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SECURITIES AND EXCHANGE COMMISSION, NIGERIA

MINISTRY OF

Mines and Steel Development

FINANCING THE NIGERIAN SOLID MINERALS SECTOR THROUGH THE CAPITAL MARKET AND THE CRITICAL ROLE OF COMMODITY EXCHANGES

Speaker >>

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WEBINAR

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Outline for today's Presentation

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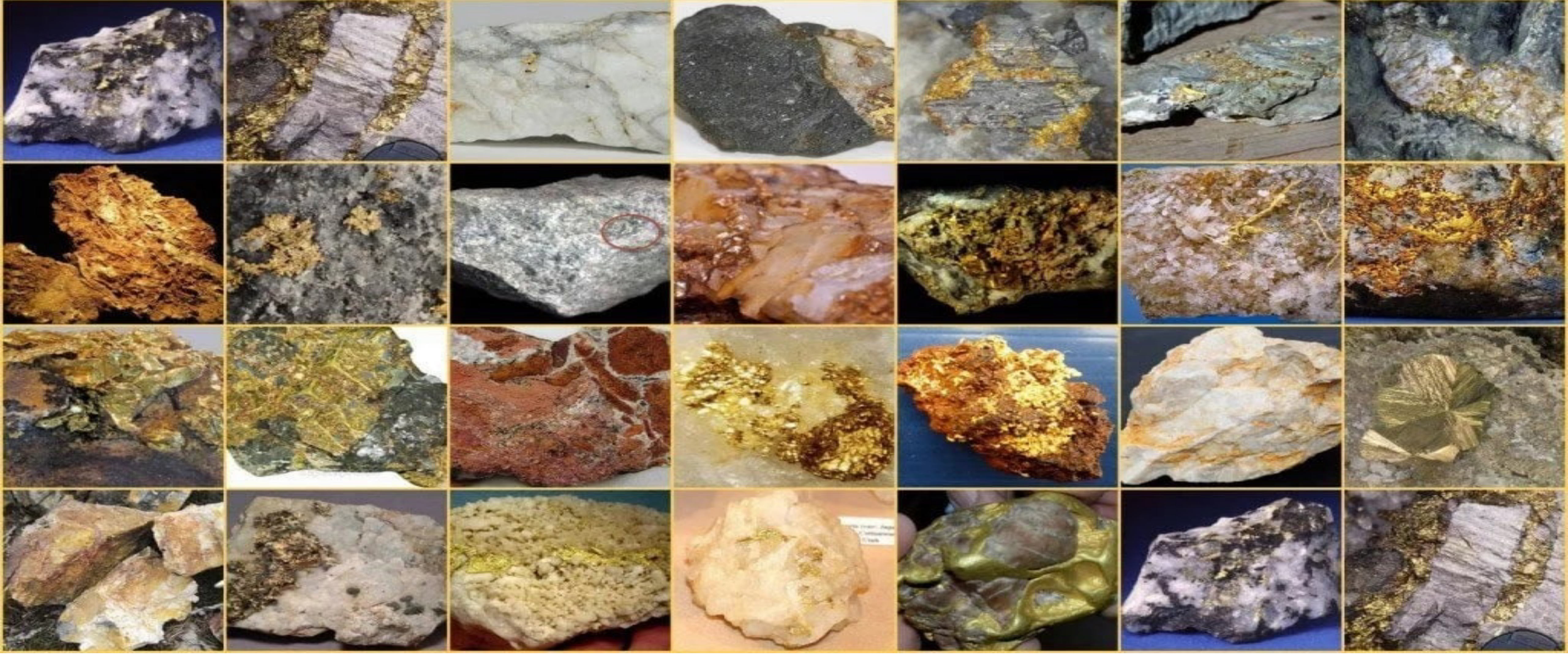

SECTION 1

INTRODUCTION

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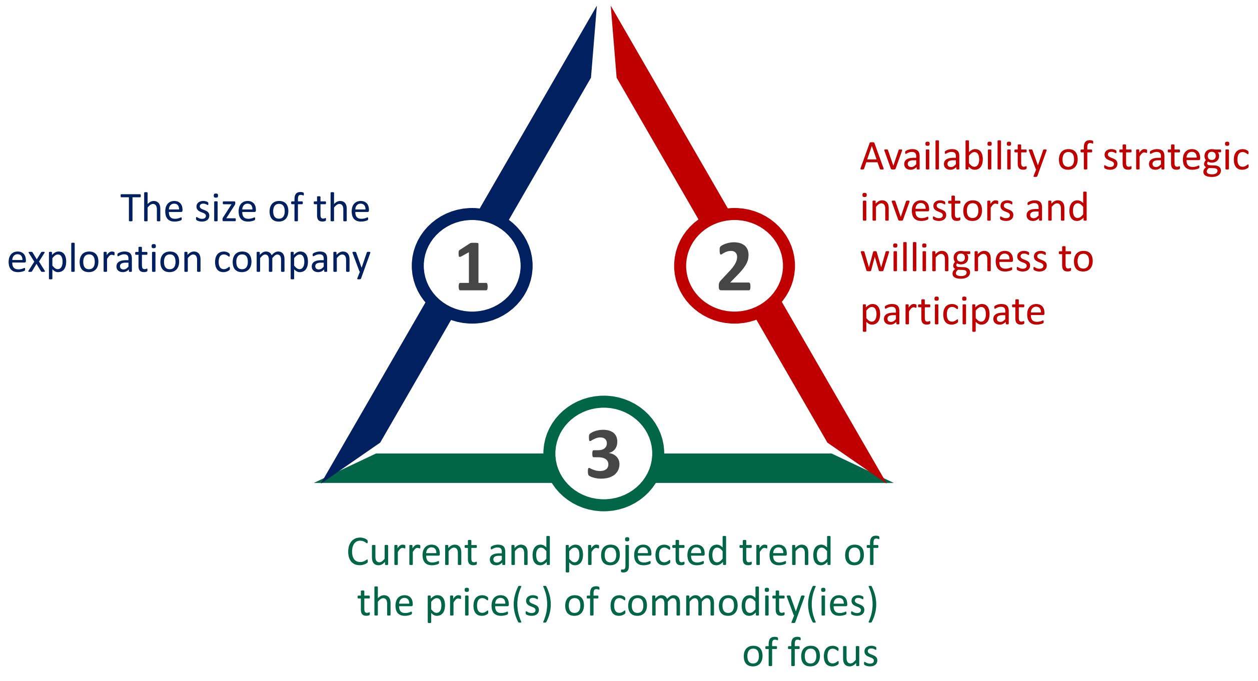
Capital Formation Consideration in the Mining Industry

- Players in the mining industry have over the years being faced with capital formation challenges
- Traditional sources of capital – Private Placement and Public Listing, have somewhat lost their attraction, irrespective of price or level of dilution

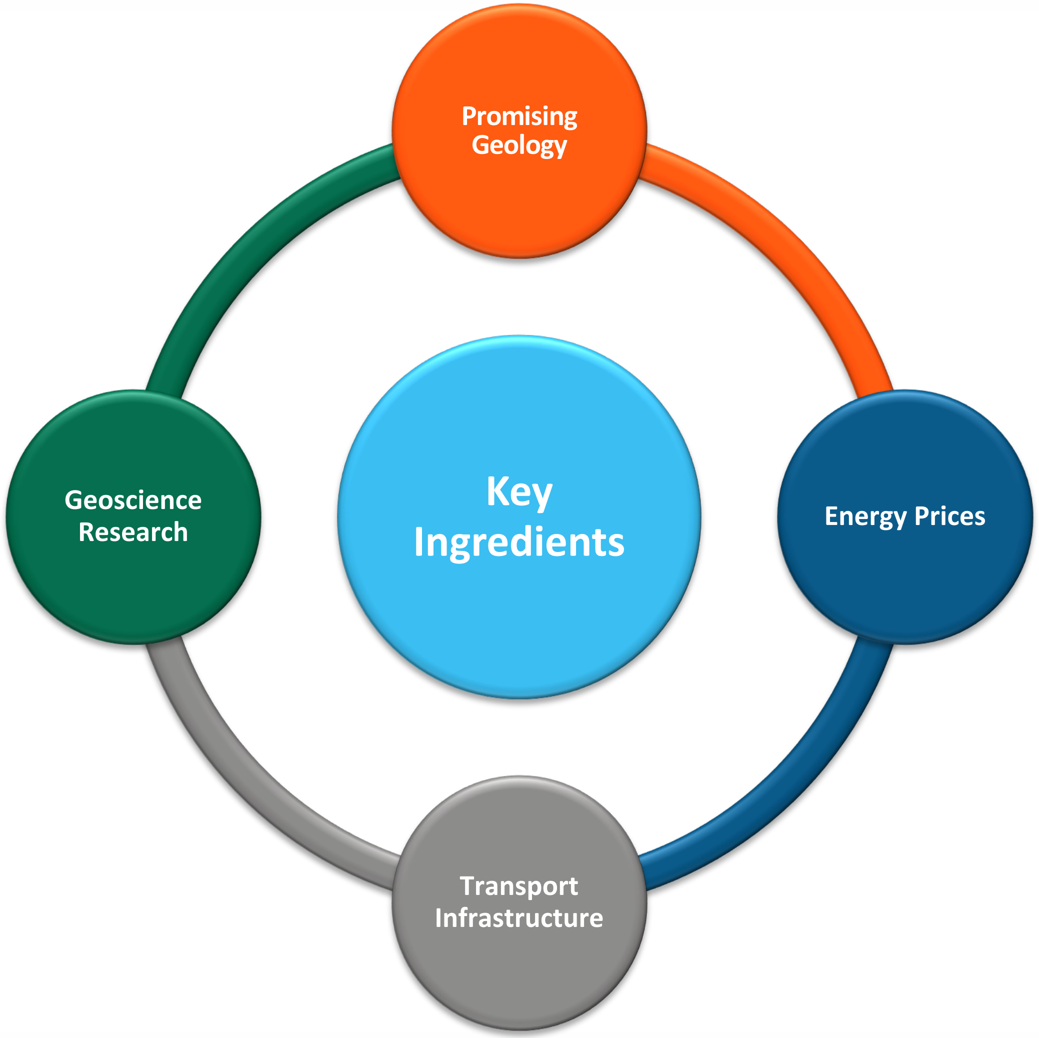
Hence, the following are three key consideration for capital formation in the mining industry



KEY INGREDIENTS FOR SUSTAINED MINING ACTIVITIES

Just the right mix

1. Known/unknown promising geology
2. Current geoscience research
3. Access to transportation infrastructure
4. Rationally priced energy
5. Access to human capital
6. Access to financial capital



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Life Cycle of a Mining Property: Broad Categories

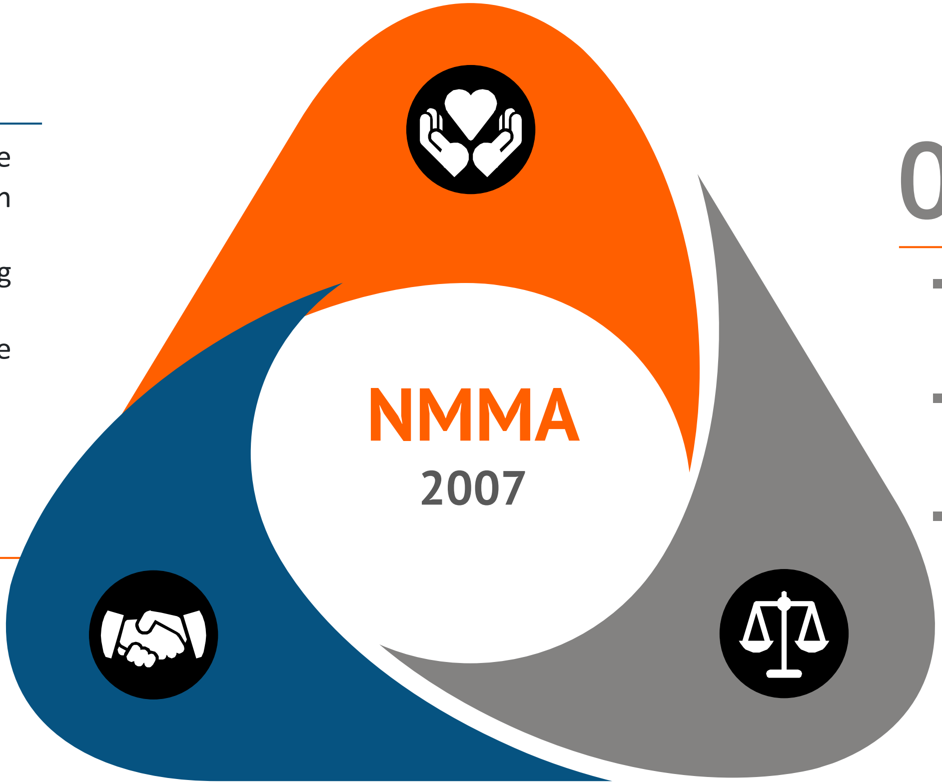
- The lifecycle of mining properties is helpful for dimensioning the types of investment the sector can attract

01 Exploratory Properties (EPs)

- Eps derive value from the potential for the existence and discovery of a mineral deposit in economically viable quantity.
- Only a small share of Eps become mining properties.
- Despite this, until exploration is well tested, there is value in Eps.

03 Development Properties (DPs)

- DPs are mines with proven economically viable mineral deposits.
- DPs are usually at advanced stage with sufficient and reliable information to aid the valuation using DCF.
- The information include mineable reserves, workable mining plan & production rate, metallurgical test results and commodity price forecasts



02 Marginal Development Properties (MDPs)

- MDPs derive value from well-defined mineral resources which become economically mineable reserves under improved circumstances
- Improved circumstances refers to technological improvements, commodity prices & establishment of domestic infrastructure.
- MDPs may include mines that are temporarily affected by weak commodity prices

Industry Accepted Valuation Methodologies

- In order to attract funding, there is a strong need for a mine to command the right valuation
- This is even critical for the purpose of transparency and price discovery

Valuation Approach	Valuation Method	Exploration Properties	Marginal Development Properties	Development Properties
Income	Discounted Cash Flow	No	Situational	Yes
	Option Pricing	No	Yes	Yes
Cost	Appraisal Value	Yes	Yes	No
	Geoscience Factor	Yes	Situational	No
Market	Comparable Transactions	Yes	Yes	Yes
	Options Agreement Terms	Yes	Yes	Yes

Source: Danish, Afrinvest Research

Business Risks Facing Mining & Mineral Extraction

- It is instructive to know the risks various providers of funds perceive in the funding projects
- It is equally important to determine those risks that can not be mitigated as well as those that can be influenced

What is the optimal facility sizing?

Where can be financing be accessed and in what form?

How to optimize stakeholder involvement

How to attract and optimize local value capture?

How much hedging should be engaged?

How manage competing stakeholder priorities?

How to balance profitability with stakeholder needs?

How to remain within budget for mid-to-large size projects?

Are reliable and cost effective utilities available?

Are sufficient skilled workers readily available?

Source: EY, Afrinvest Research

Section 2

Capital Market Financing Options

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Partnership with Strategic Investors

- Strategic Investors – Partnership with strategic investors who have the capital, expertise and resources which helps to commercialize the mining projects. The capital may be in form of equity and debt.

Equity Capital

Mining company raises long-term capital through sale of shares in the company to the public

The mining company raises capital by selling shares directly to selected private investors rather than the general public

Unlike the IPO, mining companies can access long-term capital from private investors without the need to become a publicly listed company

Debt Capital

Mining companies can access long-term capital through issuance of bonds to investors backed by collateral and strong credit rating

Unlike bonds, mining companies can raise medium to long-term capital through debentures without the need for asset collateralization

Mining companies may also opt for long-term capital in the form of Term loans without the need to issue any securities. They usually have specified repayment moratorium, either a fixed or floating interest

Source: IMF, Afrinvest Research

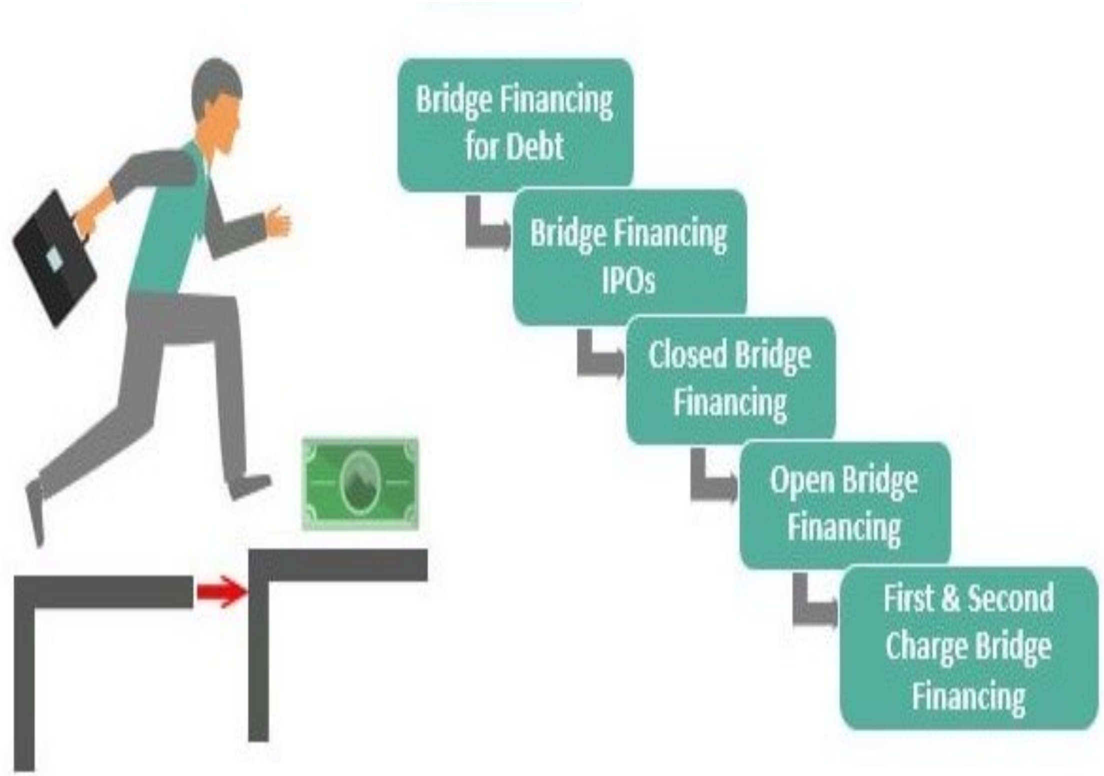
Interim Funding Option via Bridge Financing

Bridge Financing

Bridge financing is an interim funding option that can be used by mining companies to meet their short-term project needs until a long-term financing option is available. This option can be in the form of debt (bridge loans) or equity bridge.

- Equity Bridge – This form of bridge financing provides short term capital in exchange for stake in the company as collateral.

- Bridge Loans – Usually this type of bridge financing are collateralized either by the companies assets or expected future cash flow with necessary lien put in place.
- Other types includes Open & Closed Bridge Finance.



Source: Mining and Financing Exploration & Development: Survival of the Fittest, Afrinvest Research

REVENUE ASSURANCE THROUGH OFFTAKE FINANCING

Off-take Financing

- An Off-take financing is an arrangement between a mining company and a buyer to purchase mine's products once ready for sale. Mineral trading companies typically tap into this financing source to lock down a agreed amount of the mining company's product at an agreed price. Delivery of the product would usually occur at a later date.

- This financing may be in form of an advance payment ahead of future production or a discount made available to the buyer subject to pre-agreed conditions specified in the offtake agreement.

- However, it offers a means of short-term capital to support the companies working capital as well as helps to reduce the companies days of sales outstanding.

Source: Mining and Financing Exploration & Development: Survival of the Fittest , Afrinvest Research

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UPFRONT COMMODITY SALE THROUGH STREAMING

Streaming Finance

- Streaming finance is an alternative financing means that involves the sale of the right to a commodity (minerals) by the miner in exchange for an up-front payment from the purchaser.
- Unlike royalty, a stream creates a right for the purchaser to purchase all or a portion of one or more metals produced from a mine rather than, creating a right to a percentage of revenue.
- Streaming deals allows the miners to receive payment upon delivery of the minerals while the streaming partner secures a share of future mineral production at an agreed discounter price.

Other Benefits from Stream Financing

Shared Production	• Allows for the sharing of production and operational risks associated with projects.
Zero Cash Obligations	• There is no fixed obligations in cash although limited restriction on the use of cash may be agreed.
Less dilutive	• Streaming contract are usually applied on per project basis, hence does not create claim over the mining company's total asset.

Source: High Latitude Capital Formation Stages of Mining Financing, Afrinvest Research

Royalties

- A royalty contract is a kind of transaction in which the mining company sells future production in return for an up-front cash payment. Typically, the beneficiary of the royalty secures a right to receive a percentage of the revenue or profit generated from selling the minerals or other products produced at the mine.

Major types of Royalties in the Mining Sector

01 Profit Based Royalties

- This type of royalty grants the right to receive a percentage of the future profit (Net) generated from the sale of minerals or other products.

02 Net Smelter Return

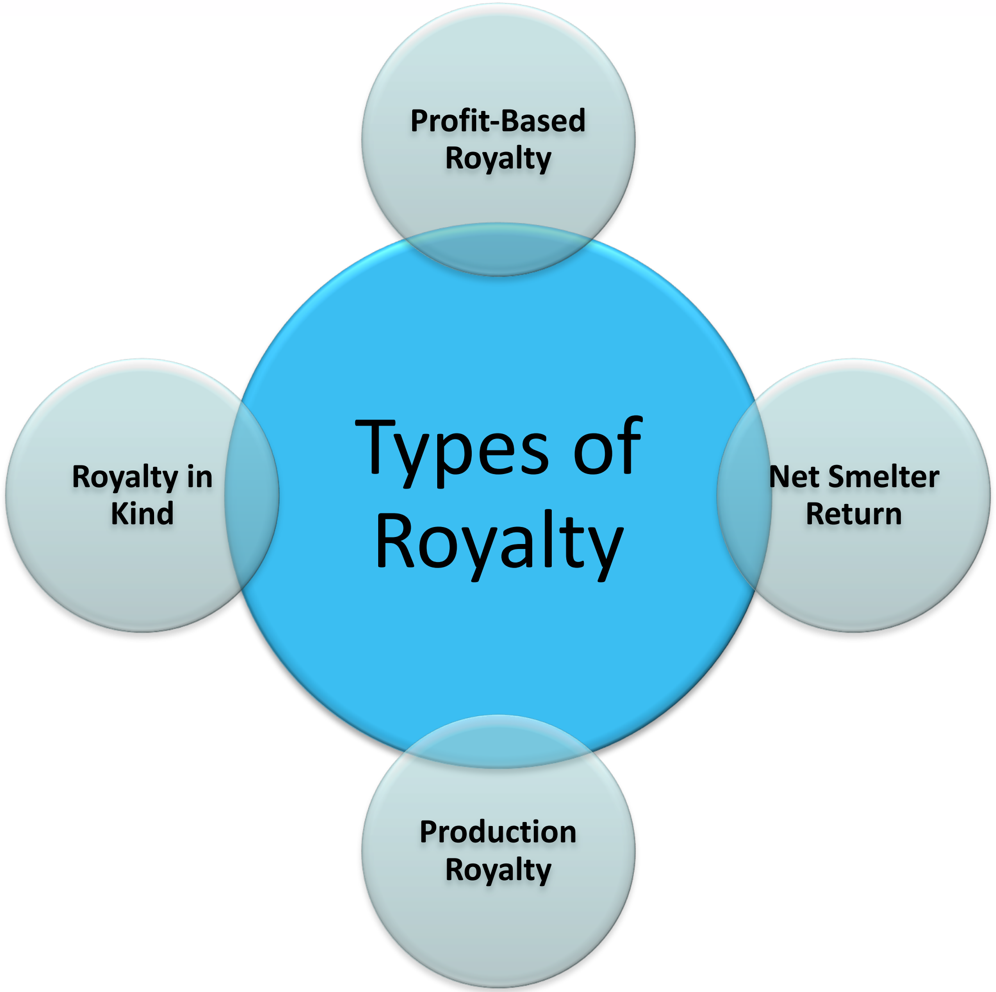
- This is essentially a gross revenue royalty. It is based on either the value of the mine's production or the net proceeds received from the smelter/refiner.

03 Production Royalty

- This is a fixed rate royalty that attracts a fixed pre-agreed payment for each tonne of minerals produced

04 Royalty in Kind

- Unlike the other types, this royalty grants the holder the right to take delivery and/or purchase a percentage of the minerals produced.



Source: High Latitude Capital Formation Stages of Mining Financing, Afrinvest Research

Crowdfunding

- Crowdfunding involves the raising of capital through a pool small contributions from a large number of investors which includes Retail and Institutional investors as well as High Net-worth Individuals (HNIs).

Major Highlights of SEC's Rules on Crowdfunding Regulation

01 Eligibility

- Available for only MSMEs* incorporated in Nigeria with at least 2 years operational track record.
- Must be conducted through a crowdfunding portal.

02 Duration of Fundraising

- A crowdfunding offering shall not be open for subscription for more than 60 days after which it must be withdrawn.
- A 90 days interval is required before another offering can commence.

03 Maximum Fundraising Threshold

- Medium Enterprises – At most N100m
- Small Enterprises – At most N70m
- Micro Enterprises – At most N50m

04 Investment Limit

- Retail Investors – not more than 10% of annual income in a calendar year.
- HNIs & Institutional Investors – No limit.

Source: *MSME as defined by SMEDAN, SEC Crowdfunding Rules for Exposure Mar 2020 , Afrinvest Research

SECTION 3

THE ROLE OF COMMODITY EXCHANGES

Roles of Commodities exchanges

Commodity exchanges are specialized, organised markets which provide a place where their members buy and sell commodities or contract for future delivery under established rules and regulations.

Provides a regulated place to trade commodities on spot and futures.

Well regulated trading

Collecting and publication of useful market information for investment decisions

Serves as Investment option

To be on the commodity exchange, products must be **homogenous**, **durable, well-classified in grades**, **supplied freely** and **have some level of price volatility**.

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Thank You

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