Perimeter Medical Imaging AI lists on the TSXV and offers surgeons real-time imaging to visualize the margins of cancer excised tissue

One of the biggest problems today in cancer treatments is determining during surgery if the operation has caught all of the cancer. Now a company has a solution. This is incredible news for cancer patients and health care providers. In 2020 roughly 1.8 million people will be diagnosed with cancer in the United States. This new technology is initially focused on breast cancer and during lumpectomy surgery, because approximately 1 in 4 patients return for a second surgery due to cancerous tissues being left behind. 2,000,000 women worldwide were diagnosed with breast cancer in 2018 and 317,000 in the USA in 2019.

This Company has a high definition and developing Artificial Intelligence (AI) imaging technology that can help surgeons identify if cancer is still present post-tumor removal surgery by examining the perimeter of the excised area.

The Company is aptly named Perimeter Medical Imaging AI Inc. (TSXV: PINK) ("Perimeter") and the Company has only just listed this week on the TSX-V exchange. The stock ticker symbol, PINK, alludes to the pink ribbons used during breast cancer awareness month by the Canadian Cancer Society and the American Cancer Society, driving home the Company's dedication to helping surgeons, radiologists and pathologists use Perimeter's imaging technology and AI in the fight against breast cancer, which is estimated to account for 30% of all female cancer diagnoses this year. The raised capital from the

public listing will be used for accelerating the commercialization process as well as refining the AI.

Perimeter Medical Imaging AI Inc. uses high definition imaging and AI in the fight to detect cancer at the perimeter

Source

Dr. Anthony Holler, the Chairman of Perimeter's Board of Directors states:

"Perimeter's platform imaging technology allows surgeons in real time to visualize the margins of excised tissue specimens at the time of surgery. With the combination of our high resolution imaging device and proprietary AI technology that is currently under development, the intention is to reduce the necessity of repeat surgeries. Our mission is to improve cancer patient care and reduce healthcare costs."

As a sign of confidence in Perimeter's technology on April 24 it was announced that Perimeter Medical Imaging received a $7.44 million Cancer Prevention and Research Institute of

Texas (CPRIT) grant to further develop ImgAssist AI Technology at leading cancer centers in Texas. The funding granted by the CPRIT will support technology development that aims to decrease the re-operation rates for breast cancer patients.

Perimeter's AI imaging technology is known as OTIS™ (Optical Tissue Imaging Console), a US FDA 510(k) cleared product. It is designed to provide real-time information during breast cancer surgery. The platform's ability to deliver ultra-high resolution and sub-surface image volumes across the surface of the removed tissue allows surgeons to assess if they have achieved the successful removal of the entire tumor. Should a surgeon identify cancerous cells at the surface of the tissue, they can immediately remove additional tissue from the patient. **The OTIS™ technology could lower the financial burden to the healthcare system and become a significant win for patients**, taking away the additional physical and mental trauma caused by the necessity to repeat the surgery.

Perimeter already has strong industry support as shown by these two quotes:

Dr. Alastair Thompson, an internationally recognized Surgical Oncologist stated: "We need to work smarter to reduce the reoperation rates for breast conservation surgery. Using OTIS™ to scan the surface of the lumpectomy during surgery could be the key to ensuring complete surgery the first time around."

Dr. Savitri Krishnamurthy, another principal investigator with over two decades of experience in Pathology, stated: "The new era of tissue imaging using optical imaging platforms such as the OTIS™ will bring revolutionary changes to breast surgery and breast pathology practice."

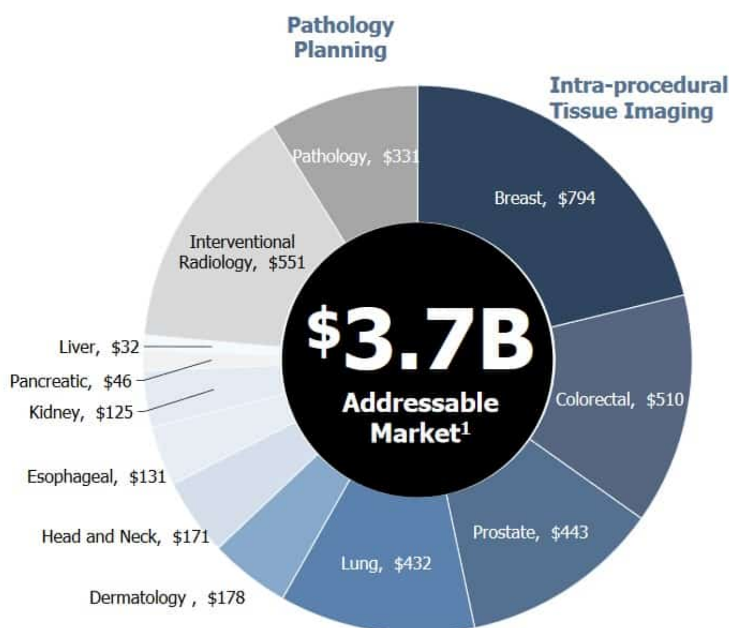
Perimeter's technology is initially focused on breast cancer. Breast cancer is a $30 billion worldwide problem, where approximately 25% of surgeries must be done again as bits of cancer are often left behind. Perimeter's technology could

save over $800 per patient and $16,000 per repeat surgery.

Beyond that there is a massive global market for breast and other cancers, especially when surgical removal is the treatment of choice. This means the potential market is enormous.

Perimeter's technology has a $3.7 billion global addressable market

While beyond the scope of Perimeter's current investment plan, OTIS has applications beyond breast cancer



Addressable Market By Region

USA total addressable mkt: $552 M
Biopsy: $69 M
Intra procedural: $441 M
Pathology: $41 M

Europe total addressable mkt: $1.0 B
Biopsy: $132 M
Intra procedural: $839 M
Pathology: $79 M

ROW total addressable mkt: $2.1 B
Biopsy: $349 M
Intra procedural: $1.5 B
Pathology: $210 M

[1] WHO Projections for 2020.
- Clinical Applications: Lung, Breast, Prostate, Colorectal, Liver, Head and Neck, Esophageal, Pancreatic, Dermatology and Kidney
- Average cost per case for Inta-operative = $500USD; Biopsy = $50USD; Pathology= $30USD
[2] Biopsy US Rates provided by MDXHealth.com

Source: Perimeter Corporate Overview Q2 2020

Perimeter's business model involves a combination of capital equipment, consumable, and service contract revenues. Other similar med-tech companies typically trade on 3-9x revenue, so it will be interesting to see how Perimeter goes in the next year given they are now commercializing the technology. Following the recent capital raises the Company has ~$33 million to help commercialize the business, which the Company believes should be more than sufficient for the Company to become cash flow positive.

The Perimeter Board and Management are highly specialized and

experienced. For example Chairman Anthony Holler MD has founded or been CEO of companies that were acquired for a total of $2.5 billion. CEO Tom boon has >30 years experience in medical imaging. CFO Jeremy Sobotta played roles of increasing seniority in deploying about $4 billion in capital in M&A from the acquirer side during his pre-Perimeter career at Stryker (NYSE: SYK – US$69 billion market cap) and Smith & Nephew (NYSE: SNN – US$17 billion market cap).

Perimeter Medical Imaging AI Inc. is run by a highly specialized and experienced team

Leadership

Tom Boon
CEO

- >30 years experience in medical imaging
- President of Summit Industries, 30,000 medical imaging installations
- Ran TSX listed medical imaging company, 2000 installations

Anthony Holler, MD
Chairman

- Emergency Medicine trained physician
- Companies he was either Founder/CEO or Chairman acquired for a total of $2.5 Billion

Jeremy Sobotta
CFO

- Led finance for Stryker's surgical business unit specializing in operating room equipment and women's health
- Expertise in commercial excellence and GPO/payer/provider contracting
- Experience launching and shifting several go-to-market models across North America, Europe, and Africa

Source

Closing remarks

Investors have a chance to invest very early and with a low market cap into Perimeter Medical Imaging AI Inc. due to the stock only listing yesterday. Perimeter suggest (page 19) that they have a first mover advantage and better technology than their competitors. Certainly the very significant support from the Cancer Prevention and Research Institute of Texas tends to confirm this. The niche application of perimeter imaging and AI is a ground breaking technology with a huge addressable

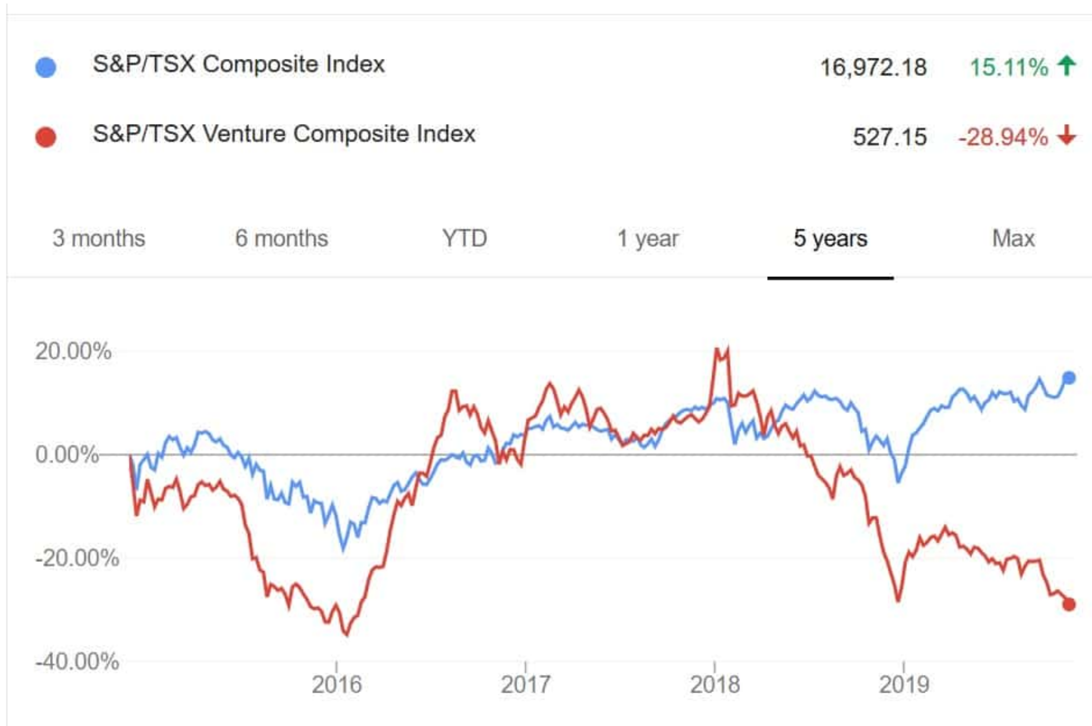
market. The technology is also a win-win for both surgeons and patients as it lowers costs and potentially reduces repeat surgery. Management is highly experienced with an excellent past track record. Investors should be sure to check out Perimeter Medical Imaging as the potential upside looks to be very significant if the Company continues to progress well.

Are small cap stocks on the TSX-V set for a holiday rally?

Canadian small caps, represented by the TSX Venture (TSX-V) exchange, have had a very tough past two years and are way under-performing the Canadian large caps (TSX exchange). We ask the question why? And does this make Canadian small caps on the TSX-V a contrarian recovery play?

Comparing the two main Canadian indexes below we see the 5 year cumulative returns shown on the charts below. Clearly the TSX Composite Index (TSX large caps) has outperformed returning 15.11%. The TSX-Venture Composite Index (TSX-V small caps) has performed very poorly, especially since January 2018, returning a negative 28.94%. The chart below also shows last time the TSX-V fell heavily we saw a large recovery rally in 2016.

TSX large caps (blue) versus TSX-V small caps (red) – 5 year price chart



Source

What are the main differences between the TSX and the TSX-V?

The most obvious is size, with the TSX stocks having a bigger market capitalization. The next key difference is the TSX is heavily weighted to financials and energy, whereas the TSX-V is heavily weighted to the materials (mining) sector (29.15%).

TSX-V sector weightings and Top 10 holdings

Sector Breakdown

Sector	Weight %
Materials	29.15
Energy	10.07
Industrials	8.71
Health Care	5.11
Financials	5.06
Information Technology	4.96
Consumer Discretionary	0.81
Consumer Staples	0.43
Utilities	0.19

Top 10 Constituents by Market Cap

Constituents
Equinox Gold Corp
StorageVault Canada Inc.
Jadestone Energy Inc.
People Corporation
K92 Mining Inc.
The Westaim Corporation
Auxly Cannabis Group Inc.
Novo Resources Corp.
Pharmacielo Ltd.
Great Bear Resources Ltd.

Why are the TSX-V (small caps) under-performing, especially in the past 2 years?

There are a number of reasons for the under-performance. First and foremost is the under-performance of the materials (mining) sector. Incidentally, the trade war started about 2 years ago, and the electric vehicle (EV) metals boom peaked ~2 years ago (January 2018). We have also seen a slowdown in global growth in 2019, which is a negative for much of the mining sector. Gold is the exception, and palladium has been another exception due to tougher emission standards arriving in 2020.

This means we have seen the TSX-V taken down by a large downturn in the mining stocks, especially those related to the trade war and China, such as the base metals and EV metal miners. We also saw a considerable pullback in the cannabis stocks the past year after their previous boom.

Does this make Canadian small caps on the TSX-V a contrarian recovery play?

The answer is mostly yes, if you believe we will soon see a

trade war recovery and a strong China. China consumes almost half the world's metals, so a stronger China is good for Canadian metal miners.

Investorintel asked Mario Drolet (President of MI3 Financial Communication and 25 year trading veteran) to share his thoughts, and this is what he said:

> *''Despite the fact that the big market is continuing to make new record highs.….Dow at 28,000.….The small-cap stock index and many sectors has been anemic..…but remember the junior market is a catch up market.….and I am expecting a Christmas rally.….(mid-November to December) and we should start seeing some inflows of money soon into the market..…We are all seeing the TSX-V and CSE Index near their all time lows..…the cannabis and blockchain sectors pullback have accentuated the downward movement and have not helped the cause.…Lookout for a rebound on precious (gold) and base metals (copper, nickel) and strategic metals like rare earths.''*

I would agree with Mario's conclusions. If we get a trade war deal and global growth starts to pick up again (including China EV sales), then we should see better sentiment to small caps (especially the EV and base metal miners), and the TSX-V could be set for a brilliant Christmas rally.

Cannabis and Blockchain, the CSE's record breaking year

May 31, 2018 — "I am here to give you an update on the CSE. In a word we are busy. 2017, we were busy. It was a record year. We have had a record year almost every year, but this one

exceeded all others. At the end of the year we had 35 companies with a market cap each of over $100 million dollars. It was the first time that our companies collectively and there were about 310 on average last year I would say, that raised over a billion dollars in financing." states Rob Cook, Senior Vice President of Market Development of the Canadian Securities Exchange, in a recent presentation at the 7th Annual InvestorIntel Summit – Buds, Batteries & Blockchain 2018.

Rob Cook: I am here to give you an update on the CSE. In a word we are busy. 2017, we were busy. It was a record year. We have had a record year almost every year, but this one exceeded all others. At the end of the year we had 35 companies with a market cap each of over $100 million dollars. It was the first time that our companies collectively and there were about 310 on average last year I would say, that raised over a billion dollars in financing. Due to the volume of our trading, it was the first time that our 300 odd companies traded more on a couple of days in December more than all of the companies on the TSX Venture Exchange in each of volume, value and trades. We had a lot of trading. Here is our 5-year trading trend. I think it is fair to call this a hockey stick. There are not too many hockey sticks that you will see in a graph that are not projections. This one is historical. We are happy with that. You can see there is active trading, but is there liquidity? It is a small stock exchange. Most people seem to assume that there is going to be less liquidity on the CSE than on other stock exchanges that have a much bigger list. Turnover is a measure of liquidity. It is one that is easy to find. You take the value of the trading of all the shares and you divide that by the market cap of the companies whose shares you are trading. This is a monthly slide. I think you can guess that the red line is the CSE because it is the highest on the slide. I may not be showing it to you if it was not, right? The black line is the TSX and it is a more stable trading environment partly because

it is larger, partly because it is large cap stocks. Typically it runs 4% to 5% a month turnover in trading. Our peak was over 30% in December. Yes, that was powered largely by cannabis. Some people claimed it was all cannabis. It is not true. It is only about 90%. It has obviously come off quite a bit since then, but in March our turnover was 13% compared with 5% on the other exchanges in Canada. We are not actually showing this to tell you that our market is more liquid than their market. What we have always told people is that the stock exchange does not give you liquidity. Liquidity is a function of investors' interest in trading the securities that are listed on your exchange. Obviously there was a lot of investor interest. All of the investors in our marketplace are part of the Canadian capital markets so we have the same dealers, the same investors. We do have different companies. That was a very big year for us. This slide shows growth in listings on the CSE. It goes back to 2007…to access the complete presentation, click here

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International Lithium has a Giant's Attention

Kirill Klip, Chairman, President and CEO of International Lithium Corp. (TSXV: ILC) in an interview with InvestorIntel's CEO Tracy Weslosky discuss their competitive advantage in the lithium market and their strategic partnership with Ganfeng. In the interview, they discuss International Lithium's Mariana Lithium brine project in Argentina, their flagship property, and the Mavis Lake property, competitively located in the Upper Canada Lithium Pool. Come see Kirill on "The Lithium Exploration/M&A Market panel" moderated by

Christopher Ecclestone, EU Editor for InvestorIntel at the 6th annual Cleantech and Technology Metals summit on Monday, May 15th and Tuesday, May 16th (CTMS2017.com) in Toronto, Canada.…to access the complete interview, click here

Disclaimer: International Lithium Corp. is an advertorial member of InvestorIntel Corp.

The ASX – Unreconstructed?

The old adage about "if it ain't broke, don't fix it" comes to mind with regard to the seemingly senseless stream of new "regulations" that the ASX is trying to foist on the marketplace. They look more designed to strangle at birth the nascent recovery in mining markets with the sole intention of making life easier for the regulatory *nomenklatura*.

In all the brouhaha about the many shortcomings of the TMX Group, Australia is occasionally held up as a paragon of virtue. We have not been of that persuasion as we find the grinding cost of the many "publication and circularization" rules in Australia to be a crippling burden on juniors (particularly the down and out ones). Added to that is the propensity of Australian companies to overly compensate directors even when the cupboard is bare.

However, the ASX has mightily benefitted, as we have written in the past, from the epic proportions of the Super (Superannuation) Fund pools of cash which now measure in the trillions of dollars and for which Canada has no equivalent. This has instantly given most ASX-traded stocks an immediate leg up and certainly held stocks at higher valuations both in good and bad markets than would be the case for a lookalike

junior miner on the TSXV or AIM.

It was clearly all too much of a good thing and the ASX in its smugness has decided to kill the goose that laid the golden egg with a tablet of new commandments with which it has descended from whatever mountain regulators climb to get their instructions directly from divine sources.

So while the Toronto Venture Exchange might, at worst, be accused of benign neglect of its junior miners, the ASX has seemingly engaged in a pro-active game of Whack-a-mole to ensure that the junior mining sector in Australia does NOT come out of the other end of the mining crisis in a fit state to recuperate.

The Chicken & Egg of Project Studies

In the beginning there was the financing.. no, hang on… in the beginning there was the project.. no, no.. how did you get to a project without money? Such is the state of turmoil within the brain of the ASX regulators these days. The latest innovation is that it will seemingly NOT be allowed to publish project economics for which the financing is not in place. This seems truly bizarre. It actually implies that miners will have to raise money on a wing and prayer (hundreds of millions?) while declining to tell investors about the project and its economics. This seems to be diametrically opposite to the principle of informed markets. All well and good for established miners but for up and coming players, this is the kiss of death to their financing efforts if they must keep their consultants' reports to themselves.

Listings Rules Changes

In mid-May the ASX compounded the error of its ways in the aforesaid measure with a slate of "improvements" designed to "strengthen the ASX listing rules framework and maintain an appropriate balance between the interests of issuers and investors in promoting efficient capital raising, maintaining

market integrity and providing a market that is internationally competitive”. However these changes appear retrograde as they will impact small-cap IPO candidates and start-ups as well as those looking to do backdoor listings, making life much tougher (if not impossible) for them.

The main measures proposed are:

- Increase the financial thresholds for listing
- Require audited accounts from entities applying under the “assets test”
- Introduce a minimum free float requirements
- Change the spread of shareholders rules
- Apply the same working capital requirements to all entities applying under the “assets test”

The whole thing is a bit of a rush job as the proposals were put forth in mid-May and submissions from interested parties are due to the ASX by 24 June 2016. It is expected that final changes to the Listing Rules will be released in early August 2016, and will come into effect on 1 September 2016.

The first obvious effect is that it is going to choke off the repurposing of down and out listed shells as backdoor listings of newer bigger prospects. Since time immemorial the mining sector has been driven by the shells of failed ventures having new life breathed into them and saving promoters the struggle of jumping through all the hoops that a *de novo* listing involves. These new rules are demanding minimum free float requirements and then at the same time discounting the fact that a shell may have a vast number of existing shareholders by talking down the relevance of these smaller holders.

Increasing the spread parcel size will disenfranchise small shareholders and impact most heavily on back-door listings, since the listed shell typically has a low valuation, meaning a low parcel value for most of its shareholders. A larger parcel size will mean there are fewer qualifying shareholders

to contribute towards spread.

Then the proposal to introduce a new requirement for entities seeking admission under the assets test to produce audited accounts for the last three full financial years will most likely present practical difficulties in relation to back-door listings.

This is then further compounded by a requirement that the candidates for listings pass an ‘assets test’ threshold with Net Tangible Assets (NTA) of at least AUD$5mn which is likely to have an impact on the ability of junior mining companies to proceed with a listing, as most junior mining companies seek to be admitted to the official list of ASX on the basis of the NTA test given that they are unlikely to have generated any substantial profits in their formative years.

The ASX is proposing to hike the ‘assets test’ thresholds to an NTA of at least $5 million or a market capitalisation of at least $20 million. This is a big jump from the current threshold NTA of at least AUD$3mn (after deducting the costs of fundraising), or a market capitalisation of at least AUD$10mn. This makes new listings candidates bulk up pre-listing (i.e. dilute) and/or spend much more time in the private sphere before listing, which comes with the attendant danger that financing windows (as we have seen in recent years) bang open and shut like shutters in a hurricane.

So in essence the ASX is making it harder to do a backdoor listing while also partly barring the front door at the same time. An Australian broker that we met the other day said he was spending more time looking at TSX stocks as they were way cheaper and the regulatory regime was better. Howzat!

Conclusion

As if the mining sector does not have to deal with than to now

face an egregious wave of over-regulation that will constitute a stiff headwind on the voyage to recovery. Ironically the measures being introduced are not being done to protect consumers/investors but rather to "tidy up the market" which should be read as save the Australian exchange's staff the effort of having to deal with trifling and piffling issues of trivial juniors. These people have better things to do.

In effect this is the Europeanisation of the Australian equity market. A form of creeping ossification where musty, too big to fail, blue chips lumber onwards while the up and coming juniors are regarded as vermin that scurry around the ankles of the Great & Good.

The ASX is tempting fate here. As we have seen in other markets (most notably Canada and the US) when it's the marketplaces' owners themselves that become overweaningly confident and distant from their investors and listed companies then that is when challenger exchanges arise from the dust and give the entrenched bureaucrats of the legacy exchanges a run for their money. With the latest moves the ASX has strapped on the suicide vest and wondered out into the Never Never to self-implode. It really is on a Walkabout away from reality of modern capital markets.

Australia's loss may yet be Canada's (or London's) gain.

Restructuring Time for Venture Markets?

In Shakespeare's Julius Caesar, Mark Antony offers the immortal lines "There is a tide in the affairs of men, which taken at the flood, leaves on to fortune, omitted, all the

voyage of their lives is spent in shallows and in miseries”.

I could not help thinking of these lines last week as I sat through a presentation by representative of the Canadian Securities Exchange, the challenger market in the Canadian capital markets. As we all know the TMX Group has come in for scathing criticism over the last four years as it has essentially sat out the mining sector crisis allowing the Toronto Venture Exchange to wallow in misery with something of a “deer in the headlights” attitude towards the challenges faced. Accomodations offered to the hard-pressed corporates listed on the exchange were few and far between.

Part of the problem goes back to the conflicted nature of the TMX Group. Its first internal conflict is between the fact that it was firstly a mutual owned by brokers, then a public company with a principal profit-motive as its driver and now it’s owned by a more select group of banks that don’t necessarily have mining as a first consideration, or indeed any consideration. The second internal conflict is that the TMX Group is like a retail chain that has an upmarket department store and a down market outlet. One might compare it to the famed Boston department store, Filene’s, where its off-brand “Basement” became a by-word for bargain hunters. Ultimately the two businesses proved to be incompatible within the same corporate structure. This we would sustain is the case at TMX Group. What should be a situation of competitive tension with the TSX trying to poach larger companies from the TSXV has become a sort of Mexican stand-off with none of the aggressive poaching of larger caps to the senior market that existed in the past. Upgrades happen but certainly it would appear that it’s no longer a corporate priority.

Essentially, a sensation of stasis and lack of competitive dynamism has settled over the organization. It has the feel of a government department.

The CSE

Meanwhile, in a not so stealthy way the CSE is eating the TMX's lunch. One almost gets the sensation that the TMX thinks that if CSE takes part of the action then there will be less pressure on it to shape up.

In the chart below, sourced from the presentation that the CEO of the CSE gave to the Investorintel Cleantech and Technology Metals 2016 conference, one can see that listings at the CSE have been on somewhat of a tear. Just this week I received the monthly stats email of the TMX Group that cited 30 new listings on the TSXV up to the end of April. The latest stats showed 1,734 listed companies at the end of April, of these 1,030 were classified as being Mining Sector.

What was not clear was how many companies had been delisted from the TSXV, because the attrition rate must be accelerating with the lack of funds to complete 2015 financials sending more of the mining juniors into the penalty box (and oblivion). We suspect the "net" at the TSXV would have been negative in 2016.

While a market recovery in miners made lead to some more listings at the TSXV, the repurposing of old shells is more likely. We can already see this in the Lithium space with companies being repurposed for the flavour of the day. There are also many oil & gas stories on the TSXV that could become mining stories if push came to shove.

In a response to a question I proffered to the CEO of the CSE at the conference, we received a response that gave the distinct impression that overtures had been made by the CSE to the TMX Group and that these had been rebuffed. Maybe they were just playing hard to get.

How It Might Play Out

A sale by the TMX Group of the TSXV to the CSE could be a

transformative event for Canadian capital markets. It would involve a certain rebalancing between the two major financial centres for mining. It would probably result in the TSX making a grab for some of the larger listed TSXV names, and that would not necessarily be a bad thing. Some of them should have flown from that nest a while back but over-stayed their welcome in the "looser" regime that the TSXV operates.

The TMX Group might even consider "selling" only the listed miner part of the TSXV and keeping the other categories/industries. Though that would not be in the interests of the CSE promoting itself as a broader market.

Conclusion

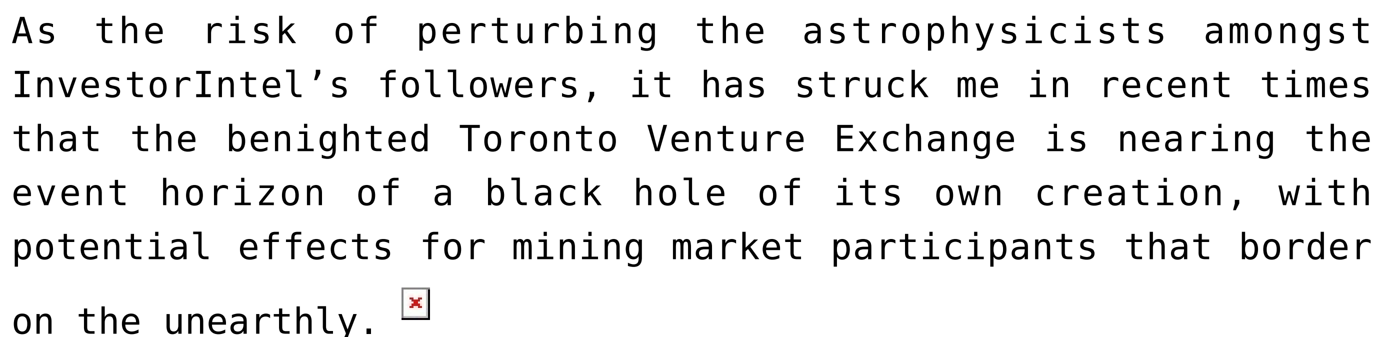
The current time would be a good moment for a transformative transaction. After four years of the mining tide being out, the flood tide might be coming in again. It should lift all boats (though not those that are irrevocably holed). It cannot be business as usual again though. The old model was broken even before it started to go sour in terms of volumes and financings. It had within it the seeds of its own destruction. The TMX Group bought a blue-chip market's mentality to the operations of the old Vancouver Stock Exchange and the result was, for better or worse, the loss of the "edge" that the old VSE had in generating exciting stories that actually got somewhere.

The CSE has used the "downtime" of recent years to hone its own product line and administration. Two years ago we would have said it would have been a stretch for it to absorb the Toronto Venture but now we have no doubts it could handle it in a relatively seamless transaction.

The TSXV is not only mining though and we suspect that the TMX Group has wanted to hang onto the market for its tech aspects and other industrials rather than its mining component. But then again neither is the CSE.

Maybe the TMX Group will end up as a minority shareholder of the CSE and a great reorganization of Canadian capital markets will be achieved. Now is the time to make this happen. We find it difficult to imagine that there would be too many that would oppose such a realignment and the attendant reinvigoration of the market for junior miners.

Toronto Venture Exchange nears an ‘Event Horizon’

As the risk of perturbing the astrophysicists amongst InvestorIntel’s followers, it has struck me in recent times that the benighted Toronto Venture Exchange is nearing the event horizon of a black hole of its own creation, with potential effects for mining market participants that border on the unearthly. 

The definition of the “event horizon” in astrophysics is useful as a starting point: “In general relativity, an event horizon is a boundary in space-time beyond which events cannot affect an outside observer. In layman’s terms, it is defined as “the point of no return”, i.e., the point at which the gravitational pull becomes so great as to make escape impossible. An event horizon is most commonly associated with black holes. Light emitted from beyond the event horizon can never reach the outside observer. Likewise, any object approaching the horizon from the observer’s side appears to slow down and never quite pass through the horizon”.

The implosion of a once-stellar entity sounds like a great euphemism for the Canadian mining equities market since 2008.

Ringing the Alarm Bells

Several months back I received an email from Tony Simon of Seguro Consulting which included an interesting study of the dilemmas facing the TSXV and its denizens. The spur for his study was that close to 600 companies were non-compliant with Continuous Listing Requirements of the TSXV (Policy 2.5, Heading 2.1). It is not a pretty picture with Mr. Simon claiming that there are:

- 600 non-compliant companies
- over $2 billion in negative working capital
- over $5 billion in questionable exploration assets

This pretty much tallies with the educated guess of many market observers and investors. Maybe our calculator is broken but that signifies negative working capital of $3.33mn on average for each of those 600 companies. This I suspect is an exaggeration. It is more likely that the vast bulk of these companies have less than $500,000 in negative working capital and that might leave a few score larger entities with above the average but frankly it is harder for a larger entity to fly on an empty tank than a smaller one.

To further use an aeronautical analogy the vast bulk of the stricken companies are gliders circling the airfield perpetually waiting for a landing slot while the bigger players are B52s that tend to drop like a stone when the fuel tank is empty. As for questionable exploration assets the truism might be that if the company is bust then basically its assets are probably not realizable either. Most mining companies have several assets all of which would have a stated value on the balance sheet even if they have been found to not have any economic value and are merely window dressing.

That means that companies even in the rudest of health may have overstated NAVs. It is not exactly surprising that the biggest write-offs in recent times have been of producing

assets on the balance sheets of cashflowing majors rather than patches of moose pasture embedded in the darkest recesses of Tin Pot Mines. As juniors tend to expire with little more than a puff of smoke to show where they have been and it is rare that extended asset liquidation processes are undertaken, the assets tend to be dropped when renewals come up and there is no recoverable value to them. The perennially struggling junior may not have invested too much in the properties it holds but the average of $8.33mn per miner on the distressed list seems a tad high.

The Incentive to maintain a Holding Pattern

At the control tower of TMX it reputation as an international airport is sustained by the number of successful landings. A history of too many crashes scares away the travelers…

The airport though is happy to see empty planes landing and taking off if it can collect a fee irrespective of whether the airlines are making a buck. With annual fees of between $5,000 and $20,000 per annum collectable (in theory) from the 600 companies in the danger zone the amount of lost revenue is at least $3mn but probably much higher. Beyond that there is the loss of financing fees, which is the real shakedown as these companies pay a disproportionate amount on whatever “widow’s mite” they may be able to scavenge up. Sometimes on a $100K financing as much as 5% can go to the TSXV’s kitty.

Then consideration must be given to the other parties with their hands out, including auditors, lawyers and the registry companies like Compushare. The latter group gets to charge quite amazing fees on transfers and then annually charge a “tax” on downloading the shareholder base for circularization for AGMs. Each of the 600 “zombie” companies has a plethora of other officially sanctioned “mouths to feed”. Nowhere in this cosmos of the TSXV and its satellites does the hard-pressed shareholder get any consideration. He or she (or it) is the one that ultimately pays the price when the light is snuffed

out on their investment. One wonders if companies are keep in the land of the living to give this group some hope or merely to fleece them yet one last time as reporting and annual meeting (and paying) season comes along again.

Conclusion

So any Trekkies amongst our readership are going to recognize the allusion when I say that Toronto Venture Exchange is about to go “Where no man has gone before” and frankly where no man would want to go… into a Black Hole.

While it seems like junior mining companies are the ones being drawn into the orbit of the market’s black hole only to disappear into anti-matter on the other side, the TSXV itself may be getting sucked into a black hole of its own creation (stop sniggering in the back row….)..

This creates a vivid image of the Starship Venture loaded with champagne-swilling bureaucrats, lawyers, auditors and registrars paused on their own event horizon – wondering why things have gone so quiet and why the clocks have stop ticking just before they too are sucked to oblivion…. and enter an alternative universe where they have to serve the companies and the investors rather than the other way around.