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Mining Report: Alliances set stage for the future

[Karen MacMillan](#)

Mining has become one of the largest industries in British Columbia, and Vancouver is considered by many to be the world's leading centre of expertise for mineral exploration, with some 1,200 exploration companies located in the province. As a result, many British Columbians have a disproportionate stake in what lies ahead for the mining industry.

In 2011, B.C. Premier Christy Clark set out a new jobs plan for the province, which included a commitment to open eight new mines and expand nine operating mines by 2015. The extent to which Clark's ambitions are achievable remains unclear and will depend largely on market conditions in the near term.

The global mining sector has been in constant flux for some time in part because it is so heavily affected by developments in the broader global market. Ongoing volatility in commodity prices, increasing capital and production costs and continued global economic uncertainty have all affected the industry.

In such an environment identifying trends can be challenging. Yet despite the turmoil there is at least one legal trend we can reasonably expect to see continue over the next several years: the use of strategic exploration alliances as a means of accessing funds and advancing strategic objectives.

Mining companies typically source funds from various means including mergers, equity investors and joint venture arrangements, and market volatility means that the availability of these funding sources looks uncertain at best. As the struggle to access funding continues, we can expect many of B.C.'s exploration companies to explore alternative ways of raising capital.

One of the alternatives we expect to see used is strategic alliances. These arrangements can take various forms but typically, an exploration alliance is formed between a junior exploration company



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and a senior mining company. The exploration company will contribute its geological and technical expertise and data and often its region-specific contacts and experience, while the more senior mining company will contribute funding and senior level direction.

Typically an alliance agreement is entered into by the parties to define the purpose and governance of the alliance, to set forth the terms and conditions for ongoing funding of exploration and to specify the rights of the parties if results are favourable. The scope of an alliance is often focused on a certain geographical area and the parties will often settle a form of option/joint venture agreement up front to provide for ownership and participation by both parties in the future if favourable exploration results are obtained through the work of the alliance. Strategic alliances tend to be short in duration, as both parties will want to maintain the flexibility of discontinuing the arrangement if the expected results are not obtained or if either party's strategic objectives or financial circumstances change.

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