

Module 6: Capital Structure, Dilution & The Share Register

Why this matters

A great deposit owned by a company with a broken capital structure will not make you money. A mediocre deposit owned by a company with a tight register, aligned management, and disciplined capital management can.

Most retail focus on the project. The professionals focus on the cap table first, then the project. **The cap table tells you how the company has been valued and treated by people with more information than you.** Read it that way and capital structure becomes the most information-dense part of any FA Story.

This module rewrites the Module 6 framework around a single organising idea: **every component of capital structure is a signal about how informed money has chosen to participate in the company.** The mechanics matter, but the signal-reading is what generates edge.

What the cap table tells you that the project doesn't

The project description is the company's pitch. It's the story management wants you to hear. The cap table is the record of every decision informed money has made about the project — at what price, on what terms, with what conviction.

Three contrasts illustrate why this matters more than the project page on the corporate website:

Contrast 1. Two gold juniors with identical-looking projects. Junior A's most recent placement was at a 20% discount to VWAP with one free option for every two shares. Junior B's most recent placement was at a 2% premium to VWAP with no options attached, and the same specialist cornerstone fund participated three times in 18 months at progressively higher prices. The projects look identical. The signal from the cap tables is opposite.

Contrast 2. Two lithium developers. Developer A has 1.5bn fully-diluted shares after raising through the bear market at progressively lower prices, with major dilution overhang from cheap options. Developer B has 200m shares with directors having materially added to their positions on-market with their own cash over the past 12 months. The deposit could be the same; the per-share economics on a re-rate are dramatically different.

Contrast 3. Two copper explorers, both Stage 3 with strong drill results. Explorer A has a tight register dominated by long-only specialist resources funds. Explorer B has a top-20 register dominated by trading desks and short-term promotional money. A's SP holds gains; B's SP collapses on every up-day as the trading money rotates out.

The project doesn't tell you any of this. The cap table does.

The discipline this module is teaching: read every component of capital structure as a signal, not just as a number. Who participated, at what price, on what terms, in what direction over time? Those four questions give you more about a company's quality than any drill announcement.

The components, briefly

You need to know the mechanics, but the mechanics are the easy part. We'll cover them once and then spend the rest of the module on what they signal.

Shares on issue (SOI)

Total ordinary shares currently issued. Multiplied by share price gives market cap.

Options

Right to buy a share at a set strike price by a set expiry date. Listed options trade on ASX (e.g., XYZO); unlisted options are held by directors, employees, advisors, seed investors. If options are deep in the money, assume they will be exercised. That's pending dilution.

Performance rights / performance shares

Zero-strike (or near-zero) options that vest on milestones — maiden resource, completing DFS, first production, share price targets. Pure dilution when they vest, no cash inflow.

Convertible notes / loans

Debt that converts to equity at a set price (often a discount to market). Common in distressed financing situations. Watch for floor conversion prices and "ratchet" or "death spiral" structures with no floor.

Escrowed shares

Shares held in escrow (cannot be sold) for a defined period. Required by ASX for certain seed and promoter shares post-IPO — typically 12-24 months. Watch escrow expiry dates.

Fully diluted SOI

SOI + all unexercised options + performance rights + convertible note conversion shares. **This is the number that matters.** Use fully diluted MC as your real valuation metric, not headline MC.

A company with 200m SOI at 10c (MC = \$20m) but 100m unexercised options at 5c, 50m performance rights, and a \$5m convertible at 8c is actually:

- $200\text{m} + 100\text{m} + 50\text{m} + 62.5\text{m} = 412.5\text{m}$ fully diluted
- Fully diluted MC at 10c = \$41.25m
- Real ownership share is half what the headline suggests

The mechanical job is to compute this number for every position. The interesting job is reading what the structure tells you.

Reading the share register as a signal

Pull the **Top 20 shareholders** list (in the annual report, the half-yearly report, and quarterly Computershare/NSX updates).

What concentration tells you

- **Top 20 holding %**

- **Above 80%:** very concentrated. Concentration can be a strength (aligned long-term holders) or a weakness (one big seller can crater the SP). Read it in context.
- **60-80%:** concentrated. Look at who the holders are.
- **40-60%:** broadly held. Liquidity is usually adequate. Lower risk of single-holder selling crashes.
- **Below 40%:** retail-heavy. Volatile. Subject to sentiment swings and sector rotation.

Who is on the register

The names on the register tell you what kind of money has done DD on the company. Categorise as:

Specialist resources funds. Institutional money that exclusively or primarily invests in mining. Names you'll see on Australian small-cap registers include Acadian, Regal, Tribeca, Lowell, Paradise, L1 Capital, Collins St, RCF, Resource Capital Funds, Sprott. Specialist money on the register is a strong signal — these funds have analysts who do real DD on resource quality, capital structure, and management. They don't take small positions in companies they haven't validated.

Generalist institutional money. Pension funds, sovereign wealth funds, generalist long-only funds. Less rigorous on resource-specific factors but signals that the company has reached scale. Generalist money tends to follow specialist money into a name; rarely leads.

Strategic investors / corporates. A major mining company taking a 5-15% stake (e.g., a tier-1 producer buying into a junior in their commodity). The strongest possible signal — a strategic has more information than anyone, and a position taken at premium to market is a near-direct vote of asset quality.

Trading desks. Macquarie, UBS, JP Morgan, Goldman Sachs nominees. These are usually short-term holders, often arbitrage or facilitation positions. Their presence isn't a signal of conviction.

Nominee accounts. HSBC Nominees, Citicorp Nominees, JP Morgan Nominees, BNP Paribas Nominees — these obscure real ownership. Substantial holder notices (below) are how you find out who's really behind them.

Vendor / promoter shares. Original founders or vendors who took shares as consideration for the asset. Often in escrow at IPO; watch for escrow expiry dates. Vendor shares are a neutral signal — sometimes vendors are aligned long-term holders, sometimes they're sellers waiting for escrow to lift.

Director holdings — the alignment signal

From the annual report, directors' shareholdings are disclosed. What to look for:

- **Meaningful absolute holding.** Directors with millions of shares acquired with their own money are aligned. Directors with grant-only holdings (i.e., shares received as compensation, not bought) are less aligned.
- **Recent on-market buying.** Disclosed via Appendix 3Y filings. Directors buying shares on-market at current prices, with their own cash, is the strongest single alignment signal in the register.
- **Director participation in placements is *not* the same as on-market buying.** Directors putting their own money into a placement at the placement price (often a discount to market) is positive — but it's not as strong as buying on-market at full price. Many directors participate in placements only to maintain their percentage holding; that's a defensive posture, not a conviction position.
- **Director selling.** Disclosed via Appendix 3Y. Directors selling material amounts on-market is a tell, especially if it occurs after a positive announcement. Always check the explanation.

Substantial holder notices — the dynamic signal

Required disclosure when a holder reaches 5% of SOI, and again on every 1% change up or down (Chapter 6C of Corporations Act).

These are gold for tracking what informed money is doing in real time:

- **Initial substantial holder notices** (a fund crossing 5%) tell you who has just built a meaningful position. Match the name against your specialist/generalist/strategic categorisation above.
- **Subsequent change notices** show you whether the holder is accumulating further or trimming. A specialist fund that goes from 5% to 7% over six months is increasing conviction. The same fund going from 7% to 5% is reducing conviction.
- **Ceasing to be a substantial holder** notices (dropping below 5%) tell you when a meaningful holder has exited. Worth checking against the SP action that followed.

The 3% creep provision

A specific mechanism worth knowing about because it shows up periodically in active register stocks:

Holders above 19.9% of a company are normally subject to takeover provisions and can't accumulate freely. But the "**creep**" exception under Section 611 of the Corporations Act allows a holder to acquire up to **3% of the company every 6 months** without triggering takeover provisions, provided they've been above 19.9% for at least the prior 6 months.

So a holder at, say, 22% can buy up to 25% in the next 6 months under the creep provision, then up to 28% in the 6 months after that, and so on.

Why this matters:

- A persistent ~3% accumulation pattern by a major holder over consecutive 6-month windows is the creep provision in action
- This is a signal of intent — the holder is positioning for influence or potential control
- It often precedes a formal takeover offer, a board push, or a strategic move
- The CAY (Cazaly Resources) creep accumulation pattern observed in some periods is a worked example of how the mechanic plays out

Track the substantial holder notices on stocks with one or more major holders above 19.9%. The 3% creep is one of the cleanest tells of strategic intent in the entire ASX register.

How juniors raise capital — and what each method signals

The mechanism matters less than what the choice of mechanism tells you about the state of the company and the demand for its paper.

Placement (most common)

Issue of shares to "sophisticated investors" under section 708 of the Corporations Act. No prospectus required. No shareholder approval required if within 7.1 capacity (15%) or 7.1A capacity (additional 10% for eligible smaller companies).

Typical placement structure:

- 10-25% discount to recent VWAP
- Often includes free options ("sweeteners")
- Funds typically arrive within days of completion
- Brokers take 4-6% fee

The signal in placement pricing. A placement priced at a steep discount with free options attached is a placement where demand was weak — the broker had to discount and sweeten to fill the book. A placement priced at a small discount with no options is a placement where demand was strong. A placement priced **at a premium to VWAP** is the rarest and strongest signal — demand exceeded supply at full pricing.

The premium-to-VWAP placement — the strongest demand signal

Premium-to-VWAP placements are unusual because the natural state of a placement is a discount (broker needs to incentivise the placee to buy in size). When a placement gets done at a premium, it tells you:

- A specialist or strategic investor has done substantial DD and concluded the asset is worth more than the current SP
- The investor was prepared to compete for allocation rather than negotiate for a discount
- Other investors in the placement got the same premium pricing — the broker didn't have to discount to fill the book
- Often associated with cornerstone arrangements where the lead investor has effectively pre-committed at a premium and the rest of the book follows

The Galan Lithium (GLN) story is the cleanest worked example available in 2025–2026. Two placements in five months:

- **August 2025:** Clean Elements Fund (specialist lithium fund), \$20m at A\$0.11 per share, 21% premium to last close, after a 77-day technical and legal DD period
- **January 2026:** \$40m institutional placement plus \$1m director placement at A\$0.41 per share, 2% premium to 5-day VWAP and premium to 10 and 15-day VWAPs, Clean Elements participating again, directors committing own cash, Canaccord Genuity as lead manager

The same cornerstone investor paid 3.7x more per share over five months at premium pricing on both occasions. That's a cap-structure signal you don't get from drill results, broker reports, or chart analysis. It's a specialist fund with deeper information than the public market putting real money behind a specific operational view.

What to read in any placement announcement

Every placement announcement lets you extract these signals:

1. **Pricing vs VWAP.** Discount or premium? Compared to which VWAP window (5-day, 10-day, 15-day)?
2. **Discount or premium to last close?** Standard placements run 13–20% below last close even when they're at premium to VWAP, because of the typical SP run before placement.
3. **Who's the lead manager?** Tier-1 brokers (Canaccord Genuity, Bell Potter, Petra Capital, Morgans, Macquarie, Euroz Hartleys) carry more weight than unknown brokers.

4. **Which institutions participated, and were any of them existing holders?** Re-participation by a known cornerstone is a stronger signal than first-time generalist participation.
5. **Did directors participate, and at what scale?** Director participation with own cash, especially material amounts, is positive.
6. **What attaching options (if any)?** Heavy options attached suggests weak demand. No options or modest options at high strike suggests strong demand.
7. **What's the use of funds?** Specific milestones (Phase 1 expansion, infill drilling for resource update) are positive. Generic "working capital and general corporate purposes" is a flag — usually means the company doesn't have specific milestones to fund.

ASX Listing Rule 7.1 and 7.1A

Companies can issue up to 15% of their SOI without shareholder approval in any rolling 12-month period (Rule 7.1). Smaller companies (broadly, MC below ~\$300m and not in S&P/ASX 300) can seek shareholder approval at AGM for an additional 10% capacity, taking total to 25% in 12 months (Rule 7.1A).

If you see 7.1A approval on the AGM agenda, the company is signalling "we expect to raise capital aggressively over the next 12 months." It's not necessarily bad — it might just be prudent capacity for known capex needs — but it tells you to expect placements within the year.

SPP (Share Purchase Plan)

A pro-rata offer to existing retail shareholders. Capped at \$30,000 per holder. Often attached to a placement (institutions get the placement, retail gets the SPP at the same price) to soften the optics of dilution.

SPP take-up rates are a tell. Heavy retail take-up (oversubscribed SPPs) suggests retail enthusiasm; light take-up suggests retail isn't interested at the offer price.

Rights Issue

A pro-rata offer to all shareholders.

- **Renounceable:** rights can be sold on-market if you don't want to participate
- **Non-renounceable:** rights expire worthless if not exercised — forces you to participate or accept dilution

Rights issues are usually deeply discounted (30%+ below SP) to ensure take-up. They're often a sign of difficulty raising capital through institutional placement at acceptable terms.

Convertible note / loan

Debt-style instrument that converts to equity. Used when the company can't easily place at acceptable terms. Often a sign of distress.

The danger structure is the **death spiral convertible**: a convertible note where the conversion price is set at a discount to the prevailing share price *at the time of conversion*. If the SP falls, the conversion price falls, more shares are issued for the same dollar amount of debt, the SP falls further, and so on. Avoid companies that have these structures in place.

Streaming / royalty financing

Sell future production at a discount, or sell a royalty on revenue, in exchange for upfront cash. Non-dilutive but encumbers the project. Wheaton Precious Metals, Franco-Nevada, Royal Gold are the major streamers.

The signal from streaming is mixed:

- **Positive read:** non-dilutive financing, often at attractive terms relative to equity dilution
- **Negative read:** the streamer takes a permanent slice of project economics; some forms of streaming are effectively perpetual

For developers, a streaming arrangement is often the right call — preserving equity in exchange for a fixed cost of capital. For producers, streaming is rarely necessary and is sometimes a sign that conventional debt or equity wasn't available.

Drill-for-equity contractor arrangements

A specific arrangement worth flagging because it's a green flag pattern often missed by retail.

The structure: a drilling contractor accepts payment in shares (or a mix of cash and shares) rather than full cash. The contractor effectively bets their own labour cost on the success of the program — they get paid more if the drilling produces results that lift the SP, and less if it doesn't.

Why it's a green flag:

- The contractor has done their own DD on the project and concluded the asset is worth taking a position in
- The company is demonstrating capital discipline by stretching cash through equity instead of burning it on contractor invoices
- The arrangement aligns the contractor's incentive with the shareholder's interest
- Contractor share-and-cash arrangements are most common at small junior explorers (e.g., TOR-style structures, PGO-style structures) where every dollar of cash matters

Caveats: small drill-for-equity arrangements (a few hundred thousand dollars worth) are positive signals. Large-scale ones can become problematic if the contractor needs to liquidate large parcels at times that don't suit the company.

Flow-through shares (Canadian projects)

If a company has a Canadian project (or an Australian-Canadian dual-listing), you may see **flow-through shares** in the capital structure.

The mechanic: under Canadian tax law, exploration expenditure on Canadian projects can be "flowed through" from the company to investors as a tax deduction. Investors in flow-through shares effectively pay a premium for the shares because they get a tax benefit equivalent to a deduction equal to the share purchase price. The company gets the cash to spend on Canadian exploration; the investor gets the tax benefit.

Why this matters for ASX investors:

- Flow-through shares are typically issued at a premium to standard placement prices
- They lock the funds to specific Canadian exploration expenditure (regulated, must be spent within a defined window)
- The premium pricing improves the per-share dilution math vs equivalent standard placements
- SMM (Summit Minerals) and similar Canadian-asset ASX juniors have used flow-through structures to fund exploration without the dilution penalty of equivalent standard placements

The flow-through premium is a real cap-structure positive when used appropriately — it's effectively non-Australian-investor money paying a premium for tax benefits the Australian holder doesn't capture, with the entire value of the deal accruing to the project rather than to dilution.

Cash position and runway — the Section 8 calculation

This is the single most useful 2-minute calculation in mining. Every quarterly Appendix 5B has the data; most retail don't read it.

The Section 8 method

Open the Appendix 5B for the most recent quarter. Look at:

- **Section 1.2 — Cash and cash equivalents at quarter end.** This is current cash on hand.
- **Section 1.5 — Net cash from / (used in) operating activities.** This is operating cash burn for the quarter (negative for nearly all explorers and developers).
- **Section 2.6 — Net cash from / (used in) investing activities.** This is exploration spend, equipment purchases, and project capex (negative for nearly all explorers and developers).
- **Section 8 — Estimated cash available for future operating activities.** This explicitly states the company's calculation of how many quarters of runway they have at current burn rates.

Or do it yourself:

Quarterly burn = absolute value of (Section 1.5 + Section 2.6)

Runway in quarters = Section 1.2 / Quarterly burn

What runway tells you

- **Below 2 quarters:** capital raise is imminent. Markets price this in well before the announcement. SP weakness in this regime is partly anticipatory dilution.
- **2-4 quarters:** capital raise is on the horizon. Watch for the typical pattern: positive announcement → SP run → trading halt → placement.
- **4-8 quarters:** company has flexibility to time a raise. They can wait for a positive catalyst to lift the SP before raising.
- **Above 8 quarters:** company is well-funded relative to current burn. Unlikely to need to raise in the near term unless burn rate accelerates (e.g., entering DFS or construction).

Why this beats almost any other dilution prediction

Every other framework for predicting capital raises is fuzzier. Some companies telegraph in their corporate presentations; some don't. Some companies are opportunistic; some are predictable. But the cash-and-burn calculation is mechanical — once you have it, the timing window for the next raise is constrained to a 1-2 quarter range.

The same calculation applied to your entire mining portfolio every quarter tells you which positions are about to face dilution and which aren't. Position sizing should reflect that.

What's not in Section 8

A few caveats:

- **Operating activities don't include construction capex.** A developer entering construction will have a step-change in cash burn that won't be reflected in the prior quarter's Section 8 number. Read the company's construction guidance separately.
 - **Some companies use "non-recurring" framings** to make recurring spend look temporary. If a company says quarterly G&A is "elevated due to one-off costs" for three consecutive quarters, the costs aren't one-off.
 - **Drawdown of facilities and prepayments** can extend cash without a placement. Authium-style prepayments (the GLN US\$6m facility example) and similar arrangements can defer dilution.
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Capital raises as entry timing — the contrarian angle

Most retail treat capital raises as bad news. The discounted SPP, the dilution, the SP weakness around the announcement — all feel negative. But for the contrarian investor, capital raise windows are often the best entry points in the entire mining cycle.

The pattern

A junior runs a capital raise. Process:

1. Trading halt called
2. Placement is bookbuilt with institutions over 24–48 hours
3. Trading halt lifts; placement at, say, 15% discount to last close
4. SPP follows for retail at the same price
5. SP trades around the placement price for several weeks as placement stock unlocks and gets sold by short-term holders
6. Eventually the placement supply gets absorbed and the SP recovers

For a contrarian investor, **the period between placement and supply absorption is often the best entry point.** The dilution has happened, the discounted shares are in weak hands rotating out, the structural overhang is visible to everyone, and there's no near-term need for further dilution. You're buying after the bad news has already been priced in.

When this works and when it doesn't

The pattern works when:

- The capital raise was for a clear milestone-driven purpose
- The company is fundamentally sound (FA Story still holds)
- The placement was supported by quality money (specialist funds, strategics, directors)
- The macro for the commodity hasn't deteriorated

The pattern fails when:

- The capital raise was distress-driven (avoiding insolvency rather than funding milestones)
- The placement was supported only by retail-style investors and short-term funds
- The macro is deteriorating (more dilution likely to come)
- The fundamentals were the reason for the raise (project doesn't work as advertised)

The signal in placement quality

A key tell that the entry-timing trade is set up properly: the placement was at premium to VWAP and supported by specialist money. Those are the placements that get absorbed quickly because the holders aren't selling at a loss. The SP recovers within weeks, not months.

A placement at heavy discount with retail-heavy support and free attaching options is a placement where the supply pressure persists for months. Don't enter on the assumption that supply will absorb quickly.

How to use this in your process

Three rules:

1. **Don't be afraid of capital raise weakness on quality companies.** It's often the best entry window in the cycle.
2. **Don't buy capital raise weakness on weak companies.** The dilution is a symptom, not an opportunity.
3. **Wait until the trading halt has lifted and the SPP period is closing before deciding.** That's typically 2-4 weeks after the placement. By then, the supply dynamics are visible.

Patterns of capital raising by stage

Stage	Typical raise pattern	What to watch
1 — Concept	\$1-3m placements every 6-12 months	Dilution accumulating without milestones

Stage	Typical raise pattern	What to watch
2 — Drilling	\$3-8m to fund drilling, often before each program	Pre-drilling raises locked in adequate cash
3 — Discovery	Larger raise (\$10-30m) immediately after the discovery hole, at premium to pre-discovery price	Quality of cornerstone support
4 — Resource definition	\$5-15m to fund infill drilling and metallurgy	Whether the resource update justifies the dilution
5-6 — Studies	\$5-20m to fund PFS/DFS work; SP often weak so dilution is heavy	Premium-to-VWAP raises here are exceptionally strong signals
7 — DFS complete	The big one: \$50-500m+ project finance package (debt + equity + offtake/streaming)	Equity component vs debt vs streaming mix
8-9 — Construction	Cost overrun raises, often deeply dilutive at depressed SPs	Watch for staged drawdown facilities
10 — Production	Reserve replacement exploration funded from cash flow; minimal further dilution if managed well	Any equity raise at this stage is a flag

The capital raise immediately after a positive announcement is a recurring pattern. The good news pumps the SP, the placement gets done at the higher price, dilution is "less bad" than it would have been. Watch for ASX trading halts within 1-3 days of major positive announcements.

The signals from how a company raises capital — consolidated

Strong positive signals:

- Premium-to-VWAP pricing on a placement
- Specialist resources fund as cornerstone, especially repeat participation at higher prices
- Director participation with own cash on top of placement participation
- Strategic investor (major mining company) at premium to market
- Funds raised align with stated next 12-18 month milestones
- Tight pricing (small discount), no free attaching options
- Streaming/royalty financing for project finance instead of equity dilution
- Drill-for-equity contractor arrangements at small explorers
- Flow-through shares for Canadian exploration (premium pricing, locked-in spend)

Yellow flags:

- Heavy free options attached (signals demand was weak)
- Placement at significant discount with no specialist cornerstone
- Vague use-of-funds (general working capital)
- 7.1A capacity sought when there's no obvious milestone-driven need

Red flags:

- "Death spiral" convertibles with floating conversion prices and no floor
 - Repeated raises with no stated milestone progress between them
 - Insider participation suspiciously timed (raise immediately *before* a major positive announcement)
 - Capital raised vastly exceeds disclosed funding requirements (overcapitalisation = SP overhang)
 - Placements consistently priced below previous placements (the value is being destroyed structurally)
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Practical exercise

For every junior you hold or are considering, build out:

1. Current SOI
2. Total options + performance rights = pending dilution
3. Fully diluted SOI and fully diluted MC
4. Top 20 holding % and identifiable institutions on register, categorised (specialist / generalist / strategic / trading / nominee / vendor)
5. Director holdings and recent on-market buying/selling activity (Appendix 3Y filings)
6. Substantial holder change pattern over the past 12 months — who's accumulating, who's exiting?
7. Section 8 cash burn calculation — current runway in quarters
8. Last 3 capital raises: dates, amounts, prices vs VWAP at the time, dilution %, who participated
9. **Were any of those raises at premium to VWAP? Who were the cornerstone investors? Have they participated again at higher prices?**

If you can't reproduce this from memory for any holding, you don't actually understand what you own. The cap structure is half the FA Story.

What I'm uncertain about

- ASX Listing Rules 7.1 and 7.1A have been amended over time; verify current % thresholds and eligibility criteria on the ASX Listing Rules site if you need precision.

- The retail SPP cap was increased from \$15k to \$30k some years ago; \$30k is the current figure but worth confirming.
 - Substantial holder threshold is 5% under Corporations Act Chapter 6C; this is stable but technical disclosure timing rules have been refined periodically.
 - The 3% creep provision technical mechanics around the qualifying period (the 6-month "above 19.9%" requirement) have edge cases worth verifying for any specific situation. The framework is broadly correct but precision matters in active register stocks.
 - Flow-through share mechanics are Canadian tax law specifics; verify with reference to Canadian Income Tax Act provisions if you're modelling a specific structure precisely. The framework above is the simplified view.
 - "Specialist resources fund" categorisation is a judgment call. The named funds are well-known examples but individual fund mandates change over time. Verify each fund's current strategy if it's material to your thesis.
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