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Increasing the social capital of Global Aluminium Limited using SMHL debt towards Alum

Extraordinary General Shareholders Meeting from December 21/22, 2021

Summary

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Introduction

Description of the issue and current status

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Description

On 31 October 2021, Sierra Mineral Holdings 1 Ltd (SMHL), Alum's 100% indirectly owned subsidiary producing bauxite in Sierra Leone, owes Alum an amount of 60.2 m USD composed of:

- Trade receivables of 10.18 m USD;
- Advance payments of 50.02 m USD (the equivalent of approx. 1,500,000 tonnes of bauxite, i.e. nearly the production for one year).

Trade receivables result from past transactions after the acquisition of SMHL by Alum from Vimetco NV in 2011, when Alum actively involved in rendering SMHL viable by delivering materials to it, such as spare parts, equipment, know-how.

Advance payments were made by Alum to SMHL on account of future bauxite to be delivered, in order to support its business in the years of development post-acquisition.

SMHL is owned 100% by Alum through the 100% owned subsidiary of Alum, Global Aluminium Limited (GAL).

Introduction

Description of the issue and current status

Description (continued)

The outstanding amount of 60.2 m USD on both companies' balance sheets poses questions from all the interested parties (tax authorities, potential investors, auditors, banks). The recoverability of the amounts in the form originally designed, i.e. of bauxite deliveries, looks like a remote probability.

Starting 2019, Alum was subject to a fiscal audit from the Romanian tax authorities, which covered the years 2014-2018 and was finalized in May 2021. The tax authorities raised the problem of SMHL owing long-aged amounts to Alum for which Alum should collect interest that is taxable in Romania.

Objectives

The management is proposing converting the existing debt into a more viable instrument on the balance sheet. More scenarios were taken into consideration for the judgment and the proposal is to use the conversion of SMHL commercial debt towards Alum into equity by increasing the social capital of its subsidiary Global Aluminium Limited (GAL) against the receivables of SMHL.

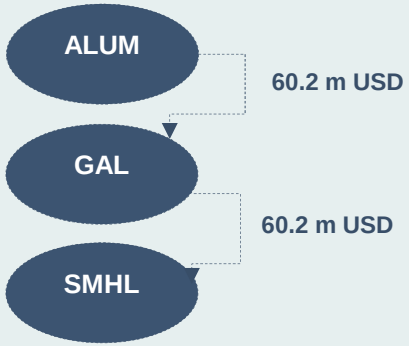
Conversion

Debt to Equity

Conversion of SMHL debt to Equity

Contribution in kind by **Alum** to the share capital of **GAL** followed by share capital increase of **SMHL** by way of debt conversion. This proposal would involve:

- in the first phase a contribution in kind by Alum to GAL share capital, i.e. the issue of new GAL shares “paid” by way of contributing the receivables Alum holds against SMHL;
- the second phase would involve the issue of new SMHL shares where the contribution of GAL is by way of conversion of SMHL debt.



Conversion

Arguments for a debt to equity conversion

If the proposal will be approved and implemented, Alum will clear off its Receivables and Advances from SMHL and will book an Investment on its balance sheet

Sierra Leone will clear off its debt and will increase its Share Capital to 63.6 m USD (from 3.4 m USD that it is now) and its Total Equity position will be positive, of approx. 30 m USD (from a negative net assets figure of -32 m USD at 31 December 2020).

Positive aspects for D/E scenario
√ Lower taxation rate (10% WHT for distributed profits in Sierra Leone and 16% in Romania) compared to interest on loan (15% WHT in Sierra Leone and 16% in Romania)
√ Eliminate current uncertainty on Alum balance sheet (aged receivables whose collection is not certain and that raises questions to whoever analyses Alum financials);
√ A recognition of the additional investment amount that was necessary to operate the mine in Sierra Leone (advances were paid and invoices were issued for materials and know-how necessary to re-position the company in an operating status;
√ Cleans SMHL balance sheet with enhanced equity;
√ Creates the potential for SMHL to return dividends to shareholders.

Conclusion and recommendation

We conclude that the feasible and simpler way to convert the SMHL debt into equity is the conversion of Debt into Equity (Share Capital) via Alum-GAL-SMHL, with the issuance of ordinary shares (no share premium), and therefore the Board of Directors is recommending to the shareholders to approve the increase of the share capital of Global Aluminium Ltd. with an amount up to 60.2 million USD, by contribution in kind consisting in receivables.