

PROJECT SUMMARY INFORMATION FOR AFRICAN LION MINING FUND (REGIONAL AFRICA)

1. Private sector Project

2. The Project

Participating with a minority equity stake (25%) in the African Lion Mining Fund II (AFL 2). AFL 2 is a regional fund to invest in early stage equity of mineral resource companies, targeting advanced exploration/feasibility and development projects throughout Africa. The focus is on gold and base metals, but other commodities such as industrial minerals, gemstones etc., but not oil and gas, will also be covered as appropriate. It is envisaged for AFL 2 to encourage European participation and to tap into the Canadian mining community active in Africa.

3. Financing Proposal

<u>Investee Fund:</u>	African Lion II Limited ("AFL2").
<u>Fund Manager:</u>	Lion Manager Pty. Ltd ("Lion").
<u>Mandate:</u>	Cotonou Agreement, Investment Facility
<u>Member States Opinion:</u>	The Investment Facility Committee gave a FAVOURABLE OPINION on the proposed operation at its meeting on 8 July 2004.

4. Value added identification

Africa is a continent with mineral resources whose exploration and development can contribute in a substantial way to the development of the countries' economies. Exploration activities are increasingly moving towards the more specialised "junior" exploration and mining companies that are often under-capitalised and have difficulties to raise financing on the Stock Exchanges. AFL 2 fund can play a useful role in providing equity finance to these junior mining companies, and the Bank can fulfil one of its roles under Cotonou to support productive projects in the mining sector in the ACP countries by contributing to the AFL 2 fund.

The value added by the Bank in the operation is:

- the contribution of equity financing to bring the fund up to a size large enough to have sufficient critical mass, and
- participation in the Board and Investment Committee of AFL2 where the Bank can make a constructive contribution in the form of technical and financial guidance to the fund.

The interest for the Bank to invest in AFL2 is three-fold.

- First, to continue assisting small and medium scale exploration and early stage mining projects in Africa with equity. For this market sector, equity finance, which EIB can less easily provide in a direct form, is often a more appropriate type of financial assistance than traditional loan finance.
- Second, AFL2 will again be involved in projects the size of which are judged by EIB as too small for justifying an individual intervention and which can be handled more effectively by a specialised and closely involved financial intermediary - allowing the Bank to focus its direct lending on medium and larger projects. AFL funding is particularly appropriate for small and medium sized gold and other precious metals, higher value base metals and diamond project companies for which the future exit route from the fund is relatively clear. The diversification of the AFL2 portfolio into the field of less precious commodities such as ferrous and other base metals, industrial or speciality minerals, is envisaged and will be intensified. Promising first steps are already under way.

- Third, to provide EIB access to information about projects presented to and financed by AFL2 with the intention of generating a deal-flow with participation – where appropriate – in larger scale loan financing for potential later stages of those projects.

Eligibility

The project falls squarely within the Bank's mandate for operations to be financed from the Investment Facility under the Cotonou Agreement.

5. Key issues

Environmental Impact

AFL 2 will make investments in investee companies and sub-projects with full consideration of environmental factors and in accordance with the respective national legislation and best international practice. Environmental analysis according to World Bank guidelines (as currently in use by AFL 1) will be part of AFL 2's due diligence process. The environmental track record so far is without failure. It is envisaged to step up environmental management plan procedures for investee companies. Environmental monitoring of investee companies will be part of the manager's tasks. This in turn will be closely monitored by its shareholders.

These procedures are considered adequate and appropriate, and are acceptable to the Bank.

6. Previous relations with the beneficiary company

The Bank made its investment in African Lion Mining Fund I in 2001, and has worked alongside the manager and co-investors in AFL1 continuously since then, with positive and constructive results.
