DEBT FINANCE USING BONDS

WHAT WE CAN DO

We can finance mining, natural resource, manufacturing and infrastructure projects where the owner has a largely unencumbered asset and seeks non-dilutive financing in order to realise the potential of the project.

BACKGROUND

Through a Swiss based financial boutique, which specializes in non-dilutive project finance, funds are raised via bond issues.

Debt finance via a bond issue is completely non-recourse. It has several advantages over the usual equity or bank finance routes. For example, on bond maturity, the project owner is free of any liens or profit participation by a traditional lender/investor. Furthermore the interest coupon is fixed for the length of the bond and no personal guarantees are required.

Bonds are issued with a minimum size of $50 million; there is no maximum. Bonds can be issued in the following currencies US$, £, €, CHF. The term of the bond varies but usually is for a period of 5 to 10 years.

Currently with interest rates at historical lows in many countries the attraction of fixed income bond financing is very compelling. Over the next few years the likelihood is that interest rates will return to their long-term equilibrium. Such a scenario could mean a reciprocal fall in bond prices, allowing the borrower to possibly exit by buying some or all of the bonds back at a discount to the maturity price.

The provider's bond management is turn-key and includes:

- Advice on appropriate bond size and maturity; coupon or zero; straight or convertible.
- Management of due diligence to shape it in the format acceptable to the rating agency.
- Advice on setting up of an offshore bankruptcy remote special purpose vehicle (SPV) to issue the bond, usually Luxembourg.
- Securitization of the project cash-flow.
- Arrangement of price insurance where appropriate.
- Recommendation of legal, accountancy and trustee bank (rated at least 'A').
- Management of submission to rating agency e.g. Standard & Poors, Moody's or Fitch.
- Arrangement of bond ISIN number and registration with Euroclear, Clearstream as required.
- Arranging bond screening on Bloomberg and Reuters.
- Sale of bond. Once rated or guaranteed, these are all sold on the

Eurobond market within about 72 hours. All of our rated bonds are pre-sold.

TIMESCALE:

The general functions of the bond manager take but a few weeks. However, with natural resource projects, the due diligence enquiries can take some time. In summary, the rating agency needs to be satisfied on the following points:

- Is the stated resource there and what is its value?
- Can it be extracted successfully per the mine plan and/or feasibility study?
- Is there a ready market for the mineral to be extracted?
- Is the management team competent?
- For renewable energy projects: Are PPAs in place?
- For infrastructure projects: Is there a valuation report on the land?

Of course, the answers to these questions are largely in the hands of the Client. Where the Client has employed mining consultants and engineers of international repute in the preparation of their submissions, the due diligence process is very rapid.

**For those Clients who wish to determine whether a rating will be obtained there is the opportunity to obtain a "shadow rating". This will cost $10,000, but will provide the Client with the comfort that if his/her submissions are verified he/she will obtain a full rating. The "shadow rating" takes approximately 10 days as no due diligence is required.*

Once the due diligence has been completed satisfactorily, the next stage is to engage the rating agency to obtain the rating. The timing here is dependent on the workload of the agencies, but, as a general rule, the process should take less than three months. Certain agencies offer a fast track service but this entails additional fees, currently around €60,000; this means the rating will be obtained within 14 days from submission. In this instance the bond can be issued and sold within 3 weeks of completion of the due diligence. So if the client is ready to go from the outset then the whole process, albeit more costly, can be concluded extremely quickly.

COLLATERAL

The rating agency will require that collateral is vested in the SPV. This may be cash, shares or other instruments, including the project's assets. For this purpose, cash or near cash is best and the amount of collateral required will be about 10%-15%. However, if other assets, including JORC or 43-101 reserves, are to be used, the requirements will be higher. More collateral = better rating = lower coupon.

SPECIAL PURPOSE VEHICLE (SPV)

The SPV is a bankruptcy remote special purpose vehicle set up exclusively to issue the bond concerned. By that, it means that the Client is not required to provide personal guarantees. Its directors are nominees chosen by the local lawyers. It is vested in the trustee bank. It has no bank accounts except with the trustee bank, which will have a mandate covering all disbursements. The Client will approve of and countersign the mandate.

The SPV will own sufficient assets to collateralize the bond. The Client will have an option to acquire the SPV for $1 on bond retirement. He/she may then repatriate the assets or maintain the operation in low tax Luxembourg.

The trustee bank's duty is to the bondholders. Therefore its first requirement is to have sufficient funds to service the bond. This includes the annual coupon and payments to the sinking fund. Often, where project cash flow will start some time after the bond sale, a repayment holiday can be arranged. It is not normal for such a holiday to be longer than two years.

COSTS

Essentially, there are five stages of fees or costs. Most costs are not due and payable until after the bond proceeds have been received:

1. Set up and Due Diligence.
2. Professional Due Diligence.
3. Rating.
4. Seasoning & Placement.
5. Success fee.

Combined these should not normally exceed 4% of the **FACE** value of the bond.

1. **SET UP AND DUE DILIGENCE COSTS**: These are usually covered by a monthly 'retainer' payable in advance of $10,000 from the date of mandate to issuance of bond.
   The SPV capital required is $18,000 and there is a set up fee of $9,000 to include the provision of a director.

2. **PROFESSIONAL DUE DILIGENCE**: This is, of course, highly variable, depending on the complexity, size and perhaps most importantly the quality of the Client's preparation and paperwork. If the Client already has in place a Competent Persons Report, a 43-101, a

Power Purchase Agreement or current valuation report then the costs may be negligible.
Legal fees are an unknown. These are the cost for preparing the Prospectus for the Bond issue. Costs vary enormously. Alpine advises the Client to put aside $120,000 for this. The better the quality of the law firm employed the more the rating agency will review positively.

3. **RATING**: The bond's price or value is totally dependent on the rating it gets from the rating agency, S&P, Fitch or Moodys. Their fees do have an element relating to the size of the bond. It is a fixed sum of €86,200 (c$122,000) or 6 basis points of face value whichever is the greater. By way of example a $500M bond would attract a rating agency fee of $300,000 (in euro equivalent).The rating agency will additionally charge a post-bond proceeds fee of €92,000 (c$132,000).

4. **SEASONING & PLACING COSTS:** These should not exceed 1.35%.

5. **SUCCESS FEE**: We charge 2% (less the amount paid under Item 1).

Front end costs are Items 1, 2 and 3. Given the nature of the bond envisaged herein and the probable extended diligence period, we would recommend that a budget of $77,000 for Item 1 be earmarked.

As mentioned above, the due diligence costs can only be estimated on a case by case basis.

If the Client has an up-to-date Competent Persons Report or 43-101 filing, PPA, valuation etc. then the due diligence cost and timing may be negligible. However, if the Client does not have the necessary reports then he/she can either prepare these documents first or work in tandem with Alpine to complete them. We would recommend a preliminary budget of $40,000. The firm executing the due diligence examinations may require some form of guarantee or evidence of funds prior to commencing work.

Item 3 Rating: On the basis of a face value of $100,000,000 we would anticipate a rating fee on about $122,000. Effectively, the bond will be issued and placed within 3 – 5 banking days of receipt of the rating.

On the basis of a $100,000,000 face value bond on these indicative terms, the total fees would be: -

Pre Bond Issue (ie before Bond Proceeds received)

.... Professional Packaging	$50,000
Luxembourg company	$27,000
Legal (worse case)	$120,000
Due Diligence (unknown but suggested cost)	$40,000
Rating Fee (worst case):	$122,000
	$359,000

Post Bond Issue (ie after Bond Proceeds received)

Seasoning and Placing Costs:	<$1,350,000
Rating Fee	$132,000
Success Fee (less retaining fees already paid)	$1,950,000
	$3,432,000

Brokerage (ie after Bond Proceeds received) to parties introducing the Client to the Provider (generally 1%) **$1,000,000**

TOTAL COST OF FUND RAISING = <**$4,791,000** (4.8% of Face Value of Bond)

***OPTION: As stated previously, all rated bonds sell, but a rating is a prerequisite for our underwriters. However, some clients may be nervous about the rateability of their bonds. Therefore, we have arranged a special concession to supply a 'shadow rating' for bonds preparatory to engaging the provider in a full bond preparation. This involves an upfront payment of $10,000 directly to the rating agency. Receipt of this 'shadow rating' enables the client to make an informed judgement whether or not to proceed.**

E&OE: *This is not a quotation nor a contract nor any part thereof. The above fee figures are given for guidance. Variations can be occasioned by a number of factors including, but not limited to, complexity, size, jurisdiction, underwriting and diligence etc.*