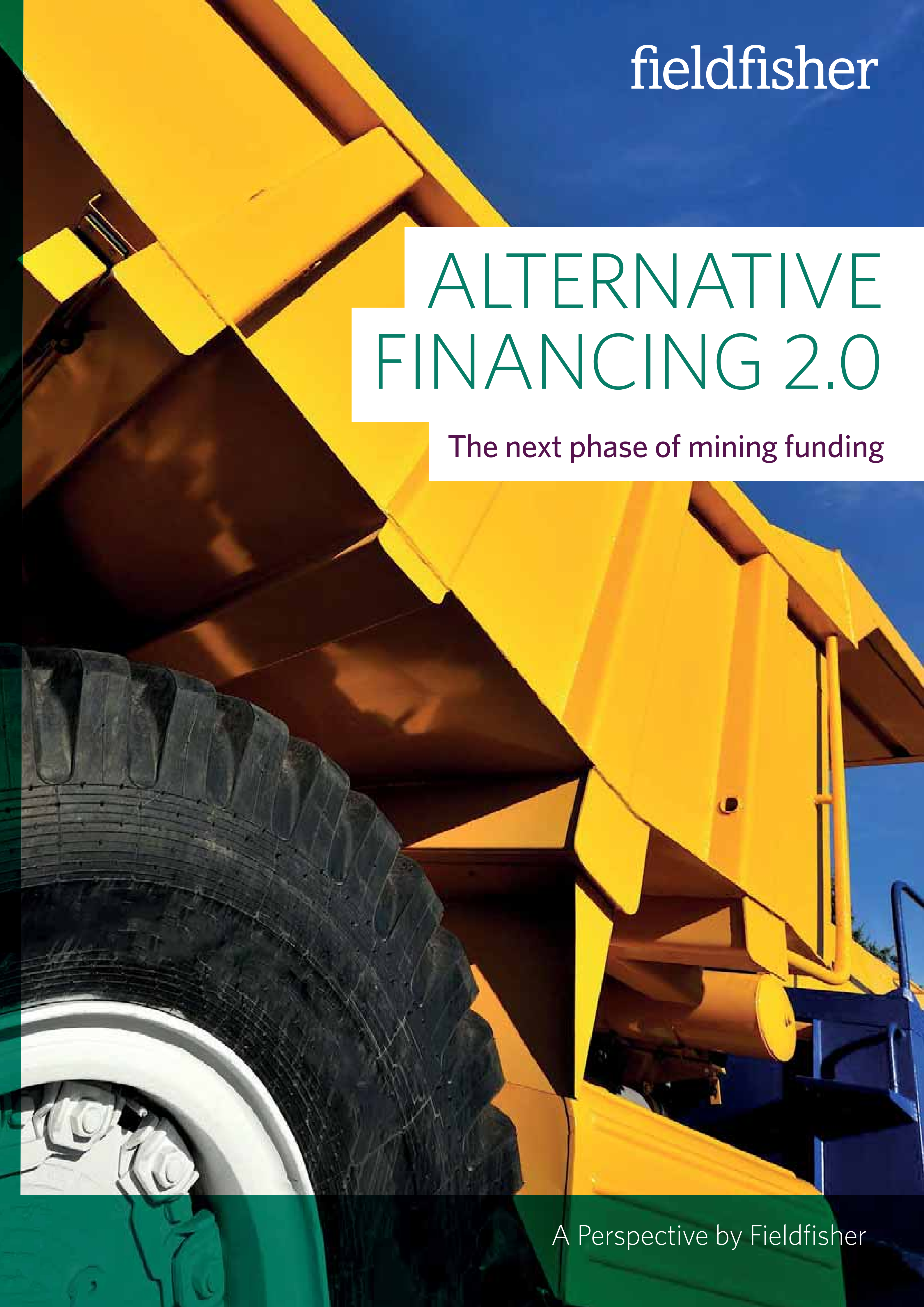
fieldfisher

ALTERNATIVE FINANCING 2.0

The next phase of mining funding



A Perspective by Fieldfisher

Introduction

The emergence of alternative financing for mining projects following the global commodities crash in 2011/2012 was regarded by some at the time as a temporary solution to a cyclical problem.

Six years on and the picture is a complicated one. 2017 was a bumper year for the world's top 40 miners who recorded a 30% surge in their combined market caps to $926 billion, delivering an 11% return on equity for the year, according to figures from PwC, with investors seeming to warm to increased margins, strong cash generation and flat capex.

In 2018, as metals prices continued to surge, mining stocks went into retreat – declining by 25% globally between 1 January and 31 October 2018, according to Bloomberg's World Mining Index.

Outside the top tier, many miners are as cash-starved as ever – particularly at the pre-production end of the market – having missed out on the 2017 boom altogether.

Despite the convincing rebound in prices for many metals and improved financial discipline across the sector, traditional equity financing has not trickled down to junior companies with exploration and development stories.

As a consequence, alternative financing has become entrenched as a key feature of the junior mining sector, which has witnessed the arrival of increasingly creative solutions for raising cash.

Since Fieldfisher last published an overview of the sector in 2016, a new class of crypto assets and crowdfunding platforms have taken the first steps towards adding further possible alternatives to traditional equity, debt and project financing.

This paper examines how alternative financing has developed over the last two years and how even more novel kinds of transaction are being structured and executed.

We also assess, from a legal point of view, the issues companies seeking to enter the unconventional funding arena need to consider before embarking on deals.