If you know where the cash is, go get it!

All companies need cash to survive, whether to pay the researcher working on the latest anti-cancer drugs, the geologist in the field, the lawyer in the boardroom or the regulators. To get that cash into the company, a company must do a financing or earn revenue by selling assets.

R&D companies and the junior mining companies have a lot of overlap, including blue-sky promise, a high risk of failure, a need for government support by way of tax credits, and a lack of revenue. At some point, though, the company has to have something worth selling.

The miners are having a horrid time accessing cash right now. It seems everyone has a different analysis of why it's happening – what's inarguable is that it *is* happening. You need proof?

Yesterday Barrick Gold Corporation announced it was cutting its dividend by 60%. *Barrick*. This is the world's largest gold miner, with quarterly free cash flow of $26 million, operating cash flow of $525 million and adjusted EBITDA of $725 million (all USD). Its press release announcing the quarterly results analyzed cost-cutting and debt reduction – the mining operations were an afterthought.

Goldcorp Inc., around $17.50 a share, is trading at little more than half its six-month high. The chart for iShares's silver Exchange Traded Fund wouldn't be out of place at Smugglers' Notch. The five year and 30-day charts for copper ought to have a warning label on them: "caution, may induce vomiting". And as a broad indicator, the TSX Venture Composite Index is off more than 40% over the past twelve months alone.

Any fault attributable to boards or management is minimal, a question of degree and not of kind. The brutal global market is what it is. Imagine the pain in the juniors' boardrooms.

It gets worse when you realize the trickle-down impact this has. If Barrick is selling assets and reducing debt, it's not putting any cash into new projects. That means no money is flowing to the intermediates from whom the largest companies like Barrick typically source projects. That means the intermediates don't have the capital to joint venture, option or buy assets from the smaller companies, and that meagre food chain means the juniors must live on scraps.

This also means it's extremely difficult for the juniors to carry out a meaningful financing. Equity financing is largely about optimism. "If we spend $500G, we'll get this drug through FDA approval and then we'll be billionaires!" "If we put 5,000 metres of drill holes into that hill we'll find the motherlode and then we'll be billionaires!"

The current environment offers little hope other than "stay the course, it'll get better". Hard to be an optimist when the best you can say is "Hey, let's pray it doesn't get any worse."

Which brings us to the Pat Sheridan School of Mining. Class was usually convened mid-afternoon at Hy's Steakhouse in Toronto.

Mr. Sheridan passed away earlier this year. If you knew him, the obituary was redundant. If you didn't, it was of no help. Because more than a miner, Mr. Sheridan was a businessman who happened to be in mining.

I first met Mr. Sheridan in the early 1990's when I was practicing law on Bay Street. My client sold him control of a publicly traded company, I don't remember which. We stayed in touch and occasionally crossed paths over the years. One of my ties has a burn hole from his pipe at PDAC.

Whenever I was at or around Hy’s in the afternoon, I’d look around to see if he was there and available. A quick hello, a quick story, and I’d be off.

But one day, class was in session. Pat was seething about some company into which he had invested. The gist was that the company had spent enough money to define an economic deposit, but instead of mining it management wanted to keep on drilling to see how far the deposit went.

Instead of making money by mining the deposit, the board wanted to issue more shares to raise more money to spend more money to issue more shares to raise more to spend more to issue more to raise more to spend more …. Pat was, to put it mildly, in a state.

“Go get the money!”

Don’t keep drilling to find how far or deep the deposit goes – mine it! Put the investors’ dollars into extracting the resource from the ground, selling it and converting it to more dollars in the treasury. Give something back to the shareholders by earning revenue. It doesn’t have to a multimillion ounce deposit – if the economics prove up, go get it!

Does the anti-cancer drug work? Yes? Stop the research! Let’s get it approved and in the market before we run out of money. Is the uranium deposit economic? Yes? Stop drilling! Let’s get it permitted and mine it before we run out of money.

Not every R&D asset is viable and not every mineral deposit is mineable. But if it is economic, stop the analysis and go get the money. Surely shareholders would approve of a smaller current revenue stream that keeps the company alive, rather than taking a huge risk on still being around to further define that asset someday if funds ever become available.