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MINING BLOG

PRECIOUS METALS STREAMING AGREEMENTS

What is a streaming agreement?

A streaming agreement is a specialized agreement of purchase and sale for gold, silver or other precious metals pioneered by Franco- Nevada Mining Corporation in the early 1980's. In general terms, a purchaser financing company will agree to purchase a specific percentage interest in the precious metal production (typically gold or silver) from a mine at a discounted price and for a specific time period (often the life of the mine). The financing company will make an upfront cash payment and then will purchase the commodity on an on-going basis at a price equal to the lower of a fixed price and the prevailing market price of the commodity.

In certain streaming agreements, the parties will agree to establish a notional "payment account" to aggregate the net amount that the financing company earns on each purchase of the commodity in question, being the difference between the prevailing market price and the discounted price in the agreement. Once the payment account balance equals the amount of the upfront payment, the financing company will have broken even and all future sales will constitute the financing company's profit.

What are the advantages of streaming agreements?

Non-dilutive to Shareholders. Streaming agreements are beneficial for mining companies because the costs of production are financed by the streaming company without diluting the interests of shareholders. In addition, a mining company would usually be able to retain control over the development and operation of the mining project.

Avoid Debt Financing Costs. For a mining company, streaming agreements avoid the significant costs associated with traditional bank financing, especially in circumstances where credit access costs are unfavourable. The lack of upfront commitment, advisor, standby or syndication fees may make streaming transactions superior to traditional bank financing transactions. In addition, debt financing transactions impact the entire company, whereas streaming agreements are project specific.

Leverage Proven Reserves. Stream financing allows a mining company to leverage proven reserves to fund production or expansion before commercial production is achieved.

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Upside Potential for Financier. For a financing company, once the upfront payment is made, it would have no further obligation to incur any capital expenditures or exploration costs but would participate in the upside production and exploration growth of the mine. This can be especially lucrative for a financing company in a rising commodities market or where production from the mine exceeds forecasts.

What are the disadvantages or risks of streaming agreements?

Non-Production Risk. There is a possibility that production from the mine could less than originally planned. In many streaming agreements, the financing company would be able to reduce this risk by requiring the mining company to provide a guarantee similar to traditional bank financings and also require the mining company to grant it a security interest against title to the property to secure the obligations of the mining company under the streaming agreement.

Commodity Price Risk. All commodities, by their nature, are subject to wide price fluctuations which could result in a decrease in revenue or a suspension or termination of production by a mining company.

Litigation Risk. Production at a mine could be negatively impacted by litigation which could result in the cessation or reduction of production from a property (whether temporary or permanent) resulting in a material and adverse effect on a mining company's profitability or financial position