMELTER RETURN (NSR)**

- Based on value of production with deductions for transportation / assaying
- variable dependent upon commodity
  - typically 1-4 %
- buy backs common percentage for a fixed sum
  - ◆ usually 1-2 % for \$1 2 M
  - if exercised then remaining interest has significant value
- advance royalties common
  - makes the company look at the property each year
  - has to be a reasonable sum \$10-15 K / yr
  - start a couple of years after option is exercised
- usually doesn't apply to bulk samples it costs money for the bulk sample?
- recent options using AR's as the cash costs



Golden Promise

# Other Aspects

- ◆ Confidentiality Agreement (CA)
  - some agreements
- "Success" based option deals
  - usually with a "junior" who
     options the property to a larger company
  - money / shares can be less upfront
  - share of subsequent option which is usually higher value



# Registration

- Register your option
  - w/ DNR in St. John's
  - establishes your title and the requirements under the option

#### Termination

- Get a "quit claim" when option is terminated
- sign off from terminating company
- register termination w/ DNR
- alternative is to have the property title in escrow or held by a lawyer subject to completion of the option

**LINEAR** 



#### THINGS TO REMEMBER

Powderhorn







- Always try to increase the value of your property by further exploration
- be adaptable
  - renegotiate terms if circumstances require
- work with the company to increase the property value
- if exploration isn't being done then nothing is being found and therefore the value of the property is not increasing

### Prospectors can do almost anything ???

Smart companies take advantage of the opportunities that they provide



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