KATUSA'S GUIDE TO PRIVATE PLACEMENTS

A SPECIAL REPORT FOR KATUSA RESEARCH SUBSCRIBERS

KATUSA RESEARCH

"Private placement."

These two words are almost never mentioned in investment how-to guides.

You never hear them mentioned on financial television.

In fact, not one investor in 10,000 knows what a "private placement" is.

Yet the term "private placement" is cherished by many of the world's greatest investors.

Private placements are one of the **true insider secrets** of the financial world. They offer the opportunity to make 10, 20, even 50 times your money in a single stock. A private placement can turn a modest investment of $25,000 into $500,000.

If you've ever suspected that rich, connected people get access to privileged investment deals that "regular" folks do not, your suspicions are correct.

Rich, connected people do get perks, privileges, and advantages in the investment market.

These often come in the form of "private placements."

I've personally made millions of dollars in private placement deals…and I have millions more invested in them right now. They are a core component of my investment strategy.

But even small investors can hit it BIG in private placements.

About seven years ago, I encouraged a friend of mine to invest $4,800 in one of the best private placement opportunities I'd ever seen. She made over $150,000 on the deal…enough to pay for her entire MBA…and then some.

Because private placements are one of the greatest wealth creation vehicles in the financial markets, I've written this short guide to explain them. I'll cover why they exist, how they work, and how you can personally benefit from them.

If you're an old hand at private placements, you'll find this a fun refresher course. If you're new to private placements, congratulations.

You're about to acquire a very useful and very powerful set of financial skills…one that could make you hundreds of thousands–even millions–of dollars.

©Copyright Katusa Research, 2020

Why Top Investors Love "Private Placement" Deals

When natural resource firms need to raise money to do things like drill for oil or develop gold mines, they often do it through "private placements."

A private placement allows a company to sell shares to investors outside of the normal stock market.

In a private placement, companies typically offer shares at a discount to the current market value. This discount is often in the 5% - 25% range. The price of shares and the dollar amount raised are negotiated in advance.

For large investors, negotiating the price and the amount invested in advance is a huge positive. It means they can acquire large blocks of shares without dealing with the market's day-to-day fluctuations. It means the share price can't "run away" and shoot 25% - 50% higher while the position is being acquired.

Being able to acquire a large number of shares in a company at a set, discounted price is enough to make private placements a very attractive investment vehicle for large investors.

But there is another component of private placements that makes them even better–it's the icing on the cake.

A private placement offering can also include a stock option component, which are called "warrants."

Warrants act like stock options in that they allow investors to buy a stock at a predetermined price in the future. They have finite life spans. Some warrants expire in one year. Some expire in 2, 3, even 5 years.

And just like stock options, warrants can soar hundreds of percent in value when a company does well.

For example, a company doing a private placement at $0.50 per share could include a warrant with each share that would allow investors to buy additional stock for $1 per share at any time in the next three years.

If the company does not find success and the share price does not climb to $1 within three years, the warrants expire worthless.

But if the company does find success and its share price climbs to $4 per share, the investor can "exercise" his warrants and buy stock for $1 per share and then sell it for $4 per share.

©Copyright Katusa Research, 2020

This would net him a $3 per share profit, which is a 300% gain on the warrant exercise price…and a 500% gain on the original capital invested.

The profit on the warrant is in addition to the profit made on the stock investment. In this case, the investor enjoys a $3.50 per share profit ($4 minus $0.50), or a 600% gain. Thus the buyer would gain a total of 1,100%.

The gain in the stock is great, but the warrant made the investment, much, much more profitable.

That's the power of a warrant…and it's why they are such an attractive component of private placements. In fact, it's a rare, rare case that I will invest a private placement that does not include warrants.

As I mentioned, a modest $25,000 can grow into $500,000 when a resource firm achieves success and you own warrants along with stock.

Because you can buy stock at a discount AND get a warrant in a private placement, these deals are in high demand with wealthy individual investors and large institutional investors.

This demand makes private placements a good way for companies to raise large amounts of money quickly and easily from the best investors in the business.

Why Most People Don't Know About Private Placements

Private placements are powerful financial vehicles.

However, because these deals do not take place on a regular stock exchange, you cannot look up their prices on websites like Yahoo Finance.

Also, the money involved in a private placement is often tiny compared to the money involved in a big-name IPO like Tesla Motors.

For example, many private placements in the resource sector raise $5 - $25 million. This is less than 1% of a heavily-publicized tech IPO that raises a billion dollars.

That's why you'll **never** see these deals featured on the front page of the *Wall Street Journal*. It's why people on mainstream financial television never talk about them.

©Copyright Katusa Research, 2020

This lack of mainstream popularity turns many folks off.

They simply aren't comfortable with investments that aren't splashed over mainstream magazine covers.

<u>But if you're like me, you realize this is a GREAT thing.</u>

If you're like me, you realize investing alongside the masses is a sure way to lose money…while paying very high fees to brokers and bankers.

I love the fact that private placements are a small and uncovered area of the market.

This means there aren't millions of investors reading the same news stories and piling into these deals.

It means these deals are off the radar of billion-dollar investment funds.

Said another way, it means private placements are <u>extraordinary opportunities</u> for the small group of investors who are willing to do the necessary legwork and research to understand them.

Having said all that, investing in private placements <u>isn't easy</u>.

You can't simply run conventional "stock screens" to uncover winning private placement opportunities.

The companies that offer great private placement opportunities typically don't have conventional "earnings" that investors want to see. Some of them don't make any profit at all.

This is why "cookie cutter" approaches used by thousands of mutual funds and newsletter writers DO NOT WORK in the private placement world.

To get in on the best deals, you have to know all the major players in Vancouver, the heart of global resource finance.

You have to know the bankers, brokers, CEOs, and entrepreneurs. You have to visit the projects.

You have to constantly take the pulse of the market and know about all the deals being lined up. Keeping track of it all is a full-time job.

That's why I'm so excited to share my best ideas with intelligent individual investors.

I spend long hours in my office, which is located in downtown Vancouver. I hear hundreds of "deal pitches" every year.

©Copyright Katusa Research, 2020

In the past 10 years I've flown over one million miles to visit hundreds of resource projects in person. I network constantly with some of the world's most influential CEOs and financiers.

It's a lot of work…but it is absolutely necessary for achieving success in private placements.

All this work is why I'm now one of the top financiers in Vancouver…it's why I'm able to share great private placement deals with Katusa Research readers.

More Key Private Placement Information

In the sections above, I covered the key basics of private placements.

This section provides a handful of other key points you need to know in order to achieve private placement success.

KEY POINT #1: Because the public information you can get on a private placement is a lot less than the information you can get on say, Microsoft shares, and because private placements are riskier than some other investments, the government restricts participation in them to "accredited investors."

An accredited investor is someone who can demonstrate an annual income that exceeded $200,000 (or $300,000 with a spouse) for the last two years and can reasonably expect to achieve the same income for the current year.

One can also be considered an accredited investor by having a net worth of more than $1 million.

The government restricts access to private placement deals to accredited investors because it figures rich people are more knowledgeable about finance, more comfortable with riskier investments, and better able to handle investment losses than most folks.

You may disagree with the government's position.

Personally, I've seen rich people make horrible investment decisions and I've seen people with less money make great investment decisions.

But I don't make the rules. I just play by them.

As part of the private placement paperwork, an investor must sign a document that states he/she is accredited.

©Copyright Katusa Research, 2020

KEY POINT #2: There are two kinds of private placements.

One, the "brokered" kind.

And two, the "non-brokered" kind.

In a brokered private placement, a brokerage house acts as a middleman between the company and investors. The broker raises the money from clients and directs it to the company. The broker receives a commission in the 6% to 10% range for performing this service.

This usually happens when it's a large financial raise or when a junior needs the help of a broker to drum up interest.

Some brokers have large client bases who like to participate in private placements. Getting access to a large base of investors can make it attractive for a company to go down the brokered financing route.

The management teams who have large followings themselves can go down the "non-brokered" financing route and cut out the middleman (broker) to save on finance costs. In a non-brokered private placement, the investors place their money directly with the company. This saves a lot of money on fees for the company.

Non-brokered financings are typically done by companies with access to good contacts and networks. They have "reach," so they don't need to pay a broker.

I prefer to participate in non-brokered financings. Cutting out the middleman means more money goes to the company.

KEY POINT #3: Investors in private placements may face what is called a "lock up" period. This is a four-month window when the investors are not allowed to sell their shares. There are situations upon mergers and short-form prospectuses in which there are no four-month trade restrictions, but for most junior private placements there is a lock up period.

Lock up periods ensure private placement investors hold their stock for a period of time and do not "flip it" for instant profits. This rule somewhat promotes longer holding periods.

I have no problem with lock up periods. I invest in private placement deals where I like the long-term prospects of the company. But the lock up period is something every investor should be aware of.

KEY POINT #4: Investing through a private placement is not a guarantee of success. Investing in a company through a private

©Copyright Katusa Research, 2020

placement carries the same downside risks as investing in it through conventional means.

In order for me to participate in its private placement, a company has to meet all the same rigorous requirements I have for every other investment. It must be piloted by skilled managers who own substantial amounts of company stock (skin in the game). It has to have the right financial structure. It has to be operating in the right places in the world. It has to be a good value.

I've written extensively on my investment requirements in my short book *Resource Market Millionaire*. Remember, this book acts as an "Owner's Manual" for *Katusa's Resource Opportunities*. You can access it in the Members Area.

How to Participate in Private Placements

If you're new to private placement investing, it can be intimidating.

But it's actually pretty easy.

If you've ever applied for a bank account or a brokerage account, participating in a private placement will be a piece of cake.

Here are the basics...and how to participate in the JDL Gold private placement:

Step 1: Determine if you are an accredited investor. If you are, go to Step 2. If you are not: you can still look to buy shares in the company close to the private placement price in the market.

Step 2: Read all the information provided and determine if you want to participate in the private placement.

Step 3: Decide how much money you want to allocate to the private placement. The financing will be in Canadian currency. You will have to determine that number in Canadian dollars. Also, you will only be allowed to wire the company in Canadian dollars.

Step 4: Contact the number provided in the special alert given to Katusa Research subscribers.

Step 5: When a company representative answers the call, follow these steps:

1. Tell them you are a Katusa Research subscriber.

©Copyright Katusa Research, 2020

2. They will ask for you name. You will give them your full name.
3. You will then state you desired allocation in Canadian dollars.
4. You will state your phone number.
5. You will state your email address.
6. You will state your full address.
7. The company representative will confirm all your information and will contact you again within 3 business days with the subscription forms.

The most important step is next:

Step 6: When you receive the subscription forms, you may feel intimidated. Don't. They are mainly created by lawyers that over-complicate matters as per request from the regulators. It is what it is. We don't make the rules. We just play by them.

You will receive an email from the company representative within three business days of your conversation. The email will have an attachment.

You need to open the attachment and print the full document.

Then you need to fill out the full subscription forms.

If you have any questions while filling out the document, <u>call the management back at the number provided</u> and they will walk you through the process.

Step 7: Scan the document and email it back to the company representative.

Step 8: There will be wire instructions attached. You will need to go to the bank and wire the funds.

Make sure your full name is on the wire. The note should be for the private placement of the company name. For example, if the private placement is for Rule Exploration Corp, then you will want the full name of the specific company you are buying in the private placement in the memo (e.g., "PP for Rule Exploration Corp").

Step 9: You then will have to mail in the physical subscription forms that you have filled out and have already emailed a scanned copy of to the company representative.

©Copyright Katusa Research, 2020

Step 10: Within 45 business days, you will receive a share certificate and warrant certificate. You will send all those documents to your broker and put the shares and warrants in your brokerage account.

Step 11: Congratulate yourself. You just participated in a private placement with some of the best resource investors in the world.

The Basics of Warrants

When a company raises money in a private placement, it issues a "unit," which consists of a share and a warrant.

You know the basics of "shares." They are ownership stakes in businesses. This section will cover the second part of private placement financings: warrants.

Like many financial vehicles, warrants have some "moving parts" you need to understand in order to use them properly.

Remember, a warrant is a contract that gives the holder the right–but not the obligation–to buy a stock at a predetermined price by a predetermined time in the future. There are many different types of warrants.

For example, a warrant might grant its owner the right, but not the obligation, to buy a stock at $2 per share at any time during the next two years. Or, a warrant might grant its owner the right, but not the obligation, to buy a stock at $1 per share during the next five years.

Strike Price: Lower is Better

The first aspect of a warrant you need to know about is the "strike price." This is the price at which you can buy the stock at some point in the future.

If a warrant has a strike price of $2, that means you will be able to buy company stock at $2 at some point in the future.

In the case of a warrant with a strike price of $2, if a resource company is trading for $1 per share, the warrant has no intrinsic value. But if the company achieves major success and sees its stock price soar to $6, the warrant will have an intrinsic value of $4, since it allows you to buy the stock for $2 per share, which you could then sell for $6 per share (6 - 2 = 4).

When the share price of a stock is trading above the warrant's strike price, we say the warrant is "in the money." When the share

©Copyright Katusa Research, 2020

price of a stock is trading below the warrant's strike price, we say it is "out of the money."

Expiration Date: Longer is Better

The second aspect of a warrant you need to know about is the "expiration date." This is the date at which the contract expires.

After the contract expires, neither the company nor the holder has any rights or obligations that were associated with the warrants. If a warrant expires "out of the money," it is worthless.

The further out the expiration date is in the future, the more time a company has to achieve success and a higher share price, and the more the warrant will be worth.

In other words, all things being equal, a "3-year" warrant is worth more than a "1-year" warrant...and a "5-year" warrant is worth more than a "3-year" warrant.

Most warrants issued in private placements have expiration dates 1 – 5 years in the future.

It's rare that more valuable "5-year" warrants are issued by companies.

Conversion Ratio: More is Better

The conversion ratio of a warrant is the number of shares applicable to the warrant.

Some warrants are good for one-quarter of a share, which is known as a quarter warrant. This means you need four warrants to buy one share.

Some warrants are good for one-half of a share (you need two warrants for one share). These are called "half warrants."

Some warrants are good for a full share (you need one warrant for one share). These are called "full warrants."

Obviously, a full warrant is better than half a warrant. You want warrants that can convert into as many shares as possible.

With all this in mind, the best warrant "sweeteners" for private placement investors will have:

-**Lower, rather than higher, strike prices**. This makes the warrants more likely to go or expire "in the money" and have intrinsic value. If I participate in a private placement at say, $0.50

©Copyright Katusa Research, 2020

per share, I'd rather get warrants with a strike price of $1 instead of $2.

-**Longer, rather than shorter, expiration dates**. This gives the company more time to achieve success and a higher share price…which gives the warrants more time to go or expire "in the money" and have intrinsic value. I'd rather get 3-year warrants than 1-year warrants. I'd rather get 5-year warrants than 3-year warrants.

-**Higher, rather than lower, conversion ratios**. You want warrants that convert into as much stock as possible. This is why I prefer full warrants.

Freely Tradable Vs. Non-Tradable

Some warrants trade freely on stock exchanges. You can buy and sell them on the open market. Some warrants are not freely tradable. You cannot buy or sell them on an exchange.

Freely tradable warrants are much better than non-tradable warrants for both investors and the company. Freely tradable warrants are better for the investor because they trade freely, and there is a real bid-ask market for the warrants. Free trading shares are also much better for the company issuing the warrants. It expands its base of investors. This is because many fund managers are prohibited from buying stocks under $1 per share (sub $1 stocks are seen as riskier). However, the same fund managers are allowed to buy warrants. Those managers can buy the warrants and become investors in the company.

Whether or not a warrant is freely tradable depends on whether it is *listed* or not. In a company's news release, it will mention something like, "*The warrants are listed on the TSX Venture Exchange under the trading symbol XYZ.WT.TO.*"

A freely tradable warrant will have ".WT" in its symbol.

Ideally, we get warrants that are freely tradable. It's good to be able to sell the warrants on the open market whenever you like. But you do not have the obligation to sell or exercise the warrants when they are listed. It's just an extra option for the investor.

The other advantage of a freely tradable (or listed) warrant is that it doesn't have to be above the strike price to be able to realize a profit.

When a non-tradable warrant has a strike price of $1.00 but the stock is at $0.75, you wouldn't want to exercise the warrant. It's not in the money.

©Copyright Katusa Research, 2020

In this situation, a freely tradable warrant still has value. If you wanted to, you could sell the warrant on the exchange. You couldn't do this with a non-tradable warrant.

The best type of warrant is a free-trading, full 5-year warrant with a strike price that is 50% higher than the share price at the time of financing. My friend Rick Rule calls this kind of warrant the "Katusa Warrant", because I've been a catalyst for creating them.

You could think of free-trading, full 5-year warrants as the "Ferrari" of warrants.

©Copyright Katusa Research, 2020

Disclaimer

The information provided in this publication is private, privileged, and confidential information, licensed for your sole individual use as a subscriber. Katusa Research reserves all rights to the content of this publication and related materials. Forwarding, copying, disseminating, or distributing this report in whole or in part, including substantial quotation of any portion of the publication or any release of specific investment recommendations, is strictly prohibited.

Participation in such activity is grounds for immediate termination of all subscriptions of registered subscribers deemed to be involved at Katusa Research's sole discretion, may violate the copyright laws of the United States, and may subject the violator to legal prosecution. Katusa Research reserves the right to monitor the use of this publication without disclosure by any electronic means it deems necessary and may change those means without notice at any time.

The Katusa Research web site and articles are published by Katusa Research. Information contained in such publications is obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. The information contained in such publications is not intended to constitute individual investment advice and is not designed to meet your personal financial situation. The opinions expressed in such publications are those of the publisher and are subject to change without notice. The information in such publications may become outdated and there is no obligation to update any such information.

Marin Katusa, Katusa Research, and other entities in which he has an interest, employees, officers, family, and associates may from time to time have positions in the securities or commodities covered in these publications or web site. Corporate policies are in effect that attempt to avoid potential conflicts of interest and resolve conflicts of interest that do arise in a timely fashion.

Any Katusa publication or web site and its content and images, as well as all copyright, trademark and other rights therein, are owned by Katusa Research. No portion of any Katusa publication or web site may be extracted or reproduced without permission of Katusa Research. Nothing contained herein shall be construed as conferring any license or right under any copyright, trademark or other right of Katusa Research. Unauthorized use, reproduction or rebroadcast of any content of any Katusa publication or web site, including communicating investment recommendations in such publication or web site to non-subscribers in any manner, is prohibited and shall be considered an infringement and/or misappropriation of the proprietary rights of Katusa Research.

Katusa Research reserves the right to cancel any subscription or remove emails from the mailing list at any time, and if it does so it will promptly refund to the subscriber the amount of the subscription payment previously received relating to the remaining subscription period. Cancellation of a subscription may result from any unauthorized use or reproduction or rebroadcast of any Katusa publication or website, any infringement or misappropriation of Katusa Research proprietary rights, or any other reason determined in the sole discretion of Katusa Research.

Affiliate Notice: Katusa Research has affiliate agreements in place that may include fee sharing. If you have a website or newsletter and would like to be considered for inclusion in the Katusa Research affiliate program, please contact us. Likewise, from time to time Katusa Research may engage in affiliate programs offered by other companies, though corporate policy firmly dictates that such agreements will have no influence on any product or service recommendations, nor alter the pricing that would otherwise be available in absence of such an agreement. As always, it is important that you do your own due diligence before transacting any business with any firm, for any product or service.

©2020 Katusa Research,