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BANRO CORPORATION: RECAPITALIZATION FOR SUSTAINABILITY IN THE CONGO’S GOLD MINING[[1]](#endnote-1)

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In January 2017, Banro Corporation (Banro), a Canadian gold company with wholly-owned production and exploration mines in the Democratic Republic of Congo (DRC), underwent recapitalization by refinancing its US$207.5 million[[2]](#endnote-2) of debt to cope with financial distress, and to optimize its operations of mining assets.[[3]](#endnote-3) Unlike in the company’s previous structure, the new principal shareholders—the Chinese company Baiyin Nonferrous Group Co. Limited (Baiyin), the U.S.-based Gramercy Funds Management LLC (Gramercy), and BlackRock Investment Management (UK) Limited (BlackRock)[[4]](#endnote-4)—held a significant number of the common shares. Consequently, they had a significant vote on any corporate matters coming before a vote of other common shareholders, marking a turnaround for Banro.[[5]](#endnote-5) Beginning as a small exploration mining company in 1994, Banro engaged in the first turnaround in 2007, when the positive assessments of potential gold reserves in its mine allowed it to invest further and move to the production phase, which was additionally incentivized by a tax holiday from the DRC government in 2009, and the historical rise of the price of gold during 2009–2012.[[6]](#endnote-6) However, since the commencement of commercial mining in 2009, unexpected social conflicts and operational challenges had led to significantly lower production than expected, with a large cost overrun, while the price of gold declined sharply from 2012. As a result, the company admitted it was unable to generate sufficient cash flows internally to meet its debt obligations at the end of 2016.[[7]](#endnote-7) What should Banro have done to avoid financial distress? Would the new shareholding structure allow Banro to achieve sustainability in its operations in DRC? How should the company move forward in terms of corporate and financing strategy?

HISTORY AND DEVELOPMENT OF BANRO CORPORATION[[8]](#endnote-8)

Banro was founded by Arnold T. Kondrat and incorporated under the *Canada Business Corporations Act* in 1994. In 1996, the company acquired 72 per cent of shares of a DRC state-owned company, Société Zaïroise Minière et Industrielle du Kivu S.A.R.L. (SOMINKI), while the DRC government held the remaining shares as a participating interest. SOMINKI was a well-established gold and tin mining operator with a long production history in DRC, and it wholly owned properties in Twangiza, Namoya, Lugushwa, and Kamituga. The acquisition allowed Banro to access the valuable geological and exploration data SOMINKI had accumulated since the early 1920s. In 1997, the DRC government ratified a new 25-year (subsequently extended to 30 years) mining convention between it, Banro, and SOMINKI; it provided for the transfer of SOMINKI’s mineral assets and real properties to a newly-created DRC company, Société Aurifère du Kivu et du Maniema S.A.R.L. (SAKIMA). Ninety-three per cent of SAKIMA’s shares were to be held by Banro; the DRC government would own the remaining shares as a non-dilutive interest.

From 1997, Banro pursued an exploration program on the Twangiza property. Unexpectedly and without warning, in July 1998, the DRC government issued presidential decrees that resulted in the expropriation of Banro’s properties. After a long international arbitrage, in 2002 the DRC government signed a settlement agreement with Banro, allowing it to hold a 100 per cent interest in the Twangiza, Namoya, Lugushwa, and Kamituga properties. In accordance with the agreement, Banro transferred these properties from SAKIMA to its four newly-created, wholly-owned DRC subsidiaries, namely Twangiza Mining S.A., Namoya Mining S.A., Lugushwa Mining S.A., and Kamituga Mining S.A., each of which wholly owned its respective property. In 2003, Banro re-opened its exploration office in the town of Bukavu in eastern DRC, and in 2004, it commenced exploration activities, first at Namoya, and then at Lugushwa and Twangiza. In 2005, it was listed on the American Stock Exchange (AMEX)[[9]](#endnote-9) and the Toronto Stock Exchange (TSX).

From Exploration to Production

In 2007, Banro Congo Mining S.A., a wholly-owned DRC subsidiary, announced it had acquired 14 exploration permits, covering areas between and contiguous to its Twangiza, Kamituga, and Lugushwa properties. That year also marked a turnaround for Banro in terms of its first exploration success with the positive preliminary assessments of Twangiza and Namoya properties, which indicated potential total production of 512,000 ounces of gold per year, at an average cash cost of $216 per ounce over the first five to seven years of operation; an internal rate of return of 33 per cent and 37 per cent, respectively; and payback of 2.7 years and 2.3 years from the start of production, respectively.[[10]](#endnote-10) In recognition of the investment risks, and to incentivize the project development, in 2009 the DRC government ratified a tax holiday for Banro until 2027.[[11]](#endnote-11) In return, Banro agreed to enhance its commitments to the DRC government and to local communities, including funding the building of local infrastructure such as roads and bridges, schools, and healthcare facilities.

Banro completed the purchase of a refurbished gold processing plant for the Twangiza project in 2009. In 2010, it began construction activities, including upgrading roads to the Twangiza site. The resettlement process, including the construction of houses for local communities, had begun in 2009. In 2011, Banro announced its first gold production at the Twangiza property, and commercial mining in 2012. It began construction of the second Namoya gold mine in 2012, with its first gold production there in 2013. Commercial production was declared at the Namoya site in 2016; annual production for that year at both the Namoya and the Twangiza site was 197,691 ounces of gold at a cash cost of $761 per ounce.[[12]](#endnote-12)

Banro financed the Twangiza project through a series of equities during 2008 and 2011 for total proceeds of $314.5 million.[[13]](#endnote-13) Unlike the Twangiza project, the Namoya project was financed largely by debt.[[14]](#endnote-14) In 2012, the company secured total proceeds from debt financing of $175 million, which would mature in March 2017, to be used for the development of the Namoya project, repayment of an existing credit facility, and general corporate purposes.[[15]](#endnote-15) During 2013 and 2014, it also secured additional short-term loans from several lenders. The Twangiza and Namoya mines were worth over $600 million. Banro’s total assets at the end of 2016 were estimated to be $898 million, plus indicated and inferred gold reserves of 7.04 and 5.08 million ounces, respectively, representing $7.5 billion and $5.4 billion at an average gold price in 2015 of $1,060 per ounce (see Exhibits 1, 2, and 3).[[16]](#endnote-16)

THE VALUE CHAIN

Suppliers and Customers

Banro operated two production gold mines (Twangiza and Namoya) and two advancing gold exploration projects (Lugushwa and Kamituga). The main consumables were chemicals, reagents, and spare parts for processing plants and mining equipment. Its chemical suppliers were located mainly in South Africa and Asia (including China, India, and Thailand), while its spare parts suppliers were mainly original equipment manufacturing companies with distributors located around the world—few suppliers were located locally. In Tanzania, Banro had suppliers of chemicals and reagents like lime and cement, which were used at Twangiza and Namoya, respectively. Production from the Twangiza and Namoya mines was in the form of doré bars (a semi-pure alloy of gold and silver created at the mining site), which were transported to the capital city of Kinshasa, DRC, and then to a refinery in South Africa for purification. Since there were numerous gold buyers, Banro was not dependent on any one of them.[[17]](#endnote-17)

Production Mines: Twangiza and Namoya[[18]](#endnote-18)

The 1,156-square-kilometre Twangiza property was located in the province of South Kivu, and consisted of six exploitation permits, which were held by Banro’s DRC subsidiary. The Namoya project was located in the province of Maniema. Both plants employed conventional open pit mining with free digging and blasting. The Twangiza plant, consisting of a crushing, milling, and carbon-in-leach process, could process 1.7 million tonnes per year of oxide ores. The Namoya hybrid-heap-leach process plant, consisting of a crushing, carbon-in-leach process combined with a gravity-recovery and heap-leach process, could process 2.5 million tonnes per year of easily leachable oxide and transitional ores. Each of these two plants was managed semi-autonomously, with its own managers in the core mining and processing department, and with supporting departments, such as human resources, finance, and community relations, reporting to a general manager in charge of production.

Exploration Mines: Lugushwa and Kamituga[[19]](#endnote-19)

The 641-square-kilometre Lugushwa property consisted of three exploration permits, which were held by Banro’s DRC subsidiary. Both the Lugushwa and Kamituga properties were located in South Kivu. Banro had begun exploration work at these two sites in 2005 and 1998, respectively. Gold reserves were estimated to be 4.26 ounces at Lugushwa and 0.92 million ounces at Kamituga (see Exhibit 1). These two and other minor, remote projects were managed by a general manager in charge of exploration.

OPERATIONAL CHALLENGES AND CAUSES

Banro had encountered various operational challenges since its first mining development project at Twangiza. Throughputs and recoveries of plants were below design capacities and targets. Besides, the company was short of spare parts for critical components. Also, strip ratios (the ratio of the volume of waste materials required to be handled to extract a certain amount of valuable ores) were higher than expected. Thus, from the beginning, Banro produced a smaller amount of gold than expected. The company had to implement some changes at its processing plants, which increased the capital expenditures.[[20]](#endnote-20)

The second development project, at Namoya, had encountered far more problems than the Twangiza project. Banro had planned to spend $148.9 million as pre-production capital plus $28.9 million on other major capital expenditures required for production in the following years, beginning January 2016,[[21]](#endnote-21) making a total budget of $177.8 million for the Namoya Phase 1 project. As of December 2015, however, capital expenditures for the Namoya Phase 1 Project (referred to as a mine under construction in the balance sheet) were indicated as $388 million, which represented a cost overrun of $210.2 million (e.g., $388 million less $177.8 million), or 118 per cent of the original budget (see Exhibits 2 and 3).

Security Threats

DRC saw wars and armed conflicts beginning in 1996 and ending in 2013 with the defeat of the anti-government Congolese Revolutionary Army. However, violence, insecurity, and ongoing conflicts between the DRC army and residual militia groups were still rampant in the eastern part of DRC, where Banro was operating.[[22]](#endnote-22) In May 2017, Banro announced the release of five employees who had been made hostages for blackmail during a series of attacks by armed militias in the first quarter of 2017 at its mines in the DRC.[[23]](#endnote-23) This unfortunate event added to the social and political conflicts Banro had been facing since commencing commercial development of its first Twangiza mine in 2009.

Public Infrastructures

The poor condition of the country’s infrastructure after years of war and because of a lack of investment in DRC posed numerous operational challenges for foreign companies operating in the country.[[24]](#endnote-24) With its projects located in remote areas, Banro had to build and continuously maintain sources of power and water, and transportation to support its operations. The transportation of operational equipment, supplies, and resources into and out of the country was often delayed, which affected the company’s ability to proceed with its mineral projects in a timely manner.[[25]](#endnote-25) Electrical power failures due to shortages of diesel, mechanical parts, and other materials also had a significant effect on the company’s operations and financial performance.[[26]](#endnote-26)

Supporting Industries

DRC lacked manufacturers and service providers (including research and development) for supporting machinery, equipment, and consumables. Insecurity and the poor condition of road networks made it difficult and costly for companies operating in remote areas to procure these items and services from the province of Katanga, where most mining service providers were based.[[27]](#endnote-27) Several times, processing plants were shut down due to a lack of critical supplies such as chemicals, fuel, cement, explosives, and spare parts.[[28]](#endnote-28)

THE RECAPITALIZATION

At the end of 2016, Banro recorded a debt-to-asset ratio (financial leverage) of 58 per cent and a working capital ratio (current ratio) of 31 per cent,[[29]](#endnote-29) implying that its current operations could be subject to precariousness (see Exhibits 3, 4, and 5). Its share price had continued to drastically deteriorate since 2013, hitting a closing price of $0.19 in 2016 on the NYSE American, with 303,482,336 total outstanding common shares,[[30]](#endnote-30) down from almost $5 in 2012 (see Exhibit 6). In its 2016 annual report, Banro stated it was unable to generate sufficient cash flows internally from operations to meet its debt obligations, particularly for the notes due in March 2017.[[31]](#endnote-31) This debt burden also severely limited its alternatives to externally raise additional capital. As such, Banro could be forced into bankruptcy on debt default.

In response to such financial distress, in January 2017 Banro entered an agreement with its major stakeholders for recapitalization, which included refinancing debt of $207.5 million, equitizing the outstanding preferred shares, and raising $45 million by a gold forward sale, in order to reduce debt burden, improve liquidity, and position the company to optimize operations of its mining assets.[[32]](#endnote-32) In particular, the agreement involved the refinancing of the maturing $175 million senior secured notes and $22.5 million loan with a new four-year maturity, $197.5 million senior secured notes, and the extension of an existing $10 million loan to mature in March 2020. Upon completion of the agreement, Baiyin, Gramercy, and BlackRock would own, respectively, about 30 per cent, 30 per cent, and 14 per cent of the outstanding common shares.[[33]](#endnote-33) Unlike the previous shareholding structure, these new principal shareholders would hold a significant number of the common shares and thus a significant vote on any corporate matters coming before a vote of other common shareholders.[[34]](#endnote-34)

THE CONGO’S MINING INDUSTRY

Mineral resources in DRC were estimated at $24 trillion.[[35]](#endnote-35) They included copper, cobalt, and niobium (usually called columbium in the United States), accounting for about 10 per cent, 34 per cent, and 80 per cent of the world’s reserves, respectively.[[36]](#endnote-36) Copper was the country’s most important export mineral, followed by cobalt, gold, diamond, tin, niobium, tantalum, and tungsten. The country’s known mineralization was largely contained in Katanga, the two Kasaï, Northeast Congo, and Kivu–Maniema. According to research firm BMI Research, DRC remained a choice of destination for mining investments, especially from China, due to low production costs and high-quality deposits of minerals, particularly gold and copper.[[37]](#endnote-37)

Gold Mining

The first gold deposit was discovered at the Namoya site in Maniema province in 1931. Production began that same year and continued under alluvial operations until 1947, when the mine was closed. Open pit mining began in 1951 and closed in 1960 when DRC achieved independence; it was estimated that 128,000 ounces of gold had been mined by the time of the mine’s closure.[[38]](#endnote-38) From 1960 until the liberalization of the mining industry in the 1980s, only state-owned companies were allowed to carry out mining activities in the country.[[39]](#endnote-39)

In 2017, Kibali Gold Mine and Banro were the largest players in the Congolese gold mining industry. Unlike Banro, whose mines were wholly owned, Kibali Gold Mine, a $2.5-billion project in the northeast of DRC, was a joint venture between the U.K.-based Randgold Resources (45 per cent), the South Africa-based AngloGold Ashanti (45 per cent), and the Congolese parastatal SOKIMO (10 per cent). Gold reserves at Kibali were estimated to be 11.6 million ounces.[[40]](#endnote-40) Other ongoing projects included Mongbwalu, located in the Ituri Interim Administration,[[41]](#endnote-41) with an estimated 2.5 million ounces of contained gold.[[42]](#endnote-42)

According to the Central Bank of Congo, the total gold production in 2015 was about 1,022,103 ounces, of which Kibali Mining and Banro accounted for nearly 63 per cent and 18 per cent, respectively.[[43]](#endnote-43) DRC’s largely untapped gold mining sector had increasingly attracted more Chinese investors due to slow growth in gold production in China, as a result of depleting reserves and rising production costs.[[44]](#endnote-44)

Dominance of Chinese Companies

The Forum on China-Africa Cooperation (FOCAC) was an official platform for African and Chinese policy makers to promote co-operation—especially economic co-operation—that would mutually benefit the two regions. During the first FOCAC meeting in Beijing in 2000,[[45]](#endnote-45) China offered African countries a unique economic, political, and security package, including debt relief, peacekeeping assistance, cheap loans, supports in multilateral forums, military deals, and South–South co-operation.[[46]](#endnote-46) The relations were enhanced further in 2006 with the China Africa Policy Paper, and with the FOCAC summit hosting heads of Chinese and African states in Beijing.[[47]](#endnote-47)

In 2007, two state-owned Chinese construction companies signed an exchange deal with the DRC’s state copper company.[[48]](#endnote-48) The Chinese partners promised to finance $9 billion for the nationwide construction of roads, railways, hospitals, schools and dams, and for mine development. In exchange, the Congolese government pledged to provide the Chinese companies up to 10 million tonnes of copper and hundreds of thousands of tonnes of cobalt from mines in the southeastern province of Katanga. Revenues from these mines could range between $40 billion and $120 billion. This deal was the largest of its kind, worth more than the Congolese state budget, and had potential to transform the country’s economy. The governments involved praised the deal as being “win–win” and as reflecting the Chinese principle of “mutual benefits.”

Chinese investments seemed to be favoured in the Congolese market, and they were thus less exposed to political risk in DRC. In 2012, Chinese companies owned 80 per cent of the mineral processing plants in the resource-rich Katanga province, while over 90 per cent of the province’s minerals was exported to China.[[49]](#endnote-49)

Competition

Competition in the mining industry was intense in all phases, from exploration to production. Since the life of a mine was limited, the sustainable growth of the industry relied on the available amount of valuable mineral resources. Companies in DRC with greater financial resources and technical ability competed in acquiring properties that potentially held large deposits of gold and other precious metals.[[50]](#endnote-50) Production cost optimization through scale and efficiencies was a critical factor that differentiated companies in terms of the success of mining exploration and production.[[51]](#endnote-51)

SOCIAL CONFLICTS AND CORPORATE SOCIAL RESPONSIBILITY

In DRC, corporate social responsibility and environmental impact assessment were mandatory prior to the commencement of mining-related activities. As the projects entered the commercial stage, Banro and local communities signed a memorandum of understanding detailing their aspirations about education, health, employment, and infrastructure, and the company’s commitments to fulfilling them. Through Banro Foundation, a registered DRC charity, Banro donated $1 for every ounce of gold produced and 1 per cent of its net profits from gold sales for local community development (see Exhibit 7).[[52]](#endnote-52) However, mining operations resulted in changes that often led to social conflicts with the concerned parties.[[53]](#endnote-53) Since 2009, Banro had faced multiple conflicts with local communities that sometimes resulted in violent demonstrations, property damages, loss of production, and human deaths. These conflicts came from the following major causes.[[54]](#endnote-54)

Dismantling of Artisanal Mining Activities and Resettlement of Local Households

Banro’s mining areas were previously occupied by local artisanal miners. The dismantling of their mining pits by Banro, even with the approval of government officials, was not without resistance and discontent, as artisanal activities in these pits was for many years their main source of revenue. The resettlement of households followed DRC legislation and international practices. Taking place between 2010 and 2012, the resettlement at Twangiza involved the move of 243 households to the new community of Cinjira, located around three kilometres from the mine site. Built by Banro, the community consisted of 261 homes within a strategically designed and clustered township, with a school, two churches, a health centre, and other public amenities. The resettlement of 195 households from Namoya to the new village of Mulanda, located about five kilometres from the mine site, was completed in 2013. Such resettlements often resulted in disputes over land use and compensation, as they significantly affected the course of life of the inhabitants.

Expectations of Local Communities

The un-met demands of community members were usually the result of a lack of communication and engagement between the national and local governments, local communities, and the company.[[55]](#endnote-55) Leaders and members of communities sometimes erroneously perceived that the company earned extraordinarily high profits without realizing the high costs of projects. They often lacked information about the revenues received by the national and local governments, and about how these revenues were used to generate benefits.[[56]](#endnote-56) The impacts and benefits of mining might be shared between several communities near large-scale mines. Social benefits were sometimes slow to materialize due to the need for consensus among community leaders.

POLITICAL RISK

Joseph Kabila had been the president of DRC since 2001, taking office after the death of his father. He was then elected president in 2006 and re-elected in 2011. Since assuming power, Kabila had had to deal with continuous wars in eastern Congo and internal rebel forces. The signing of the Global and Inclusive Agreement on Transition in the Democratic Republic of Congo in 2002, followed by the adoption of a new constitution by referendum in 2005, led the country to the gradual restoration of peace.[[57]](#endnote-57) In February 2006, the Constitution of the DRC was adopted. Both constitutions were effective, but the transitional constitution was ended on the inauguration of elected officials in the July 2006 elections.[[58]](#endnote-58) The 2006 elections were appreciated by the international community, but marred by irregularities and deficiencies. According to the U.S.-based Carter Center, the 2011 presidential election lacked credibility.[[59]](#endnote-59)

Five years later, in response to the U.S. senators who called for sanctions against the DRC government’s failure to organize elections at the end of 2016, the presidential political party[[60]](#endnote-60) stated that the relationships of multinational companies with their government in some Western countries, including Canada, and the conflicts between the DRC government and a major Canadian investor in Congolese mining, First Quantum Minerals Ltd. (First Quantum), delayed the cancellation of DRC’s debt by the International Monetary Fund and the World Bank in 2010.[[61]](#endnote-61)

With bountiful natural resources, DRC remained a mining site that governments and corporations around the world scrambled to access. In 2006, First Quantum’s president, Clive Newall, stated, “It’s the holy grail of the copper industry,” while other companies were saying, “To hell with the political risk, we just have to be here.”[[62]](#endnote-62) However, the risk probably did not pay off for First Quantum. In 2010, the DRC government cancelled three of its mining concessions, worth around $1 billion, as part of a review of contracts signed at the end of the 1990s during the upheaval period of the conflicts. Through the company’s politically well-connected board, including former Canadian Prime Minister Joe Clark, the Canadian government retaliated on its behalf through the G8 (Group of Eight industrialized nations) and international lending institutions.

The home–host country government relations played an important role in shaping firms’ political risk exposure. If such relations were strained, firms ran the risk of discriminatory treatment by the host country government.[[63]](#endnote-63) In its January 2013 report, the Canadian Chamber of Commerce recommended its government pursue Foreign Investment Promotion and Protection Agreements to mitigate political risk to Canadian mining assets abroad.[[64]](#endnote-64) Given the DRC’s political context, it was hardly expected that the Canadian government would disregard the core values of its foreign policy, including the promotion of freedom, democracy, democratic governance, human rights, and the rule of law.[[65]](#endnote-65)

Tensions among politicians and related associations often arose in DRC. A Bukavu-based non-governmental organization, Maison des Mines du Kivu, highlighted a “real loss” of $19 million for the DRC government from 2010 to 2016 due to the tax exemption granted to Banro in 2009.[[66]](#endnote-66) Maison des Mines du Kivu recommended the government not renew this fiscal incentive once it expired in 2027. Global professional services firm Aon plc indicated in 2017 that the country risk level of DRC was very high.[[67]](#endnote-67)

RISE AND FALL OF the GOLD PRICE

The price of gold rose between 2009 and 2012 to an average of $1,711 per ounce, but declined more than 30 per cent since then to $1,190 per ounce in 2016. By 1980, the average price was $410 an ounce and remained around that price until 1996, when it dropped to $288 an ounce in response to steady economic growth. Speculators returned to trade gold after each economic crisis. The price increased dramatically to $869.75 an ounce during the global financial crisis of 2007–2008. On September 5, 2011, it hit an all-time record of $1,890 an ounce, in response to worries about a U.S. debt default.[[68]](#endnote-68) Gold demand fell 4 per cent in 2012, the first decline since 2009. As India was the world’s largest consumer of gold, this decline was in part due to the depreciation of the Indian rupee (mainly against the U.S. dollar) and higher import tariffs, which resulted in a fall of 12 per cent in Indian gold demand.[[69]](#endnote-69) With the improvement of the U.S. economy, strengthening of the U.S. dollar, and lower global inflation, gold prices continued to fall. The price reached the lowest average in 2015 and rose in the first half of 2016, in response to an increase in investors’ demand. The uncertain gold price implied continuing concerns about the prospects of the global economy and the effects from the Federal Reserve System’s delaying decisions to increase interest rates (see Exhibit 8).[[70]](#endnote-70)

NEXT STEPS

In February 2017, Banro’s president and chief executive officer, John Clarke, announced that the company’s medium-term corporate strategy was directed toward incremental growth through operational improvements, by cost reduction and throughput expansion over a five-year horizon.[[71]](#endnote-71) With the Twangiza and Namoya mines in steady-state production, Banro was still moving forward with the two exploration projects at Lugushwa and Kamituga, which would ultimately add to its production portfolio.[[72]](#endnote-72) Would the recapitalization enable Banro to carry out these medium-term strategic plans? What were the implications of the new ownership structure on the corporate strategy? Acknowledging that its operations in DRC were exposed to various levels of political and economic uncertainties—related to military repression, civil disorder, and mining regulations—how should Banro mitigate threats from these uncertainties, which could result in the impairment or loss of part or all of its mining assets in the country?[[73]](#endnote-73) Going forward in terms of operations and financing, how could the company achieve its long-term goal of being “a model of excellence in sustainability?”[[74]](#endnote-74)

Exhibit 1: BANRO CORPORATION Mineral Resources as at December 31, 2015

|  |  |  |
| --- | --- | --- |
| **Mine (Category)** | **Mineral Reserves (Million Tonnes)** | **Gold Reserves**  **(Million Ounces)** |
| **Twangiza (Oxide)** |  |  |
| Measured | 2.49 | 0.16 |
| Indicated | 8.57 | 0.51 |
| Inferred | 1.56 | 0.06 |
| **Twangiza (Transition and Fresh)** |  |  |
| Measured | 3.11 | 0.21 |
| Indicated | 85.18 | 3.81 |
| Inferred | 8.27 | 0.31 |
| **Namoya (Oxide and Free-milling)** |  |  |
| Measured | 20.44 | 1.33 |
| Indicated | 5.24 | 0.29 |
| Inferred | 5.03 | 0.26 |
| **Lugushwa (Oxide)** |  |  |
| Indicated | 16.91 | 0.73 |
| Inferred | 6.17 | 0.31 |
| **Lugushwa (Transition and Fresh)** |  |  |
| Inferred | 65.01 | 3.22 |
| **Kamituga** |  |  |
| Inferred (Surface) | 4.14 | 0.32 |
| Inferred (Underground) | 3.12 | 0.6 |
| **Total Measured and Indicated Quantity** | **141.94** | **7.04** |
| **Total Inferred Quantity** | **93.29** | **5.08** |

Source: Created by the case authors based on Banro Corporation, *Corporate Presentation February 2017*, 29, February 2017, accessed November 14, 2017, https://www.banro.com/assets/pdf/2017-02-23-cp.pdf.

Exhibit 2: ESTIMATED CAPITAL EXPENDITURE FOR NAMOYA PHASE 1 PROJECT

(US$ million)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Capital Expenditure** | **Pre-production** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** | **Total** |
| Mining Capital | 10.39 | 0.00 | 12.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 22.39 |
| General and Administration | 43.79 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 43.79 |
| Infrastructure | 25.54 | 0.00 | 0.00 | 1.20 | 0.00 | 0.00 | 0.00 | 0.00 | 26.74 |
| Gravity Heap Leach Including Metago | 61.52 | 3.73 | 1.50 | 2.94 | 0.00 | 0.00 | 2.20 | 0.00 | 71.89 |
| First-fill Consumables | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Contingencies | 7.62 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 7.62 |
| Initial Working Capital | 0.00 | 5.40 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 5.40 |
| **Total Capital Expenditure** | **148.86** | **9.13** | **13.50** | **4.14** | **0.00** | **0.00** | **2.20** | **0.00** | **177.83** |

Source: Created by the case authors based on Venmyn Rand (Pty) Ltd., *Independent Technical Report on the Namoya Gold Project, Maniema Province, Democratic Republic of the Congo*, 61, January 24, 2012, accessed November 14, 2017, https://secure.kaiserresearch.com/i/jk/tr16/TRBAA20120112.pdf.

**Exhibit 3: BANRO CORPORATION CONSOLIDATED BALANCE SHEET**

**AT DECEMBER 31, 2011–2016 (US$ MILLION)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Current Assets** |  |  |  |  |  |  |
| Cash and cash equivalents | 9.7 | 27.0 | 4.5 | 1.0 | 2.3 | 11.4 |
| Account receivables | 1.1 | 7.3 | 8.9 | 7.3 | 13.0 | 25.7 |
| Prepaid expenses | 1.4 | 8.3 | 8.4 | 6.2 | 7.1 | 9.2 |
| Current portion of inventories | N/A | 18.0 | 31.9 | 28.9 | 28.2 | 68.9 |
| **Total Current Assets** | **12.2** | **60.6** | **53.7** | **43.3** | **50.6** | **115.1** |
| **Non-Current Assets** |  |  |  |  |  |  |
| Non-current portion of inventories | N/A | N/A | N/A | 3.9 | 3.8 | 4.8 |
| Property, plant, and equipment | 25.6 | 309.2 | 313.4 | 296.1 | 289.6 | 628.8 |
| Exploration and evaluation | 113.5 | 95.7 | 117.7 | 130.0 | 139.7 | 149.2 |
| Mines under construction | 277.9 | 170.2 | 337.2 | 414.3 | 388.0 | N/A |
| **Total Non-Current Assets** | **417.0** | **575.2** | **768.3** | **844.2** | **821.2** | **782.8** |
| **Total Assets** | **429.1** | **635.8** | **822.0** | **887.5** | **871.7** | **897.9** |
| **Current Liabilities** |  |  |  |  |  |  |
| Account payables | 32.4 | 54.9 | 77.6 | 86.4 | 82.2 | 93.6 |
| Deferred revenues (short-term) | N/A | N/A | 17.4 | 3.0 | 5.8 | 11.5 |
| Bank loans (short-term) | 5.6 | N/A | 29.3 | 17.1 | 11.9 | 9.5 |
| Current portion of long-term debt | N/A | N/A | N/A | N/A | N/A | 196.5 |
| Preference shares | N/A | N/A | N/A | N/A | N/A | 42.7 |
| Other | 1.4 | 2.2 | 2.8 | 4.8 | 30.8 | 16.0 |
| **Total Current Liabilities** | **39.4** | **57.0** | **127.0** | **111.3** | **130.8** | **369.7** |
| **Non-Current Liabilities** |  |  |  |  |  |  |
| Deferred revenues (long-term) | N/A | N/A | N/A | N/A | 42.5 | 94.8 |
| Bank loans (long-term) | N/A | N/A | 13.3 | 3.9 | 3.0 | N/A |
| Long-term debt | N/A | 154.7 | 158.6 | 200.9 | 168.1 | 10.0 |
| Preference shares | N/A | N/A | 28.0 | 71.1 | 69.3 | 30.6 |
| Other | 0.8 | 0.8 | 4.2 | 7.8 | 38.4 | 15.5 |
| **Total Non-Current Liabilities** | **0.8** | **155.5** | **204.0** | **283.7** | **321.4** | **150.8** |
| **Total Liabilities** | **40.1** | **212.5** | **331.0** | **395.0** | **452.2** | **520.5** |
| **Shareholders’ Equity** |  |  |  |  |  |  |
| Share capital (common and preferred stocks) | 440.7 | 456.7 | 518.6 | 518.6 | 518.6 | 527.0 |
| Warrants | N/A | 13.3 | 13.4 | 13.4 | 13.4 | 13.4 |
| Retained earnings (deficit) (non‑operating) | 28.0 | 37.6 | 41.7 | 42.9 | 43.4 | 43.9 |
| Retained earnings (deficit) (operating) | (79.8) | (84.3) | (82.7) | (82.4) | (155.9) | (206.8) |
| **Total Shareholders’ Equity** | **389.0** | **423.3** | **491.0** | **492.5** | **419.5** | **377.4** |
| **Total Liabilities and Shareholders’ Equity** | **429.1** | **635.8** | **822.0** | **887.5** | **871.7** | **897.9** |

Note: N/A = not available

Source: Created by the case authors based on Banro Corporation, *Banro: Annual Report 2016*, 130, accessed May 10, 2017, www.sedar.com/GetFile.do?lang=EN&docClass=2&issuerNo=00002878&issuerType=03&projectNo=02607555&docId=4085742; Banro Corporation, *Banro: Annual Report 2014*, 118, accessed November 15, 2017, www.sedar.com/GetFile.do?lang=

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**Exhibit 4: BANRO CORPORATION’S CONSOLIDATED INCOME STATEMENT**

**AT DECEMBER 31, 2014–2016 (US$ MILLION)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** |
| **Operating Revenue** | **125.4** | **156.7** | **228.3** |
| **Operating Expenses** |  |  |  |
| Production costs | (69.1) | (74.9) | (145.9) |
| Depletion and depreciation | (26.9) | (25.7) | (60.0) |
| **Total Mine Operating Expenses** | **(96.0)** | **(100.7)** | **(205.9)** |
| **Gross Earnings from Operations** | **29.4** | **56.0** | **22.4** |
| General and administrative expenses | (11.3) | (12.1) | (16.0) |
| Share-based payments | (0.6) | (0.7) | (0.5) |
| Other charges and provisions | (1.1) | (11.8) | (8.9) |
| Impairment of mine under construction | N/A | (84.3) | N/A |
| **Net Income (Loss) from Operations** | **16.4** | **(52.9)** | **(3.0)** |
| Finance expenses | (15.6) | (20.2) | (45.7) |
| Foreign exchange loss | (0.4) | (0.0) | (1.9) |
| Interest income | 0.0 | 0.0 | 0.0 |
| **Net Income (Loss) Before Tax** | **0.3** | **(73.1)** | **(50.5)** |
| Income tax expense | N/A | (0.4) | (0.4) |
| **Net Income (Loss)** | **0.3** | **(73.5)** | **(50.9)** |

Source: Created by the case authors based on Banro Corporation, *Banro: Annual Report 2016*, 131, accessed May 10, 2017, www.sedar.com/GetFile.do?lang=EN&docClass=2&issuerNo=00002878&issuerType=03&projectNo=02607555&docId=4085742.

**Exhibit 5: BANRO CORPORATION CONSOLIDATED STATEMENT OF CASH FLOWS**

**AT DECEMBER 31, 2014–2016 (US$ MILLION)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **2014** | **2015** | **2016** |
| **Cash Flows from Operating Activities** |  |  |  |
| Net income (loss) after tax | 0.3 | (73.5) | (50.9) |
| Adjustments for impairment of mine under construction | N/A | 84.3 | N/A |
| Other adjustments | 27.4 | 37.8 | 88.4 |
| Interest paid | (4.7) | (4.6) | (18.7) |
| Others | 0.0 | 0.0 | (0.5) |
| Operating cash flows before working capital adjustments | 23.0 | 43.9 | 18.4 |
| Working capital adjustments | 18.5 | (9.4) | (14.7) |
| **Net Cash Flows Provided by Operating Activities** | **41.5** | **34.5** | **3.7** |
| **Cash Flows from Investing Activities** |  |  |  |
| Restricted cash movement | N/A | N/A | (10.1) |
| Acquisition of property, plant, and equipment | (15.8) | (25.0) | (28.7) |
| Exploration and evaluation expenditures | (8.7) | (10.4) | (9.2) |
| Expenditures on mine under construction | (49.0) | (32.0) | (13.5) |
| Interest paid | (19.1) | (18.2) | (5.1) |
| Others | (2.0) | 0.1 | N/A |
| **Net Cash Used in Investing Activities** | **(94.5)** | **(85.5)** | **(66.6)** |
| **Cash Flows from Financing Activities** |  |  |  |
| Bank overdraft | 3.2 | 2.4 | 1.2 |
| Net proceeds from non-equity financing | 70.3 | 62.3 | 100.2 |
| Net proceeds from equity financing | N/A | 0.0 | 8.3 |
| Repayment of derivative liabilities | N/A | N/A | (31.8) |
| Payment of dividends | (2.3) | (5.3) | (8.2) |
| Finance lease payments | N/A | (1.2) | (2.2) |
| Net repayments of bank loans | (21.6) | (6.1) | (5.4) |
| **Net Cash Provided by Financing Activities** | **49.6** | **52.2** | **61.9** |
| Effect of Foreign Exchange on Cash and Cash Equivalents | (0.0) | (0.1) | (0.0) |
| **Net Increase/(Decrease) in Cash and Cash Equivalents** | **(3.5)** | **1.3** | **(1.0)** |
| Cash and Cash Equivalents, Beginning of the Year | 4.5 | 1.0 | 2.3 |
| **Cash and Cash Equivalents, End of the Year** | **1.0** | **2.3** | **1.3** |

Source: Created by the case authors based on Banro Corporation, *Banro: Annual Report 2016*, 133, accessed May 10, 2017, www.sedar.com/GetFile.do?lang=EN&docClass=2&issuerNo=00002878&issuerType=03&projectNo=02607555&docId=4085742.

**Exhibit 6: BANRO CORPORATION (BAA) SHARE PRICE 2007–2017, nyse american**

Source: Case authors, based on Yahoo Finance, using the average of high and low share prices, accessed July 10, 2017, https://finance.yahoo.com/quote/BAA/history?period1=1167602400&period2=1490911200&interval=1mo&filter=history&frequency=1mo.

Exhibit 7: Investments and Expenditures OF BANRO FOUNDATION IN DRC 2004–2016

|  |  |
| --- | --- |
| **Investments and Expenditures** | **Amount (US$)** |
| Education | 2,328,500 |
| Health Care | 1,066,000 |
| Social Infrastructure | 1,743,500 |
| Agriculture | 612,500 |
| Humanitarian Assistance, Community Support, Conservation, and Other | 351,000 |
| **Total** | **6,101,500** |

Source: Created by the case authors based on Banro Corporation, *2017 Sustainability Report: Investing in Community Development*, 3, accessed November 13, 2017, https://www.banro.com/assets/docs/EN-SR-2017.pdf.

Exhibit 8: relationship between U.S. federal fund RATE AND gold price

PPI = producer price index; FF rate = federal fund rate

Source: Created by the case authors based on “Effective Federal Funds Rate,” *FRED*, accessed August 17, 2017, https://fred.stlouisfed.org/series/FF; “Producer Price Index by Industry: Gold Ore Mining: Gold Ores,” *FRED*, accessed August 17, 2017, https://fred.stlouisfed.org/series/PCU2122212122210.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in the case are not necessarily those of Banro Corporation or any of its employees. [↑](#endnote-ref-1)
2. All currency amounts are in U.S. dollars unless otherwise specified. [↑](#endnote-ref-2)
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17. *Banro: Annual Report 2016*, op. cit., 30. [↑](#endnote-ref-17)
18. *Banro: Annual Information Form 2015: For the Financial Year Ended December 31, 2015*, op. cit., 42–54. [↑](#endnote-ref-18)
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