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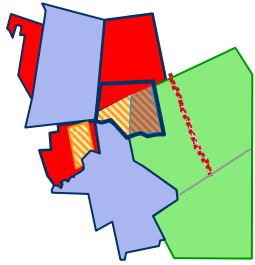
## Development of the Junior Mining Sector : A South African Perspective

**Wesizwe Platinum Limited**

GeoForum 2006

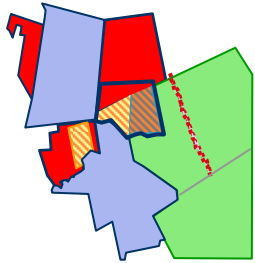
Mike Eksteen – Independent non-executive director

## Wesizwe Platinum Limited



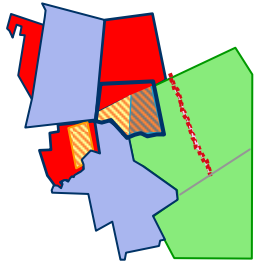
- Exploration junior listed on the JSE on 21 December 2005
- Market capitalisation approximately R800 million
- Exploration prospects on the Western limb of the Bushveld complex
- True broad-based ownership, community component 33% and further BEE of 19%
- Currently accelerating bankable feasibility study

## Building an exploration sector in South Africa



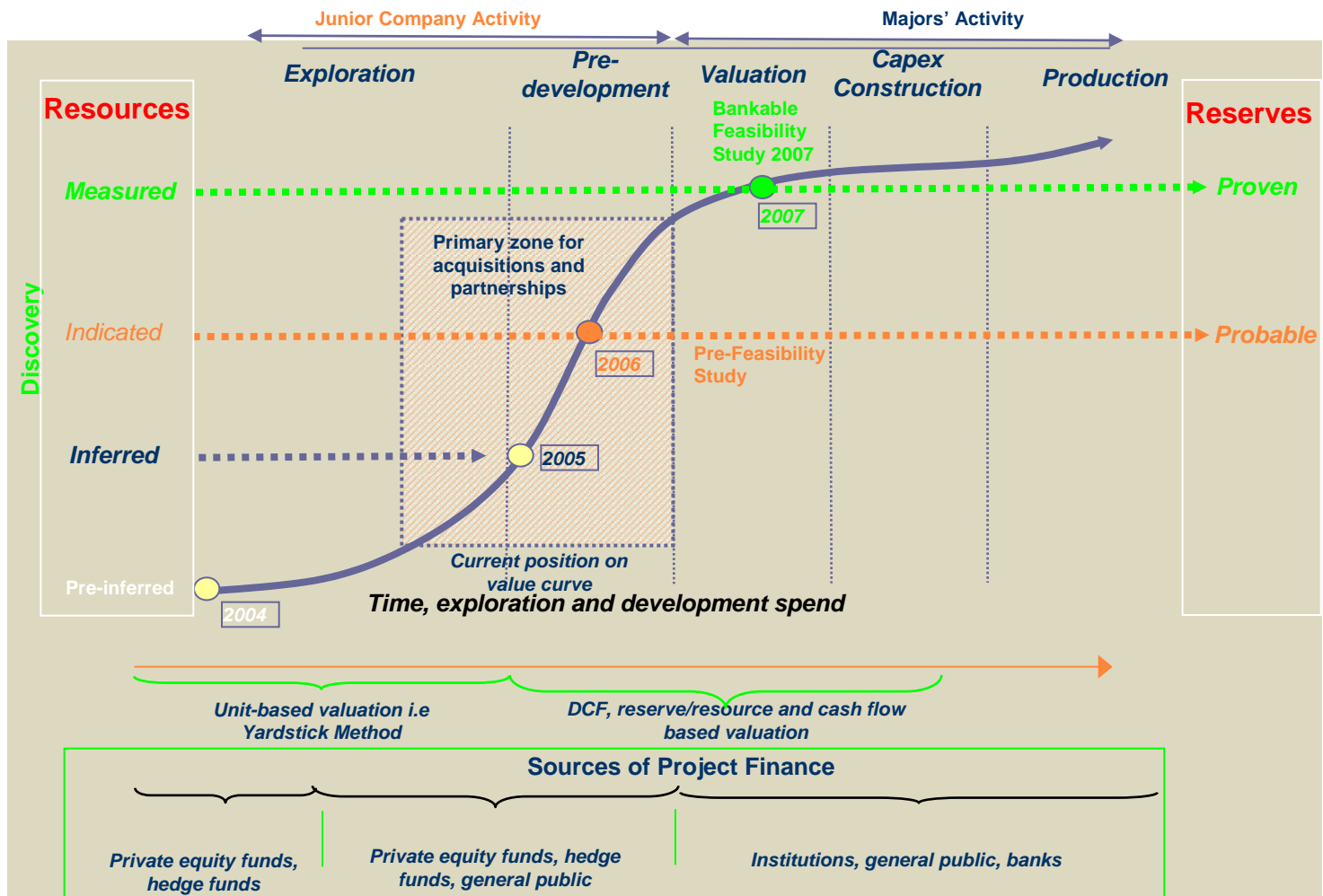
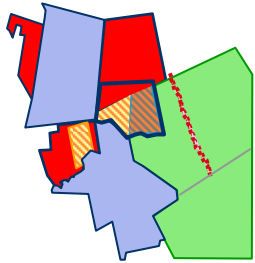
- SA - proud history in exploration and mining
- Historically dominated by “Mining house” system
- Concept of independent exploration not well established in SA to date
- Limited mainstream investor interest in SA – most juniors are foreign
- Only 2 of about 20 juniors on the Bushveld listed on the JSE
- Aussies and Canadians most active in developing the sector

## South African sentiment towards juniors

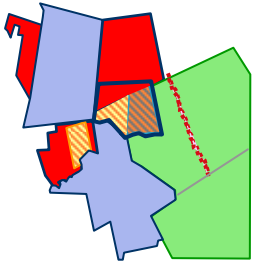


- South African institutions slowly developing appetite for juniors
- Historical issues include:
  - Failure of gold listings in the late 1980's as a result of gold price collapse
  - Difficulties in early 1990's with regulatory uncertainty
  - More choice in main stream dividend paying companies
- Three recent listings – leading to a greater understanding of the investment imperative in exploration

# The investment imperative: the Value Curve

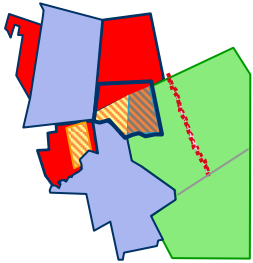


## Listing decision



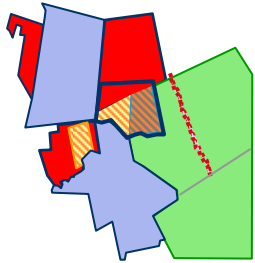
- JSE bourse of choice
  - Spirit of mining charter
  - Black controlled company
  - Bakubung community investment vehicle
- To raise the company profile
- To enhance investor liquidity
- To enable an M&A strategy on the Bushveld
- Listing by Introduction due to value curve considerations

## Wesizwe: further capital raising choices



- Align with fund managers' requirements:
  - commodity choice,
  - position of project,
  - state of the project,
  - team leading the development
- M&A activity may bring speculative investors
- JSE vs Overseas
  - Local investors - growth in understanding and appetite
  - Foreign investors prefer a London/foreign listing

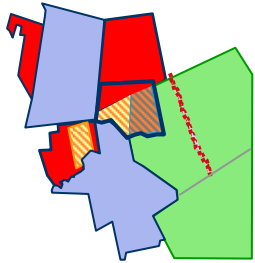
## Off-shore listing decisions



- Toronto
  - TSX with 900 listed mining companies understands exploration funding
- London
  - In the same time zone with broad African understanding and appetite,
  - Easier to service from a South African base
- Listing documentation on AIM is easier to prepare than Canada - similar to the JSE
- IFRS conversion is necessary whichever bourse is chosen (Wesizwe is compliant)
- London less onerous regulatory requirements
  - Directors, etc

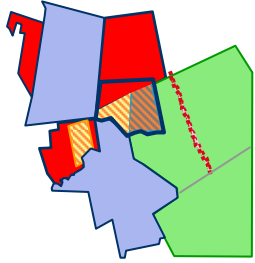


## Valuation debates – pre IPO



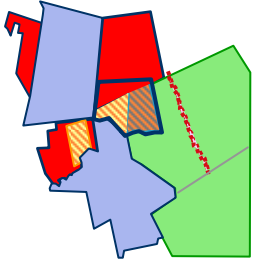
- Comparative valuations difficult
  - Small number of platinum explorers on the Bushveld
  - Vastly varying geological and metallurgical parameters
- Wesizwe valuation
  - Four major consultancies and two independent advisors
  - Valuation ranged from US\$3/oz to US\$33/oz
- Listing by Introduction circumventing the valuation debate
  - Valuation by market - US\$18 /oz

## Structuring for black empowerment: the considerations for junior mining



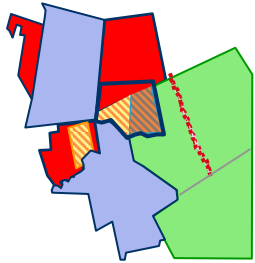
- Options or Shares
- Retaining empowerment investors
- Employment equity

## BEE - Options or Shares



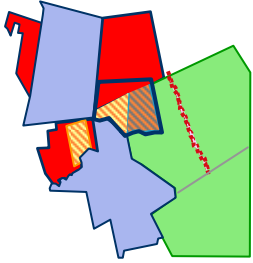
- Shares at nominal value
  - Small allocations at company inception gain significant value as the project moves up the value curve
- Shares
  - Progressive capital raising dilutes investors
- Options
  - Incentivises the partner to contribute to the value creation
  - Commitment to the company to realise the potential in the share

## BEE – Retaining investors



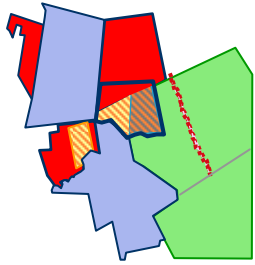
- Empowerment companies wish to operate on a normal commercial basis
  - Exit investments on the basis of normal commercial criteria
  - Lock in restrictions erode the value of empowerment companies' investments
- These factors conflict with the exploration/mining company's need to lock in BEE partners
- Restrictions on exit limits liquidity
  - Discount factor

## BEE - Dilution



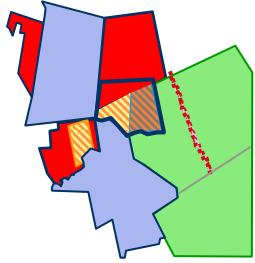
- Highly likely as increasing amounts of money are spent on exploration and development
- More often than not, empowerment shareholders are unable to follow their rights
- The financial institutions do not easily provide finance facilities for this purpose
- The State owned Development Finance Institutions (DFIs) (IDC, DBSA, NEF etc) do not fund exploration
- If financial institutions and DFI's do not support BEE participation in exploration, who ultimately pays for BEE involvement and following rights?

## Employment equity



- Shortage of experienced black exploration geologists and mining professionals
- Juniors not as attractive as majors for young black candidates
- Juniors have less capacity than the majors to mentor young professionals effectively
- Job hopping a serious problem once mentored / trained

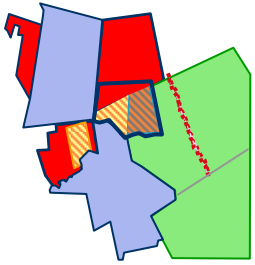
## Managing the community interface



Communities pose new business challenges

- Not politically homogeneous
- Inevitably issues around personal benefit
- Little appreciation of timeline and risk
- Cash flows far into the future so immediate tangible benefit is problematic
- Need to manage commercial imperatives vs. community needs

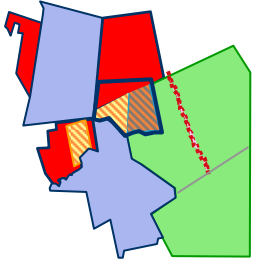
## Wesizwe: Managing the community interface



- Provide for immediate tangible benefit – R10 million to Bakubung Economic Development Trust
- Ensure effective community participation at various levels:
  - Employment
  - Strategic direction
  - Ownership/equity
  - Local economic development
- Communication, communication, communication

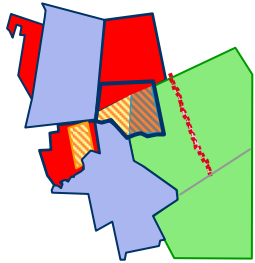


## Conclusions



- Building an exploration junior in South Africa has significant regulatory, community and financial challenges
- A need for greater understanding by the market of the risk, enhanced opportunities and potential of the exploration sector
- Government/private sector needs to find a solution to allow BEE partners to participate in funding as projects develop
- The JSE will come alive with exploration as the markets develop

## Wesizwe specific conclusions



- Inferred mineral resource of 68,756 million tonnes at an average grade of 5,08 g/t PGE (4) amounts to 11,223 million ounces contained – 6,886 attributable to Wesizwe
- Positive drilling results which exceed original targets
- Excellent location of properties on the Western Limb – right address
- First PGM exploration company to list on JSE
- First black controlled company exploration company to list on JSE
- Well placed for consolidation in the region
- New order prospecting rights secured
- Unique corporate social investment programme
- Appointment of permanent geologists, safety officers and site staff
- Highly experienced executive team