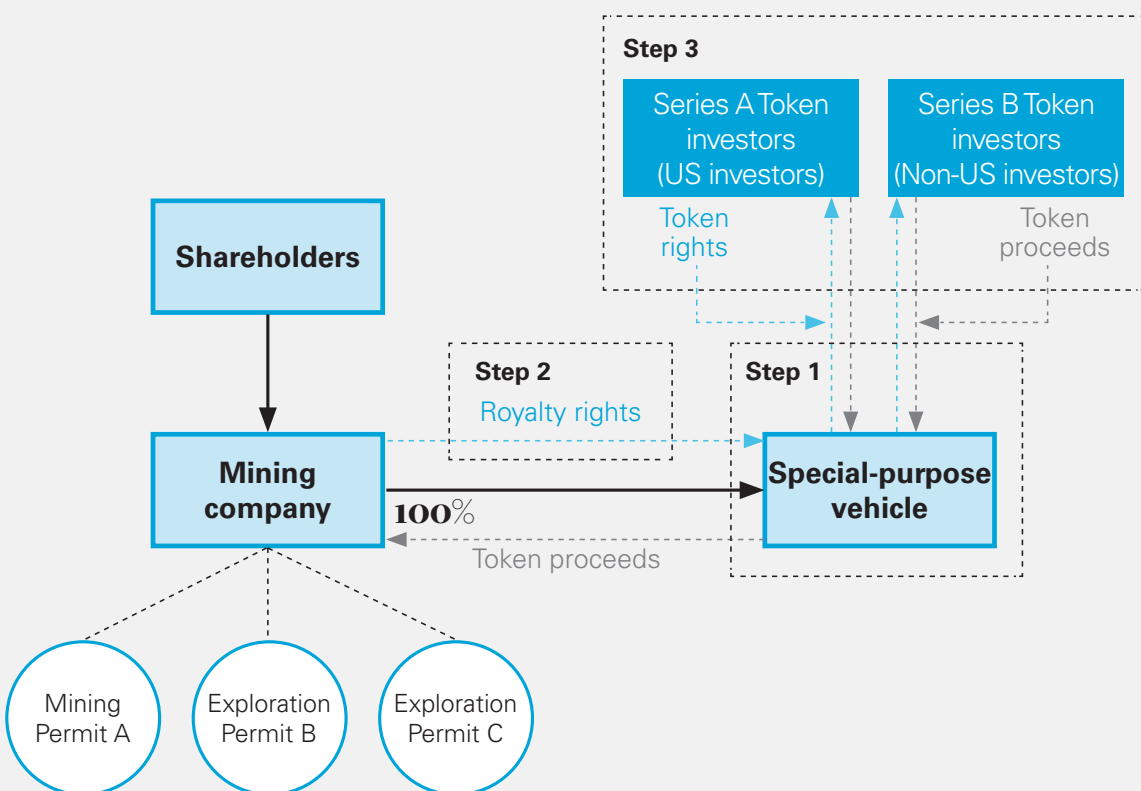


STO structuring example: Revenue-linked royalty token



➔ Direct or corporate indirect ownership

--- Related mining asset

○ Exploration Permit

Steps:

Step 1:

Create a special-purpose vehicle (SPV), which would be a subsidiary of the mining company.

Step 2:

Transfer (or provide) certain "royalty rights" to SPV related to production of minerals from a specific mining area.

Step 3:

SPV issues token to new investors which gives token holders a right to a percentage of the "royalty rights." This could be structured by way of Series A and Series B sales to be able to offer to different investors in different jurisdictions, subject to regulations.

Pros

- Greater benefits for STOs generally
- Special purpose vehicle (SPV) bankruptcy remoteness
- Off-balance-sheet financing
- SPV domicile flexibility
- Potentially investor-friendly SPV governance
- Clear marketability/story

Cons

- Requires a transfer of some rights to investors
- Mining royalty token is "new technology" and relatively untested

Questions

- Who will diligence/value the mining royalty token of the issuer? Traditionally the realm of specialist royalty companies who typically grant royalties. Should be addressed via expert diligence and adequate disclosure in the investment documentation (arguably little or no difference to IPOing a single royalty)
- What if the issuer grants security over the mining royalty token (for example, an assignment by way of security of the contract granting rights to investors)—will it work? This would be uncharted territory and "untested," but likely yes if structured properly

High-level comparison of funding sources

	Equity	Traditional private mining royalty	Mining royalty token (STO)
Monetised asset	Entire company	Royalty stream	Royalty stream
Investment return	Equity return	Depends on royalty; revenue-based (NSR, ORR, GR or FH) or profit-based (NPI or NRI)	Depends on royalty; revenue-based (NSR, ORR, GR or FH) or profit-based (NPI or NRI)
Regulatory framework	Contract and stock exchange/securities rules	Contract	"Smart contract"/exchange/securities rules
Investor protection	High	Medium	Medium/High
Investor base	Equity investor	Royalty company/fund (rarely syndicated)	Syndicated/diverse array of token investors
Timetable	Varies	Medium/Quick	Medium/Quick
Effort	High	Medium	Low/Medium
Costs	High	Medium	Low/Medium