Option Agreements: Advancing your Property
Please Note:
An Option Agreement is a legal document. These notes are intended for background information only. It is always advisable to obtain professional legal advice before signing any such agreement.
PROSPECTING FOR PROFIT

- There are two ways professional prospectors can earn income: work directly for a company, or option (sell) properties.
- Ore deposits are very difficult to find and advanced mineral exploration is expensive.
- If you have a property of merit, you may be able to make a deal with a company to explore it for you, for mutual benefit.
- This is called an **Option Agreement**.
WHAT IS AN OPTION AGREEMENT?

In layman’s terms, it is a legal agreement made between a mineral rights holder and a second party, which allows that party to earn an interest in the mineral property in exchange for certain benefits granted to the license holder.
WHY MAKE AN OPTION AGREEMENT?

• You should receive cash payments and/or shares in a company

• If a significant discovery is made, you may receive long term benefits from an operating mine

• Your property should be explored by a qualified company with the resources to conduct a major exploration program

• The company may stake more claims, enlarging the property and your interest

• The company will keep your property in good standing with respect to government requirements
WHERE TO START

• Find a target, stake some claims and plan initial work

• If you have a partner, make a prospector’s agreement first and file it with the Mineral Claims Recorder’s office

• Do initial prospecting and sampling

• Compile data, make a poster and write a summary (can get help from Pat O’Neill at the Matty Mitchell Room – 709 729 2120)

• Promote your property by phone, email and trade shows

• Develop and maintain contacts in industry

• Be prepared to show your property to a company geologist, but consider requesting a confidentiality agreement first
CONFIDENTIALITY AGREEMENT

- Any CA should be signed prior to a property visit
- Technical information shown to the company (e.g. assays) should be confidential for a specified period
- New sample results or other information obtained by the company must be reported to the prospector
- An area of influence can be defined, within which new claims will become part of any future agreement
PROPERTY VISIT

• Have a map
• assay results
• and samples available
PROPERTY VISIT

• Be familiar with locations of showings etc.

I think it’s over here!
PROPERTY VISIT

• Allow the geologist to take a limited number of samples for assay
• Request copies of results and a letter for assessment credit
PROPERTY VISIT

• Be prepared to discuss terms and to be flexible
• You’re not likely to receive an offer until later
NEGOTIATING AN OPTION AGREEMENT

• Discuss terms with a company representative

• If a verbal agreement is reached, the company will prepare an agreement in writing for both parties to sign

• The written agreement should be based on the terms discussed. Be sure you agree to the terms before signing.

• Consider seeking legal advice
Some benefits you can negotiate:

- Cash payments and/or shares
- Net Smelter Return (NSR) and buyback
- Area of interest
- Work commitments and assessment reporting
- Environmental liability
- Copies of all work reports and results
April 27, 2010 - Bridgewater, NS - Silver Spruce Resources Inc. (TSXV: SSE) reports that it has optioned the Big Easy (BE) property, a gold / silver property in east central Newfoundland.

Big Easy
The 121 claim property, located near Thorburn Lake in east-central Newfoundland, was optioned from prospectors Alex Turpin and Colin Kendall. The option agreement, to earn a 100% interest subject to a 3% NSR with a 1.5% buyback for $1.5M, is:

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<tr>
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<th>Cash</th>
<th>Shares</th>
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<tr>
<td>On signing</td>
<td>$20,000</td>
<td>350,000</td>
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<td>1st anniversary</td>
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<td>3rd anniversary</td>
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<td><strong>Totals:</strong></td>
<td><strong>$110,000</strong></td>
<td><strong>1,600,000</strong></td>
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CASH AND / OR SHARES

• Payments usually made annually, starting on signing, and may last for 3 to 5 years

• Amounts vary, depending on the property but usually start off low and increase

• Some companies may issue shares

• These may change in value fairly quickly

• Should consider seeking professional advice
NET SMELTER RETURN (NSR)

- NSR is the net revenue a company receives from mining.
- You should retain a small share of this, usually 2 – 3%, in the form of a royalty.
- Percentage may seem small but could be worth millions.
- You may agree to a partial buyback of the NSR, usually for about $1,000,000 for each percentage point.
AREA OF INTEREST

• The company may stake additional claims to expand the land holding and cover other possible targets

• Any additional claims within a certain area should be included in your agreement
AREA OF INTEREST
WORK COMMITMENT

• You may negotiate a minimum work commitment

• Company should be required to keep property in good standing for assessment purposes

• Property should be returned in good standing for a certain period
Environmental Liability

• You should ensure that the company accepts liability for all environmental damage it may cause after it begins work on the property
COPIES OF RESULTS

• You should receive copies of all survey results and reports filed for assessment with the Department of Natural Resources

• This helps you track current progress and may be important for future agreements
WHO CAN I MAKE AN AGREEMENT WITH?

• Many companies are exploring in the province. You can get a list from the Department of Natural Resources

• Start with companies who are already working in your area. A representative from the company may look at your property

• Most companies have websites and these provide useful information on where they are working, and who to contact
## CONTACTS

### DEPARTMENT OF NATURAL RESOURCES

<table>
<thead>
<tr>
<th>Contact</th>
<th>Position</th>
<th>Phone</th>
<th>email</th>
</tr>
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<tbody>
<tr>
<td>Phil Saunders</td>
<td>Exploration consultant</td>
<td>709 729 6193</td>
<td><a href="mailto:philsaunders@gov.nl.ca">philsaunders@gov.nl.ca</a></td>
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<td>Pat O’Neill</td>
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</tr>
<tr>
<td>Justin Lake</td>
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</tr>
<tr>
<td>Dale O’Reilly</td>
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Department of Natural Resources website: [http://www.nr.gov.nl.ca/nr/](http://www.nr.gov.nl.ca/nr/)
