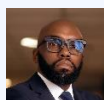
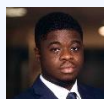


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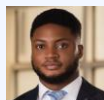
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TEMPLARS ThoughtLab

Policy, Processing & Profit: Nigeria's Emerging Mineral Processing Landscape - Part 2

This is **2 Part** which focuses on the Profit aspects of mining. Click [HERE](#), to read **Part 1**, which focuses on Policy and Processing.

Although mineral processing sits at the heart of Nigeria's ambition to scale the mining value chain and while extraction remains foundational, it is the transformation of raw minerals into semi-refined and refined products that unlocks true economic value.

Despite the country's vast endowment of solid minerals, most operators, struggle to secure adequate capital due to long project gestation periods, and limited risk appetite from domestic lenders. Conventional funding models, often structured around collateralised bank lending or public equity, have proven ill-suited to the unique cash-flow profile of mining projects.

Our analysis of more developed mining jurisdictions and international operators reveals a growing reliance on alternative and hybrid financing structures that offer greater flexibility, risk-sharing, and scalability.

From royalty and streaming agreements to sovereign-backed development funds, standby equity lines, and regulated crowdfunding frameworks, these mechanisms are reshaping how mineral projects are financed globally and present a roadmap for diversifying funding pathways within Nigeria's evolving mining landscape.

Traditional Financing Models

The following models illustrate the principal forms of traditional mining finance and how they are typically deployed in the Nigerian and broader African context:

- 1. Pre-IPO Capital and Project Development Loans:** In the early stages of a mining or mineral processing project, funding often comes from early equity investors and project development loans. These instruments provide the initial capital needed to progress from feasibility studies through exploration, typically before the company is ready to enter the public markets

2. **Public Offerings (IPO):** A Nigerian mining enterprise can raise funds from the investing public by listing a proportion of shares in a project-specific Special Purpose Vehicle (SPV) on the Nigerian Exchange Group. This approach allows the company to fund a defined project while managing investor exposure.
3. **Convertible Instruments:** Convertible notes or bonds offer a hybrid source of finance, providing investors with downside protection during uncertain market conditions and the potential to benefit from future growth. For companies, these instruments postpone equity dilution until valuations are more stable and representative of project value.
4. **Farm-In and Joint Development Agreements:** Rather than divesting entirely, some mining firms bring in strategic partners through farm-in arrangements. Under such structures, the incoming partner commits to spend a specified amount over a given period to advance the project in exchange for an ownership interest. This reduces the financial burden on the originating company while leveraging the technical expertise and financial strength of the new entrant.
5. **Offtake and Pre-Export Financing:** These arrangements provide upfront funding secured against future mineral production, often structured as debt, equity, or convertible instruments. Investors receive the right to purchase production at agreed market-linked prices, sometimes under take-or-pay obligations. Such agreements are typically negotiated when a project is near production and may also include marketing or distribution components, minimum offtake volumes, or hedging provisions to manage price volatility.
6. **Equipment Financing:** At the construction stage, project assets such as heavy machinery can serve as collateral for financing. Companies may enter into supplier-backed arrangements such as buy-back or lease-to-own structures, where the supplier retains ownership until repayment or completion. Borrowers are generally required to maintain insurance and adhere to maintenance covenants.
7. **Debt from Capital Markets:** For producers with proven reserves and strong financials, issuing bonds can be a viable option, albeit, this option is more accessible to established operators, smaller mining firms have also successfully raised funds through note issuances where bond markets offered more favourable conditions than traditional banks, especially in politically sensitive jurisdictions.
8. **Commercial Bank Lending:** This doesn't need an explanation but in Nigeria, probably the last option due to high interest rates and short tenures.

Alternative Financing Models

Traditional channels, though foundational, often struggle to accommodate the long gestation periods, cyclical commodity prices, and high upfront capital costs characteristic of mining projects. Alternative financing models offer more flexibility, risk-sharing, and alignment with project cash flows. These emerging instruments, still developing in the Nigeria, could reshape mineral project funding, bringing the sector closer to global best practices in adaptive, market-driven finance.

1. Royalty and Streaming Finance

As traditional debt and equity channels tighten amid volatile commodity cycles, royalty and streaming finance has rapidly evolved into a credible alternative for miners seeking non-dilutive capital.

Royalty Financing involves investors providing upfront capital in exchange for a fixed percentage of a mine's future revenue, while streaming allows investors to purchase a portion of future production at a discounted price. In Nigeria, the Segilola Gold Mine benefited from a \$21 Million Stream Agreement from the Africa Finance Corporation¹, while Silver Wheaton's US \$1.9 billion streaming arrangement with Vale and BlackRock's US \$110 million royalty investment in London Mining's Sierra Leone project stand as examples of how such instruments can substantially reduce the need for debt and equity options.²

These arrangements appeal to both sides: investors enjoy long-term upside linked to production and prices, while operators preserve ownership and avoid the rigid repayment structures of debt.

These arrangements only begin repayment once the project becomes cash-flow positive, reducing immediate financial strain. Common royalty types include:

- i. **Profit-Based Royalties** – pegged to net profit after recovery of capital expenditure;
- ii. **Net Smelter Return (NSR) Royalties** – tied to revenue from smelters or refiners, less processing and transport costs;
- iii. **Production Royalties** – fixed payments per tonne of output, independent of price fluctuations; and
- iv. **Streaming or In-Kind Royalties** – granting investors rights to purchase or receive a portion of production at pre-agreed prices.³

Ultimately, royalty and streaming finance offers a pathway for Nigeria's nascent mining sector to unlock international capital while maintaining ownership of strategic assets.

2. Standby Equity Distribution Agreements (SEDAs)

A Standby Equity Distribution Agreement (SEDA) is a flexible equity-line financing facility by which a mining company secures a committed purchaser of its shares over a predetermined period. The miner retains discretion over when (and if) to draw down the facility, issuing shares at a discount relative to market as it needs capital.

SEDAs have featured in jurisdictions where equity markets are challenged and operators seek flexibility instead of a single large equity raise. Mercator Gold's £4 m SEDA facility with YA Global is a shining example of this financing framework as it enabled incremental share issuances aligned with asset development timing.⁴

¹ AFC provided a combination of Equity, a Senior Secured Credit Facility and the Stream Agreement.

² [alternative-financing-in-the-mining-industry.pdf](#); In 2013, Silver Wheaton Corp. (now Wheaton Precious Metals) entered into a US \$1.9 billion streaming agreement with Vale S.A. to acquire a portion of the gold by-product from Vale's Salobo and Sudbury mines. The transaction allowed Vale to monetise future production without diluting equity or increasing leverage. Similarly, BlackRock World Mining Trust invested approximately US \$110 million in a royalty arrangement with London Mining plc for its Marampa iron ore project in Sierra Leone.

³ [Nigeria Mining Growth Roadmap Final \(1\).pdf](#)

⁴ In 2009, Mercator Gold plc entered into a £4 million Standby Equity Distribution Agreement (SEDA) with YA Global Investments L.P. (an affiliate of Yorkville Advisors). The facility allowed Mercator to issue shares over time at its discretion, providing flexible access to working capital as its project advanced; [Mercator Gold agrees £4m 'Standby Equity Distribution Agreement' with YA Global | AIM:ECR](#)

From the Nigerian mining finance lens, SEDAs offer local companies a mechanism to commit to future equity issuance without obligating immediate draw-downs and thereby preserving existing shareholder value.

3. Crowdfunding

Raising capital from many smaller investors via online platforms has become ubiquitous in sectors such as technology and real estate but remains unmined (pardon the pun) in mining. In Nigeria, the Securities and Exchange Commission (SEC), through its Rules on Crowdfunding issued in January 2021, formally opened the door for registered micro, small, and medium enterprises (MSMEs) including companies operating in the mining and minerals sector to raise capital via licensed crowdfunding intermediaries.

Under these rules, a mining company may raise funds from the public through an online crowdfunding portal registered with the SEC, provided that it is incorporated in Nigeria and has at least two years of operating history; or partners with another entity (technical or financial) that satisfies this operational threshold.

The rules classify MSMEs by turnover and asset size, setting annual fundraising caps of:

- up to ₦50 million (approximately \$35,000) for micro enterprises,
- ₦70 million (approximately \$50,000) for small enterprises, and
- ₦100 million (approximately \$70,000) for medium enterprises.⁵

These caps may have to be increased to enable scalable development through crowdfunding while, of course, seeking to de-risk and protect retailer investors.

Government Initiatives for Mining Financing in Nigeria

The Nigerian government has introduced a series of targeted financial intervention mechanisms aimed at mobilising investment, de-risking exploration, and supporting artisanal and small-scale miners. At the centre of this framework is the Solid Minerals Development Fund (SMDF), conceived as a catalytic vehicle to attract private capital and foster commercially viable mining ventures.

Complementing the SMDF are other support schemes, including the [*Artisanal Miners Intervention Fund*](#) and the [*Nigerian Artisanal and Small-Scale Miners Financing Support Fund*](#), which seek to extend affordable credit to smaller operators.

Solid Minerals Development Fund (SMDF)

Nigeria's Solid Minerals Development Fund (SMDF) is a state-backed vehicle created under the Act to catalyse investment and de-risk early-stage mining projects.

Its mandate spans equity investment, technical assistance, and co-financing, targeting ventures that demonstrate commercial viability, value addition, and measurable socio-economic impact.

The Fund is sustained through federal budgetary allocations, royalties and fees from mining operations, and partnerships with development finance institutions such as the Africa Finance Corporation (AFC), with which it established a Project Development Facility to co-develop projects that have reached pre-feasibility stage.⁶

⁵ Rule 3-4, SEC Rules on Crowd Funding

⁶ AFC - News insights news

In assessing mining projects for funding, the SMDF applies a rigorous due diligence framework that evaluates both technical and governance factors. Key considerations include:

- i. The project's focus on precious and base metals, bulk minerals, or strategic minerals critical to the global energy transition;
- ii. The presence of robust governance structures, sound financial records, and transparent management practices;
- iii. The project's risk profile, cost competitiveness, and technical capacity of the management team; and
- iv. The degree of compliance with government regulations and adherence to environmental, social, and governance (ESG) standards.⁷

The SMDF reflect a growing trend of sovereign participation in mineral investment.

Ghana's Minerals Income Investment Fund (MIIF), **which TEMPLARS Ghana has advised**, channels a statutory share of mineral royalties into investments along the mining value chain, while South Africa's Industrial Development Corporation and Botswana's Mineral Development Company perform similar catalytic roles.

Ghana's MIIF offers useful lessons for Nigeria. Unlike the SMDF, which depends largely on federal allocations, MIIF's self-financing model, drawing directly from mineral royalty inflows ensures predictability and operational independence. Also, MIIF links its funding to performance-based milestones, a discipline that helps attract co-investment and ensures accountability for developmental outcomes.

Our experience advising parties seeking investment from such funds reveals that these institutions increasingly prioritise projects with credible technical studies, transparent governance, and demonstrable community impact. Nigeria's SMDF can draw from this model to build a sustainable funding loop and strengthen investor confidence in its mining sector.

We note that both the Artisanal Miners Intervention Fund and the Nigerian Artisanal and Small-Scale Miners Financing Support Fund are also Nigerian government-backed initiatives created to improve access to credit for small-scale operators in the solid minerals sector. The former is a loan product administered by the Bank of Industry (BOI), while the latter was jointly established by the Ministry of Mines and Steel Development, the BOI, and the Solid Minerals Development Fund (SMDF) with an initial capitalisation of ₦5 billion. However, recent public reports and industry feedback suggest limited disbursement activity, and we have been unable to confirm whether either fund remains fully operational at this time.

Considerations For Financing Mineral Processing

A processing plant sits at the heart of value-addition in mining and yet its bankability hinges on factors distinct from a mine alone. For project sponsors and financiers alike, three core pillars must align: security of feedstock, assured offtake and product quality, and a robust execution plan.

1. Feedstock Supply

Ensuring reliable, cost-effective raw material is fundamental. If the processing entity owns the upstream mine, it gains supply security and hedges against feedstock price swings, although it takes on "project-on-project" risk if mine and plant are developed simultaneously.

⁷ Financing - SMDF

For a processing-only structure, financiers will expect:

- a diversified supplier base (ideally including commodity traders with “swing” capacity) so that non-delivery by a single supplier will not have severely disruptive consequences;
- credible counter-parties with production track records, quality compliance and contractual liability for under-delivery;
- feedstock pricing mechanisms that align input cost with output value to avoid a cost/revenue squeeze.⁸

2. Sale of Product

Once processed, the plant's product must reach the market under terms that support revenue certainty. Long-term “take-or-pay” offtakes remain rare in many critical-minerals processing markets, so credible agreements with financially sound buyers become key.

Sponsors and financiers will look for offtake contracts which include “evergreen” rollover provisions (automatic renewal unless long notice given), limited termination events, and price floors or cost-plus mechanisms that protect against margin erosion.

3. Construction & Technology Execution

Plant-level execution risk can kill viability. From a lender's perspective, a coherent contracting strategy (ideally a turnkey EPC or well-managed interface model), established responsibilities, pricing certainty, and strong project and contract management are required.

Technology risk is also material; lenders will scrutinise whether the selected processing technology is proven for the feedstock type, whether by-product markets exist, and whether the design allows expansion or modular growth without undue complexity or cost.⁹

Conclusion

The future of mining finance in Nigeria will be shaped not by the abundance of its minerals but by its ability to create value from the abundance. This shift will be driven by the innovation of its financiers, the credibility of its operators, and the policy clarity by the Nigerian government.

If you require any further clarification, do not hesitate to contact us.

⁸ [Financing the Energy Transition - Critical Minerals Processing | Mining South East Europe](#)

⁹ [Project-financing lithium processing facilities | PFI](#)