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Market valuation of junior exploration companies: evidence from the TSX and TSX Venture Exchange

Introduction

The global increase in exploration budgets observed in 2020–2021 reflected the recovery of economic activity following the COVID-19 pandemic as well as the growing importance of the global energy transition. Elevated metal prices supported renewed activity in capital markets, leading to a record level of financing for exploration projects by the end of 2021. However, a pronounced slowdown emerged as early as 2022, reinforced by geopolitical tensions related to the war in Ukraine, resulting in a decline in exploration financing from USD 21.5 bn in 2021 to USD 12.2 bn in 2022. As of 2026, financing levels have yet to return

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to their pre-2022 values, with junior exploration companies being the most adversely affected due to their limited access to capital and high sensitivity to changes in market conditions (S&P Global Market Intelligence 2023).

Against this background, Canada remains one of the world's key hubs of the mineral sector. The country is a global leader in potash production and ranks among the leading producers of diamonds, gold, platinum group metals, and aluminum. The total value of domestic mineral production amounts to approximately USD 55.5 bn, while the mining sector accounts for around 7% of gross domestic product, underscoring its strategic importance to the national economy (Natural Resources Canada 2023; Natural Resources Canada et al. 2022; World Bank & *tradingeconomics.com* 2023). Canada's position as a global leader in the mining sector is largely the result of long-term institutional decisions, encompassing both a stable regulatory environment and a well-developed system of financial and fiscal instruments targeted at exploration activity. A central component of this system is the flow-through shares (FTS) mechanism, in operation since 1954, which allows selected exploration and resource development expenditures to be transferred from the issuer to the investor. This instrument is particularly important for junior exploration companies, for which it represents one of the primary sources of financing for activities characterized by high geological risk (Canadian Department of Finance 1994).

At the same time, existing literature points to the need for further adjustment of the Canadian tax system to the increasingly internationalized business models of exploration companies (Chen and Mintz 2013), which is critical for maintaining the competitiveness of the exploration sector under conditions of rising capital mobility (Nunez-Picado et al. 2022). In this context, the role of dual-listing strategies as a tool for improving access to capital and monetizing the value of mineral projects has also gained prominence (Chemmanur and Fulghieri 2011; Grundy and Verwijmeren 2020; Iddon et al. 2015). A particularly important role in this respect is played by the TSX Venture Exchange, a specialized segment of the capital market dedicated to companies with elevated risk profiles, including firms engaged in early-stage exploration activities. In 2022 alone, 52 exploration companies were listed on the TSX Venture Exchange, underscoring the importance of this market as a global platform for financing high-risk activities (TSX Venture Exchange 2022). However, the effectiveness of capital raising on public markets remains closely linked to the ability to create shareholder value, as reflected in market valuations. For junior exploration companies, this process represents a significant challenge, as evidenced by numerous cases of IPO underpricing, particularly in market segments characterized by high levels of information uncertainty (Adjasi et al. 2011; Dimovski and Brooks 2008).

The aim of this paper is to identify the key financial determinants of the market value of junior exploration companies listed on the Toronto Stock Exchange and the TSX Venture Exchange, while explicitly accounting for the institutional conditions of Canada's mineral policy framework. The study addresses an empirical gap concerning the relationships between public support instruments, market behavior, and the market valuation of exploration companies operating at early stages of the project life cycle.

1. Research design and methodology

1.1. Shareholder expectations matrix for leading exploration companies

The first stage of the analysis focused on assessing the dynamics of market value creation by exploration companies over the period under study. The examination was based on the relationship between shareholder returns, measured by the Total Shareholder Return (TSR) indicator, and the relative market valuation of a firm, expressed by the Market Value-to-Capital Ratio (MVCR). The applied approach draws on the shareholder expectations matrix concept proposed by Dobbs and Koller, which enables the simultaneous analysis of realized shareholder returns and market expectations regarding a firm's future value creation potential.

The TSR indicator is defined as the ratio of the sum of share price appreciation and dividends paid to the initial share price, in accordance with Equation (1):

$$TSR = \frac{(P_t - P_0) + D_t}{P_0} \quad (1)$$

- ↪ P_t – share price at the end of the analysis period,
- P_0 – initial share purchase price,
- D_t – dividends paid during the period under consideration.

It should be noted that while the simplified TSR formula has certain limitations – such as not fully reflecting the time value of money or long-term dividend impacts, as highlighted in broader financial analyses – its application in this study is justified by the specific characteristics of the junior exploration sector. First, these companies practically do not pay dividends, as all raised capital is strictly reinvested into exploration activities, and investor returns are typically realized through capital appreciation upon project buyout or company acquisition. Second, the use of TSR within the expectations matrix methodology is strictly confined to a relatively short time window (2019–2021), which significantly mitigates the estimation bias associated with discounting cash flows over time.

In turn, the MVCR indicator represents the ratio between a company's market capitalization and the capital employed, which includes cash holdings, working capital requirements, and tangible fixed assets, as defined in Equation (2):

$$MVCR = \frac{\text{Market Capitalization}}{\text{Cash} + \text{Working Capital Requirements} + \text{Net Tangible Assets}} \quad (2)$$

The MVCR indicator serves as a measure of market expectations regarding a firm's ability to generate future value relative to the capital already employed. In the case of exploration

companies, which at early stages of development typically do not generate positive operating cash flows, this indicator primarily reflects perceptions of project potential and the firm's capacity to secure continued financing.

The construction of the matrix is based on the joint analysis of TSR and MVCR values, with the reference points for both measures defined by their median values calculated for a given market segment and study period. The intersection of these medians delineates four interpretative areas, corresponding to distinct configurations of the relationship between realized shareholder returns and market expectations. This framework allows for the identification of firms' positions on the so-called treadmill of market expectations, that is, a mechanism describing the accumulation and subsequent revision of investor expectations over time (Dobbs and Koller 2005).

1.2. Identification of market value determinants using multivariate regression analysis

In the subsequent stage of the study, an empirical analysis was conducted with the aim of identifying the financial determinants of the market value of junior exploration companies. The analysis was based on multivariate regression methods, which allow for the simultaneous assessment of the effects of multiple economic and financial factors on the dependent variable, namely the firm's market value (Ganesh 2010; Mishra et al. 2021).

The selection of explanatory variables was guided by their relevance to value creation mechanisms as well as by the availability of comparable financial data. The analysis incorporates both traditional economic indicators and selected balance-sheet variables and cash flow measures. In particular, the model includes net working capital requirements (*WCR*), calculated in accordance with Equation (3), as well as capital expenditures (*CapEx*), which reflect the intensity of the firm's asset base development (Barros et al. 2021; Hamidi et al. 2013).

$$WCR = Inventory + Accounts Receivable - Accounts Payable \quad (3)$$

Capital expenditures (*CapEx*) were estimated as the change in the value of tangible fixed assets adjusted for depreciation, as defined in Equation (4):

$$CapEx = PPE_t - PPE_{t-1} + Depreciation + Amortization \quad (4)$$

📌 PPE_t and PPE_{t-1} – value of tangible fixed assets in the current and previous periods, respectively.

It is important to clarify that Equation (4) serves strictly as a theoretical representation of the *CapEx* definition. In the empirical models constructed for this study, the actual *CapEx*

values were not calculated from balance sheet changes, but were retrieved directly from the companies' Cash Flow Statements (specifically, cash flows from investing activities). This approach was deliberately chosen to provide a more accurate reflection of actual cash outflows and to avoid biases arising from non-cash accounting effects, such as mergers, acquisitions, or changes in decommissioning liabilities.

The cost of capital is estimated using the Capital Asset Pricing Model (CAPM), which describes the relationship between expected returns and systematic risk (Villadsen et al. 2017), as specified in Equation (5):

$$R_a = R_f + \beta(R_m - R_f) \quad (5)$$

- ↪ R_a – expected return (cost of capital),
 R_f – risk-free rate,
 β – systematic risk,
 R_m – expected market return.

The effective tax rate is defined as the ratio of income tax paid to pre-tax income (Aronmwan and Okaiwele 2020), in accordance with Equation (6):

$$\text{Effective Tax Rate} = \frac{\text{Income Taxes}}{\text{Income Before Tax}} \quad (6)$$

The general specification of the multivariate regression model is expressed by Equation (7):

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_p x_{ip} + \varepsilon_i \quad (7)$$

- ↪ y_i – market value of junior exploration companies,
 x_{ip} – explanatory variables,
 β_p – estimated model parameters,
 ε_i – error term.

The estimation procedure followed an iterative approach and involved the stepwise elimination of statistically insignificant variables based on parameter significance levels and overall model fit. This approach allowed for the identification of the most stable and informationally relevant determinants of the market value of junior exploration companies, which form the basis for subsequent analysis and interpretation of the empirical results.

2. Mineral exploration policy framework in Canada

Canada’s system of support for mineral exploration activities is among the most comprehensive and multi-layered in the world. Its structure is based on a complementary set of fiscal and financial instruments operating at the federal, provincial, and territorial levels, all sharing the common objective of reducing the financial barriers associated with the early stages of exploration activity. These stages are characterized by elevated geological risk, long project development horizons, and the absence of stable operating cash flows, which significantly constrains access to commercial financing (Natural Resources Canada 2019). The three core pillars of this system – tax instruments, market-based mechanisms, and grant support – are presented schematically in Figure 1.

Tax instruments aimed at transferring investment risk from the issuer to the investor play a central role in Canada’s federal support framework. The core mechanism consists of Canadian Exploration Expenses (CEE), which allow expenditures incurred in the identification, evaluation, and documentation of mineral resources to be classified as eligible costs and fully deducted for tax purposes in the year they are incurred, in accordance with the Canadian Income Tax Act (Canadian Department of Finance 1994; Income Tax Act (R.S.C. 1985, c. 1 (5th Supp.)) 1985). This instrument constitutes the fiscal foundation of exploration financing, particularly in the junior segment, where companies typically do not yet generate operating revenues.

The CEE framework is complemented by flow-through shares (FTS) and the Mineral Exploration Tax Credit (METC), which enable exploration companies to transfer selected exploration expenditures to investors and thereby reduce their effective tax burden. These

Jurisdiction Level	Tax Credits / Deductions	Grants / Assistance Programs	Equity / Financing Instruments
Federal	- Mineral Exploration Tax Credit (METC) - Canadian Exploration Expenses (CEE)		Flow-Through Shares (FTS)
Provincial	- Manitoba Mineral Exploration Tax Credit (MMETC) - Nova Scotia Mineral Resources Development Fund (MRDF)	- Manitoba Assistance Program (MEAP) - Newfoundland and Labrador Junior Exploration Assistance Program (JEA) - New Brunswick Junior Mining Assistance Program (NBPAP)	Quebec Venture Capital Programs for Exploration and Development
Territorial		- Yukon Mineral Exploration Program (YMEP) - Nunavut Prospector's Program (NPP) - Northwest Territories Mining Incentive Program (MIP)	

Fig. 1. Institutional structure of mineral exploration support in Canada
Source: Authors’ own elaboration

Rys. 1. Struktura instytucjonalna wsparcia poszukiwań surowców mineralnych w Kanadzie

mechanisms enhance the attractiveness of financing projects with elevated risk profiles, encourage the concentration of exploration activity within Canada, and strengthen the domestic exploration ecosystem (Natural Resources Canada 2019). These instruments are used primarily by junior exploration companies, for which they represent a key source of financing for high-risk activities.

At the provincial level, a diversified set of support instruments is in place, including exploration grants, regionally targeted tax incentives, and provincial extensions of the flow-through shares mechanism. The scope and intensity of these instruments are tailored to local geological conditions and the structure of the mining sector; however, their shared objective remains the co-financing of early-stage exploration activity and the enhancement of junior companies' capacity to raise capital on public markets (Mineral Development Division Department of Industry 2023; Nova Scotia Governance 2023; Ontario Governance 2022).

Complementing the federal and provincial support systems are instruments operating at the territorial level, whose significance is selective and locally oriented. These programs are primarily targeted at the earliest, operational stages of exploration activity and at supporting the smallest entities and individual prospectors, particularly in regions characterized by high resource potential and elevated cost barriers. Although their financial scale is limited relative to federal instruments, the territorial level performs an important complementary function within Canada's exploration ecosystem by supporting the continuity of exploration activity in peripheral regions (Department of Economic Development and Transportation of Nunavut 2023; Government of Northwest Territories 2023; Yukon Governance 2023a, b).

The effectiveness of Canada's support framework is reflected in the effective tax rates of exploration companies listed on the Toronto Stock Exchange and the TSX Venture Exchange, the variation of which over the period 2017–2020 is illustrated in Figure 2.

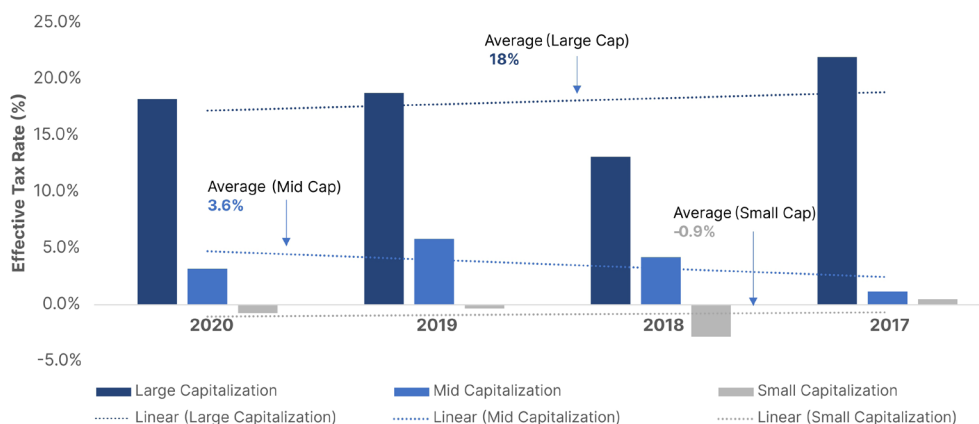


Fig. 2. Effective tax rates of junior exploration companies on TSX and TSX Venture Exchange
Source: Authors' own elaboration based on financial data retrieved via TwelveData API

Rys. 2. Efektywne stawki podatkowe mniejszych spółek zajmujących się poszukiwaniem złóż na giełdach TSX i TSX Venture Exchange

The results indicate that smaller and developing entities, particularly those in the small-cap and mid-cap market segments, benefit to the greatest extent from the available fiscal mechanisms, resulting in a substantial reduction in their effective tax burden. At the same time, larger-scale companies characterized by more stable financial structures contribute more significantly to fiscal revenues, which is consistent with the progressive nature of Canada's support framework. The observed differentiation in effective tax rates across capitalization segments confirms that Canada's mineral policy effectively reduces fiscal barriers for junior exploration companies, thereby supporting their presence on public markets and facilitating the financing of high-risk activities in the early stages of the project life cycle.

3. TSX and TSX Venture Exchange (TSX-V) as key platforms for valuation and financing of exploration companies

The Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V) constitute key global platforms for financing exploration activities, combining the function of raising high-risk capital with a market-based mechanism for valuing mineral projects at early stages of the project life cycle. The specific characteristics of these markets stem from the dominant presence of junior companies, which are characterized by elevated geological risk, limited or zero operating revenues, and a strong reliance on external financing. The distribution of companies across market capitalization segments, presented in Figure 3, confirms the clear predominance of small-cap and mid-cap entities. This implies that market valuation on the

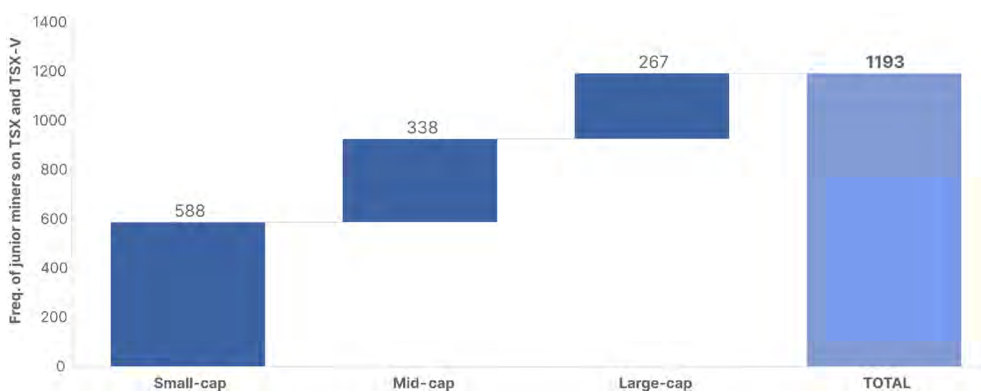


Fig. 3. Market capitalization structure of exploration companies listed on TSX and TSX Venture Exchange
Source: Authors' own elaboration based on market capitalization data retrieved via TwelveData API

Rys. 3. Struktura kapitalizacji rynkowej spółek zajmujących się poszukiwaniem złóż, notowanych na giełdach TSX i TSX Venture Exchange

TSX and TSX-V is driven primarily by expectations regarding future project potential and the ability to secure continued financing, rather than by current operating performance.

At the same time, the geographic and sectoral structure of the market (Figure 4) indicates a strong concentration both in terms of location and the types of commodities being explored.

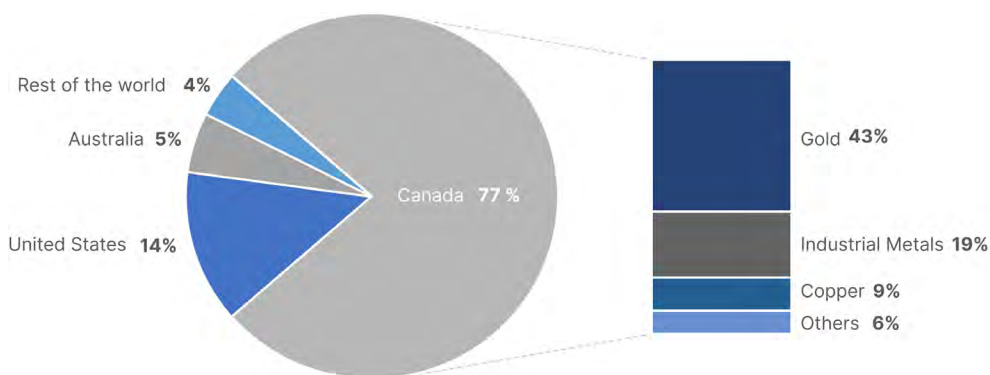


Fig. 4. Geographical and commodity structure of market capitalization of exploration companies
Source: Authors' own elaboration based on market capitalization and company-level data retrieved via TwelveData API

Rys. 4. Struktura geograficzna i sektorowa kapitalizacji rynkowej
spółek zajmujących się poszukiwaniem złóż

The vast majority of exploration companies are headquartered in Canada (77%), reinforcing the country's role as a global capital hub for exploration activity. Within this population, the gold segment predominates, suggesting that investor preferences are concentrated on projects perceived as relatively more liquid and defensive. Such a market structure implies that the process of market value formation for exploration companies listed on the TSX and TSX-V is dominated by the dynamics of investor expectations and their periodic revision in response to project advancement and access to capital. Consequently, these markets provide a natural setting for analyzing the treadmill of expectations mechanism, which is applied in the subsequent subsections (3.1–3.3) to the small-cap, mid-cap, and large-cap segments.

3.1. Small-cap segment - treadmill analysis

The analysis of the small-cap segment over the period 2019–2021 (Figure 5) indicates that firms' positions on the treadmill of expectations were determined almost exclusively by their ability to raise financing and sustain a growth-oriented narrative, with current operating performance playing only a marginal role.

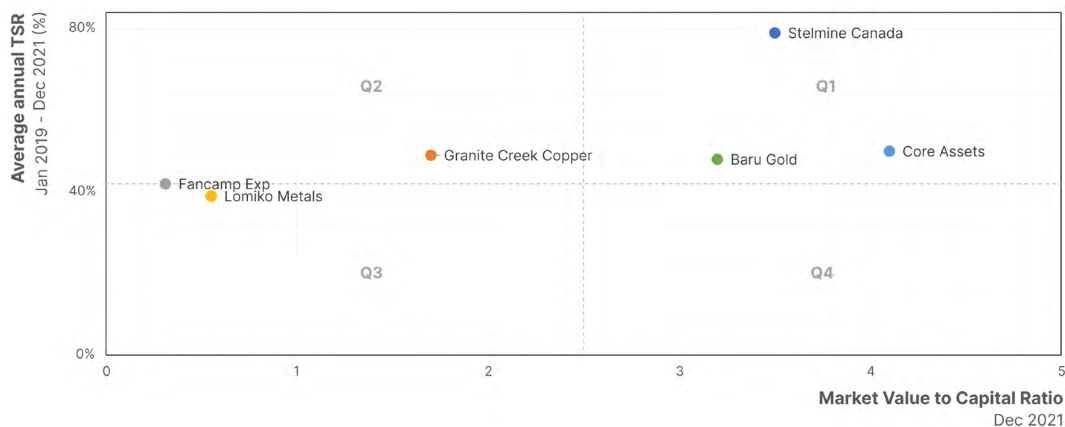


Fig. 5. Treadmill of expectations for small-cap exploration companies (2019–2021)

Source: Authors' own calculations based on financial and market data retrieved via TwelveData API

Rys. 5. Cykl zmian oczekiwań wobec małych spółek poszukiwawczych (2019–2021)

Quadrant I (Q1) comprises companies that simultaneously achieved high TSR values and elevated MVCR levels. Stelmine Canada and Core Assets recorded average annual TSRs in the range of 50–80%, with MVCR values exceeding 3.0, despite the absence of operating revenues and the persistence of net losses. The key factor enabling such market valuations was the ability to finance operations through equity issuances, which allowed these firms to maintain positive cash balances and signal the continuation of exploration activities to the market.

Quadrant II (Q2) includes companies characterized by high TSR accompanied by moderate MVCR levels. Granite Creek Copper recorded a TSR value of 48% with an MVCR equals 1.8. In 2021, the company incurred exploration expenditures of approximately USD 1.7 mln, financed primarily through equity issuances, increasing its cash balance to around USD 2.9 mln, while simultaneously deepening its net loss to approximately USD –1.6 mln. This configuration suggests that although the market responded positively to the intensification of exploration activity, it remained cautious regarding the durability of project outcomes, thereby constraining further growth in MVCR.

Quadrant III (Q3) comprises companies exhibiting the relatively weakest market positions. Lomiko Metals and Fancamp Exploration recorded TSR values in the range of 38–42%, accompanied by MVCR levels below 1.0. In 2021, Lomiko Metals reported a net loss of approximately USD -1.3 mln despite regular equity issuances and the use of flow-through financing instruments, while the performance of Fancamp Exploration was characterized by heightened volatility related to the valuation of its portfolio of financial instruments.

The absence of a significant representation of companies in Quadrant IV (Q4) indicates that within the small-cap segment, the market rarely maintains high expectations for firms that are unable to deliver relatively high shareholder returns.

Overall, the results for the small-cap segment indicate that firms’ positions on the treadmill of expectations were driven primarily by their ability to raise capital, maintain financial liquidity, and sustain the credibility of the communicated project development trajectory, with current operating profitability playing only a marginal role. This segment represents the “purest” form of an expectations-driven market, in which market valuation is a direct function of project narratives and access to financing.

3.2. Mid-cap segment - treadmill analysis

The analysis of the mid-cap segment over the period 2019–2021 (Figure 6) indicates that the treadmill of expectations assumes a more selective form within this group, with the market increasingly differentiating companies based on project advancement and the visibility of value realization.

Quadrant I (Q1) comprises companies for which high TSR values were aligned with elevated market expectations. Kutcho Copper recorded an average annual TSR exceeding 70%, accompanied by an MVCR above 4.5. This outcome was directly linked to the advancement of the Kutcho Copper Project to the Feasibility Study stage (NI 43-101) in 2021, despite the persistence of operating losses.

Quadrant II (Q2) is represented by companies achieving high TSR alongside moderate MVCR levels. Defiance Silver generated TSR values in the range of 60–65% with MVCR between 1.5 and 2.0, while maintaining cash balances of approximately USD 15 mln in 2021. This financial position enabled the intensification of exploration activities and the consolidation of assets in Mexico.

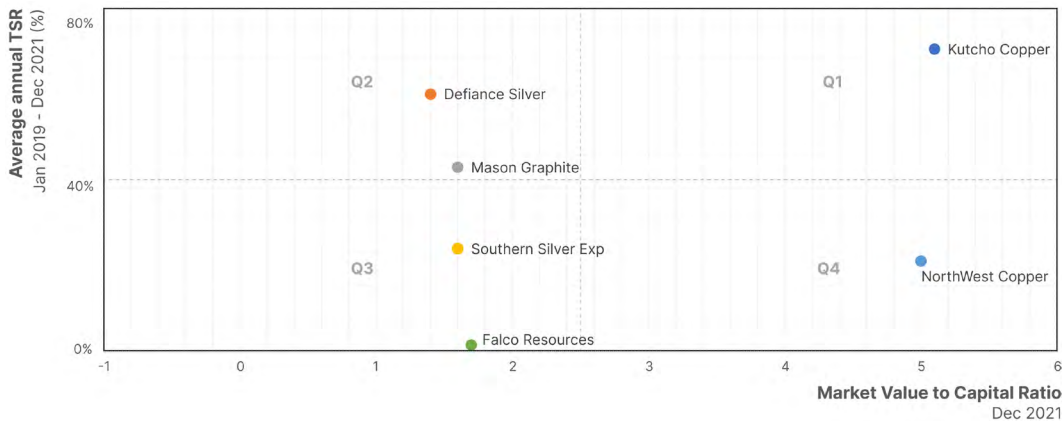


Fig. 6. Treadmill of expectations for mid-cap exploration companies (2019–2021)

Source: Authors’ own calculations based on financial and market data retrieved via TwelveData API

Rys. 6. Cykl zmian oczekiwań wobec średnich spółek poszukiwawczych (2019–2021)

Quadrant III (Q3) includes companies for which project advancement did not lead to a significant revision of market expectations. Southern Silver Exploration recorded TSR values of approximately 25–30% with MVCR below 2.0, while Falco Resources achieved TSR close to zero despite holding the advanced Horne 5 project in Quebec. This outcome reflects the market's negative assessment of the prolonged commercialization horizon.

Quadrant IV (Q4) comprises companies characterized by high MVCR combined with low TSR. NorthWest Copper reported MVCR levels of approximately 5.0 alongside TSR of around 20%, indicating a downward revision of initially high market expectations in response to limited project progress and a deterioration in liquidity conditions.

Overall, the results for the mid-cap segment indicate that during the period 2019–2021 the market differentiated firms more strongly based on their ability to realize project value and the credibility of development timelines than on the sheer scale of capital expenditures.

3.3. Large-cap segment – treadmill analysis

The analysis of the large-cap segment over the period 2019–2021 (Figure 7) indicates that firms' positions on the treadmill of expectations were driven primarily by the relationship between the scale of generated or expected cash flows and the pace of their realization, rather than by access to capital per se.

Quadrant I (Q1) comprises companies for which high TSR values were consistent with strong financial fundamentals or clearly observable project advancement. Rupert Resources recorded TSR values in the range of 190–200% with MVCR exceeding 10, despite the absence of operating revenues, while holding cash balances exceeding USD 19 mln in 2021,

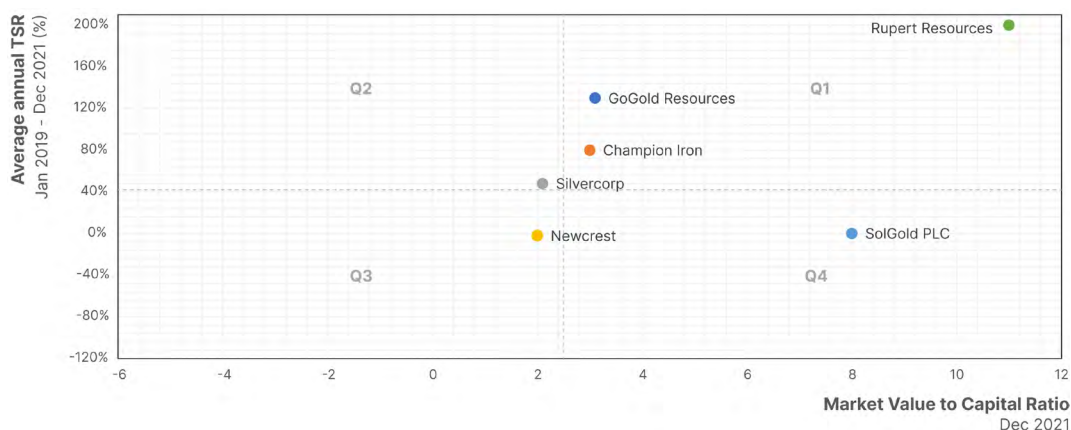


Fig. 7. Treadmill of expectations for large-cap exploration companies (2019–2021)

Source: Authors' own calculations based on financial and market data retrieved via TwelveData API

Rys. 7. Cykl zmian oczekiwań wobec dużych spółek poszukiwawczych (2019–2021)

fully allocated to the development of the Ikkari project. GoGold Resources achieved TSR of approximately 120–130% with MVCR between 3 and 4, generating revenues of USD 72.6 mln and operating cash flow of USD 34.9 mln in 2021. Champion Iron, with revenues of USD 1.6 bn and operating cash flow of approximately USD 700 mln, was also positioned in Q1 due to its ability to finance capital expenditures while simultaneously delivering value to shareholders.

Quadrant II (Q2) is represented by Silvercorp Metals, which recorded a TSR of approximately 40–45% with MVCR equal to 2.0. In 2021, the company generated revenues of USD 157.2 mln and operating cash flow of USD 85.9 mln, while maintaining cash balances of USD 199 mln. This financial position reduced overall financial risk but did not translate into a substantial growth premium.

Quadrant III (Q3) includes Newcrest Mining, whose TSR over the period 2019–2021 remained close to zero despite revenues of approximately USD 4.4 bn and operating cash flow exceeding USD 1.2 bn. High capital expenditures, exceeding USD 1.4 bn in 2021 and largely absorbed by sustaining projects, constrained the short-term realization of value.

Quadrant IV (Q4) comprises SolGold PLC, characterized by MVCR in the range of 8–9 combined with low TSR. In 2021, the company did not generate operating revenues, reported a net loss of USD 22.7 mln, and allocated more than USD 60 mln annually to the development of the Cascabel project, financing its activities primarily through equity issuances.

Overall, the results indicate that within the large-cap segment, the market rewards the ability to convert capital expenditures into visible economic value, whereas a large scale of assets or resources not supported by the pace of cash flow realization does not translate into high realized returns. The analysis of the treadmill of expectations mechanism for exploration companies listed on the TSX and the TSX Venture Exchange over the period 2019–2021 reveals a clear differentiation in the process of market value formation across capitalization segments. In the small-cap segment, access to financing and the credibility of project narratives were of primary importance; in the mid-cap segment, the pace of project advancement was decisive; while in the large-cap segment, the ability to convert investment outlays into measurable economic value played the dominant role.

These findings confirm that the market value of junior exploration companies is driven primarily by investor expectations regarding project progress and access to financing rather than by current operating performance. These conclusions provide a direct point of departure for the statistical analysis of market value determinants presented in Section 5.

4. Empirical analysis of market value determinants

The objective of the statistical analysis was to empirically identify the determinants of the market value of junior exploration companies listed on the TSX and the TSX Venture Exchange. The study was conducted using multivariate regression estimated by the ordinary

least squares method, applying a stepwise procedure that combines traditional value drivers with a complementary balance-sheet and cash flow perspective. This approach enabled the identification of the most stable factors shaping market value and provided an empirical validation of the conclusions derived from the analysis of the treadmill of expectations mechanism.

Given the specific characteristics of the junior exploration sector, several financial variables – such as total assets, capital expenditures, and revenues – exhibit strong structural interdependencies arising from the dominant role of scale in the market valuation process. Consequently, the high explanatory power of the regression models should not be interpreted because of over-specification, but rather as empirical confirmation that capital markets primarily value the scale of deployed resources and the ability to secure financing, rather than current operating efficiency.

4.1. Variables determining market value

The purpose of this subsection is to provide a synthetic characterization of the economic and financial variables used in the subsequent regression models as potential determinants

Table 1. Average financial characteristics of exploration companies by market capitalization

Tabela 1. Średnie wskaźniki finansowe spółek zajmujących się poszukiwaniem złóż według kapitalizacji rynkowej

Category	Variable	Abbreviation	Small-cap	Mid-cap	Large-cap
Value Creation Indicators	Capital Expenditures	CapEx	3.9	24.1	1,099.7
	Cost of Capital (in %)	CAPM	5.0	3.0	2.0
	Earnings Before Income Tax	EBIT	(1.4)	(3.2)	62.8
	Effective Tax Rate (in %)	EfT	(0.9)	3.7	13.0
	Revenues	Rev	0.7	5.5	318.3
	Net Working Capital Requirements	WCR	(0.2)	1.0	59.9
Complementary Approach	Cash Flow from Operating Activities	CFOA	(0.9)	(1.6)	104.4
	Cash Flow from Investing Activities	CFIA	(0.5)	(2.0)	(82.6)
	Cash Flow from Financing Activities	CFFA	1.7	4.8	(9.2)
	Net Income	NetInc	(1.5)	(3.6)	29.2
	Total Assets	TAs	5.7	24.0	1,169.4
	Total Equity	TEq	3.4	16.7	676.9

Notes: Values are reported as averages for the period under study and expressed in USD million unless otherwise stated. Negative values are shown in parentheses. Cost of capital is estimated using the CAPM framework.

Source: Authors' own calculations.

of the market value of junior exploration companies. The analysis is descriptive in nature and serves as a reference point for the interpretation of the econometric results. The set of variables includes both traditional firm value drivers – capital expenditures, revenues, operating income, cost of capital, effective tax rate, and working capital requirements – as well as complementary balance-sheet parameters and cash flow measures, namely total assets, equity, and cash flows from operating, investing, and financing activities. A summary of the mean values of these variables across market capitalization segments is presented in Table 1.

The data reveal pronounced structural differences across capitalization segments. As market capitalization increases, there is a substantial rise in the scale of assets, capital expenditures, revenues, and positive operating cash flows, while smaller entities remain heavily dependent on external financing. This heterogeneity provides a rationale for the subsequent statistical analysis of these variables as potential determinants of market value in the following subsections.

4.2. Traditional market value drivers

In the first stage of the empirical analysis, a multivariate regression model based on traditional firm value drivers was estimated, including net working capital requirements (*WCR*), capital expenditures (*CapEx*), and revenues (*Rev*). Following the elimination of statistically insignificant variables, a final model was obtained, with the estimated parameters and goodness-of-fit statistics reported in Table 2.

The model exhibits very high explanatory power ($R^2 = 0.983$; adjusted $R^2 = 0.982$) and is statistically significant ($F = 6994$; $p < 0.001$). The final estimated model is expressed by Equation (8):

Table 2. Regression results for market value: traditional value drivers

Tabela 2. Wyniki regresji dla wartości rynkowej: tradycyjne czynniki wpływające na wartość

Variable	Coefficient (β)	Standard error	p -value
Constant	0.007	0.007	0.970
Net Working Capital Requirements	(0.088)	0.013	<0.001
Capital Expenditures	0.660	0.031	<0.001
Revenues	0.402	0.037	<0.001

Notes: The table reports ordinary least squares (OLS) regression results. Market value is the dependent variable. Coefficients are statistically significant at the 1% level unless stated otherwise.

Model statistics: $N = 377$, $R^2 = 0.983$, adjusted $R^2 = 0.982$, $F = 6994$ ($p < 0.001$), Durbin–Watson = 2.056.

Source: Authors’ own calculations.

$$y = -0.0877 \cdot WCR + 0.6602 \cdot CapEx + 0.4016 \cdot Rev + 0.007 \quad (8)$$

 y – market value of junior exploration companies.

The negative coefficient associated with net working capital requirements ($\beta = -0.088$; $p < 0.001$; Table 2) indicates that increased capital tied up in day-to-day operations reduces the market value of exploration companies. From an economic perspective, this implies that the market views the immobilization of capital in operating assets unfavorably, which is particularly relevant for firms characterized by limited liquidity and a high dependence on external financing.

Capital expenditures exhibit the strongest positive impact on market value ($\beta = 0.660$; $p < 0.001$; Table 2). This implies that a 1% increase in *CapEx* translates, on average, into an approximately 0.66% increase in market value, confirming that in the exploration segment the market interprets investment activity as a key signal of growth potential, even in the absence of current operating profitability.

Revenues also exert a positive and statistically significant effect on market value ($\beta = 0.402$; $p < 0.001$; Table 2), indicating that the scale of operating activity – even if limited – serves an informational role for investors. Revenue growth signals the ability to monetize assets or projects and supports the maintenance of a market expectations premium.

Taken together, the results presented in Table 2 and Equation (8) indicate that even when considering traditional value drivers, the valuation of junior exploration companies is dominated by growth-related factors, while increased working capital requirements are systematically discounted by the market.

4.3. Balance-sheet and financing determinants of market value

In the subsequent stage of the analysis, a multivariate regression model based on a complementary set of balance-sheet and financial variables was estimated, including total equity (*TEq*), total assets (*TAs*), and cash flows from financing activities (*CFFA*). The estimated parameters and model fit statistics are reported in Table 3.

The final estimated model is expressed by Equation (9):

$$y = -0.5302 \cdot TEq + 1.6220 \cdot TAs + 0.1121 \cdot CFFA - 0.002 \quad (9)$$

 y – market value of junior exploration companies.

Total assets exhibit the strongest positive effect on market value ($\beta = 1.622$; $p < 0.001$; Table 3). This implies that a 1% increase in assets translates, on average, into an approximately 1.62% increase in market value, indicating that the market strongly rewards balance-sheet expansion as a signal of project potential and the capacity to generate future cash flows.

Table 3. Regression results for market value: balance sheet and financing variables

Tabela 3. Wyniki regresji dla wartości rynkowej: zmienne bilansowe i finansowe

Variable	Coefficient (β)	Standard error	<i>p</i> -value
Constant	(0.002)	0.006	0.979
Total Equity	(0.530)	0.151	<0.001
Total Assets	1.622	0.152	<0.001
Cash Flow from Financing Activities	0.112	0.013	<0.001

Notes: The table reports OLS regression results using balance sheet and financing variables. Market value is the dependent variable. Coefficients are statistically significant at the 1% level unless stated otherwise.

Model statistics: $N = 375$, $R^2 = 0.988$, adjusted $R^2 = 0.988$, $F = 1.00E+04$ ($p < 0.001$), Durbin–Watson = 1.976.

Source: Authors' own calculations.

Cash flows from financing activities also exert a positive and statistically significant effect on market value ($\beta = 0.112$; $p < 0.001$; Table 3), suggesting that access to external financing and the ability to secure it constitute an important signal for investors regarding business continuity and the potential for further development of exploration projects.

Equity, by contrast, exhibits a statistically significant negative effect on market value ($\beta = -0.530$; $p < 0.001$; Table 3). This result indicates that the market primarily interprets increases in equity as either a consequence of ownership dilution or as a signal of low capital utilization efficiency, which is characteristic of junior exploration companies that are highly dependent on equity issuance.

Taken together, the results presented in Table 3 and Equation (9) indicate that the market value of junior exploration companies is more strongly associated with balance-sheet scale and access to financing than with current operating performance. This finding is consistent with the observations derived from the analysis of the treadmill of expectations mechanism.

4.4. Integrated model of market value determinants

The final stage of the empirical analysis consisted of an aggregated model that integrates traditional firm value drivers with a complementary balance-sheet and financial perspective. The objective of this stage was to identify the most stable and informationally relevant determinants of the market value of junior exploration companies that remain statistically significant when both analytical approaches are considered simultaneously. The estimated parameters and goodness-of-fit statistics of the final model are reported in Table 4.

The aggregated model exhibits very high explanatory power ($R^2 = 0.987$; adjusted $R^2 = 0.987$) and is statistically significant ($F = 1.46 \times 10^4$; $p < 0.001$). The value of the Durbin–Watson statistic (1.986) does not indicate significant issues of error-term autocorrelation,

Table 4. Final regression model of market value determinants

Variable	Coefficient (β)	Standard error	<i>p</i> -value
Constant	(0.0001)	0.006	0.985
Total Assets	1.090	0.013	<0.001
Cash Flow from Financing Activities	0.110	0.013	<0.001

Notes: The table reports the final OLS regression model of market value determinants. Market value is the dependent variable. Coefficients are statistically significant at the 1% level unless stated otherwise.

Model statistics: $N = 375$, $R^2 = 0.987$, adjusted $R^2 = 0.987$, $F = 1.46 \times 10^4$ ($p < 0.001$), Durbin–Watson = 1.986.

Source: Authors’ own calculations.

thereby confirming the correctness of the model specification. The final estimated model is expressed by Equation (10):

$$y = 1.0901 \cdot TAs + 0.1097 \cdot CFFA - 0.0001 \quad (10)$$

-  y – market value of junior exploration companies,
- TAs – total assets,
- $CFFA$ – cash flows from financing activities.

Total assets remain the strongest and most stable determinant of market value ($\beta = 1.090$; $p < 0.001$; Table 4). This implies that a 1% increase in assets translates, on average, into an approximately 1.09% increase in market value, indicating that the market consistently rewards balance-sheet expansion as a synthetic signal of project advancement, resource potential, and the capacity for future realization of economic value.

Cash flows from financing activities also exhibit a positive and statistically significant effect on market value ($\beta = 0.110$; $p < 0.001$; Table 4). This result confirms that the firm’s capacity to raise equity financing on capital markets constitutes a key evaluation criterion for investors, signaling the continuity of exploration activity. Importantly, the significance of both Total Assets and CFFA explicitly captures the impact of Canada’s institutional policy instruments on market valuation, bridging standard financial metrics with mining-specific dynamics. While the inclusion of pure geological metrics (such as recognized reserves or resources under the NI 43-101 standard) would be theoretically desirable, junior exploration companies operate at too early a stage to possess documented operational reserves, precluding the use of such metrics across the entire sample. Instead, the level of deposit recognition and drilling density is a direct derivative of exploration expenditures. According to IFRS 6, these drilling expenditures are typically capitalized, meaning that a high level of Total Assets directly reflects an advanced, densely drilled, and thus more valuable, project. Simultaneously, the positive impact of CFFA is largely a product of Canada’s support policies, particularly the Flow-Through Shares (FTS) programs,

which provide tax incentives for investors acquiring exploration shares. The ability to leverage these institutional mechanisms translates into capital injections, shaping the CFFA and subsequently driving the overall market value of junior companies.

An important outcome of the aggregated model is the loss of statistical significance of operating variables such as revenues, capital expenditures, and working capital requirements, which were significant in the traditional model. This indicates that once balance-sheet and financing parameters are considered, the market places greater weight on asset scale and access to financing than on the current operating efficiency of exploration companies.

A graphical interpretation of the relationships between the key determinants and market value is provided in Figure 8, which illustrates the dominant role of asset scale and financing cash flows in shaping market valuation.

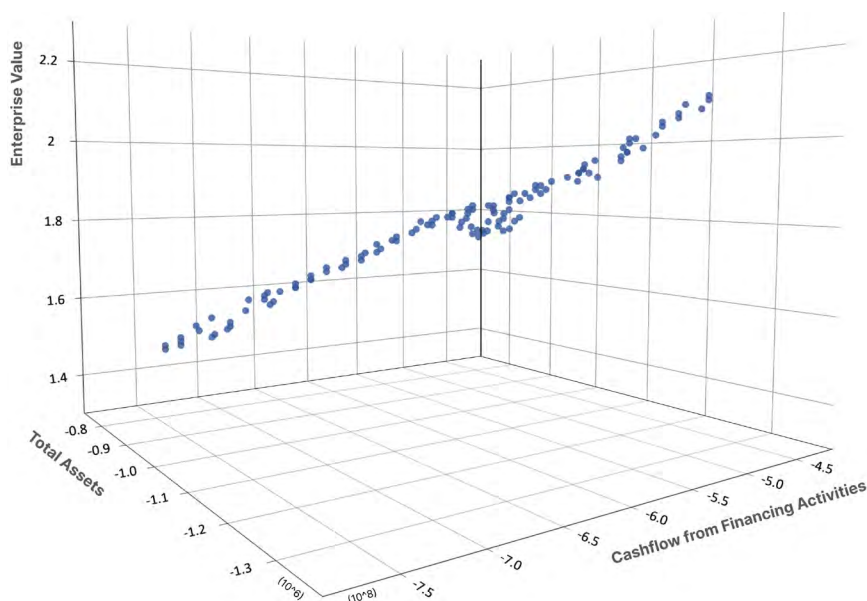


Fig. 8. Relationship between market value, total assets and financing cash flows

Source: Authors' own calculations based on regression results

Rys. 8. Zależność między wartością rynkową, sumą aktywów a przepływami pieniężnymi z działalności finansowej

Overall, the results of the aggregated model provide empirical confirmation that in the junior exploration segment, market value is driven primarily by investor expectations regarding the scale of operations and the ability to secure financing, rather than by current operating performance.

Discussion and conclusions

The objective of this study was to identify the key mechanisms shaping the market value of junior exploration companies listed on the TSX and the TSX Venture Exchange. The analysis was conducted sequentially: first, the institutional conditions governing the functioning of Canada's capital market were examined; next, the treadmill of expectations mechanism was analyzed across market capitalization segments; and finally, these observations were empirically verified using multivariate regression models.

The institutional analysis demonstrated that the TSX and the TSX Venture Exchange function as specialized platforms for financing high-risk exploration activity, dominated by junior exploration companies and gold-focused projects. Such a market structure favors valuations based on investor expectations rather than on current operating performance. The results of the treadmill of expectations analysis for the period 2019–2021 confirmed that this mechanism differs systematically across capitalization segments: in the small-cap segment, project narratives and access to financing play a dominant role; in the mid-cap segment, the pace of project advancement becomes decisive; while in the large-cap segment, the ability to convert capital expenditures into measurable economic value is of primary importance. Importantly, the selection of the 2019–2021 timeframe was a deliberate methodological choice aimed at ensuring the structural stability of the empirical findings. By focusing on this interval, the analysis isolates the core financial determinants from the extreme exogenous volatility and confounding market disturbances associated with both the global COVID-19 pandemic and the geopolitical instability triggered by the conflict in Ukraine.

The results of the statistical analysis provide clear empirical confirmation of these observations. While in models based on traditional value drivers' capital expenditures ($\beta = 0.660$) and revenues ($\beta = 0.402$) exerted a statistically significant influence on market value, operating variables lost their statistical significance once balance-sheet and financial parameters were incorporated. In the aggregated model, total assets ($\beta = 1.090$) and cash flows from financing activities ($\beta = 0.110$) remained the only key determinants of market value, with the model exhibiting very high explanatory power ($R^2 = 0.987$). These findings indicate that the market values junior exploration companies primarily through the lens of balance-sheet scale and the ability to secure financing, treating these factors as synthetic measures of project advancement and future economic potential.

From a mineral policy perspective, the results suggest that the effectiveness of regulatory and fiscal frameworks supporting exploration activity should not be assessed through the prism of firms' current profitability, but rather in terms of their impact on the cost of capital and the market's ability to ensure continuity of financing for projects characterized by high geological risk. Stable and predictable institutional frameworks that facilitate access to high-risk capital enable the maintenance of exploration activity even in the prolonged absence of positive operating results, which is critical for the long-term development of the resource base. In this context, public policy acts as an indirect catalyst of market value creation,

influencing not short-term financial performance, but investor expectations and the stability of the exploration financing process.

The contribution of this study lies in demonstrating that market valuation in the junior exploration segment is driven primarily by investor expectations and financing availability rather than current operating efficiency. Ultimately, the key variables driving market value in our model directly reflect these operational realities. Firm valuation heavily relies on equity financing raised on alternative markets (shaping cash flows from financing activities) and the capitalization of exploration expenditures under IFRS 6 (driving total assets). While these financial metrics capture the sector's reliance on external capital, future research should expand this framework by incorporating non-financial, mining-specific variables to further reflect the unique geological and operational characteristics of exploration activities.

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**MARKET VALUATION OF JUNIOR EXPLORATION COMPANIES:
EVIDENCE FROM THE TSX AND TSX VENTURE EXCHANGE****Keywords**

junior exploration companies, market value, Canadian mineral policy,
resource-based capital markets, Toronto Stock Exchange

Abstract

The valuation of junior exploration companies represents a significant challenge due to the absence of stable operating revenues, the capital-intensive nature of exploration projects, and their strong reliance on external financing. This paper aims to identify the key financial determinants of market value for exploration companies listed on the Toronto Stock Exchange (TSX) and the TSX Venture Exchange (TSX-V), within the institutional context of Canada's mineral sector support policies. The study employs three complementary approaches: an institutional analysis of public support instruments for mineral exploration, an examination of market expectations using the treadmill of expectations framework, and an empirical statistical analysis based on multivariate regression. The analysis focuses on the 2019–2021 period, a timeframe specifically selected to mitigate the confounding effects of exogenous market volatility and structural disturbances associated with the global COVID-19 pandemic and the geopolitical instability resulting from the conflict in Ukraine. The results indicate that public support instruments effectively reduce the cost of capital exploration companies, as reflected in low effective tax rates; however, they do not translate directly into improved current operating profitability. Both the market-based analysis and the regression models confirm that the market value of junior exploration companies is determined primarily by asset scale and financing capacity, rather than by contemporaneous operating performance. These findings have important implications for assessing the effectiveness of mineral policy and for understanding the functioning of capital markets in the exploration sector.

**WYCENA RYNKOWA GÓRNICZYCH SPÓŁEK EKSPLORACYJNYCH:
DANE Z GIEŁD TSX I TSX VENTURE EXCHANGE****Słowa kluczowe**

wartość rynkowa, spółki eksploracyjne, polityka Kanady dla surowców mineralnych,
surowcowe rynki kapitałowe, Giełda w Toronto

Streszczenie

Wycena spółek eksploracyjnych stanowi istotne wyzwanie ze względu na brak stabilnych przychodów z działalności operacyjnej, kapitałochłonność projektów poszukiwawczych oraz ich silne uzależnienie od zewnętrznych źródeł finansowania. Celem niniejszego artykułu jest identyfikacja

kluczowych finansowych determinant wartości rynkowej spółek poszukiwawczych notowanych na giełdach Toronto Stock Exchange (TSX) oraz TSX Venture Exchange (TSX-V) w kontekście instytucjonalnym kanadyjskiej polityki wsparcia sektora surowcowego. W badaniu zastosowano trzy komplementarne podejścia: analizę instytucjonalną instrumentów wsparcia publicznego dla działalności poszukiwawczej, badanie oczekiwań rynkowych z wykorzystaniem koncepcji „macierzy oczekiwań” oraz empiryczną analizę statystyczną opartą na regresji wielorakiej. Analiza obejmuje lata 2019–2021; okres ten został celowo dobrany, aby zminimalizować zakłócający wpływ egzogenicznej zmienności rynkowej i wstrząsów strukturalnych, związanych z globalną pandemią COVID-19 oraz niestabilnością geopolityczną wynikającą z konfliktu w Ukrainie. Wyniki wskazują, że instrumenty wsparcia publicznego skutecznie obniżają koszt kapitału spółek poszukiwawczych, co znajduje odzwierciedlenie w niskich efektywnych stawkach opodatkowania; nie przekładają się one jednak bezpośrednio na poprawę bieżącej rentowności operacyjnej. Zarówno analiza rynkowa, jak i modele regresji potwierdzają, że o wartości rynkowej spółek poszukiwawczych typu junior decydują przede wszystkim skala aktywów oraz zdolność do pozyskiwania finansowania, a nie ich bieżące wyniki operacyjne. Powyższe ustalenia niosą ze sobą istotne implikacje dla oceny skuteczności polityki surowcowej oraz dla zrozumienia mechanizmów funkcjonowania rynków kapitałowych w branży poszukiwawczej.