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Big changes in 'euphoric' Ethiopia

Ethiopia has seen a remarkable turnaround politically this year, and mining money could be close behind.



East Africa Metals is going through permitting for the deposits in its Harvest project in Ethiopia

In a country where various people's fronts have fought the government over many years and opposition figures have been thrown in jail in their thousands, this is no small achievement.

New prime minister Abiy Ahmed has energised the population and those holding the purse strings beyond Ethiopia's borders by ending long-time enmities in the Orthodox church and between his country and Eritrea, while also being a symbol of power for his own Oromo ethnic group, which despite being the largest in the country, was often at odds with former leaders.

Dissident Ethiopians would have had little hope of major reform when Ahmed was announced as the new leader: a former military man, in 2009 (when he was still in his 30s) he started the agency responsible for monitoring online activity that has led to many people being jailed for opposing the government.

But he has made a big difference, according to those in-country, and has revved up bureaucrats formerly afraid to make decisions.

A mine isn't built in four months, however.

Despite its position on the Arabian-Nubian shield that hosts major gold deposits in the region, there is only one gold mine in the country, owned by private company Midroc, and that is currently suspended in response to community protests.

Historic operations and scattered artisanal mining have shown there are good resources out there, but political instability has hampered financing of large-scale operations.

While mining contributes only 1% of Ethiopia's GDP, because of artisanal and small-scale mining about 5% of the 100 million people in the country depend on the industry for their livelihoods, according to the Extractive Industries Transparency Initiative.

Kefi Minerals looks most likely to give the country a new mine.

The AIM-lister got close to building the Tulu Kapi project pretty quickly after buying it in 2014, and wanted to pour first gold by the end of 2017.

But a wave of demonstrations scared off the money, managing director Harry Anagnostaras-Adams told Mining Journal.

"Those two years, albeit on the ground there were only occasional episodes of instability, it nevertheless damaged the country's ability to withdraw capital," he said.

"We lost our project financiers that we had at the time, who shied away.

"It was really two lost years for the Tulu Kapi project.

"After kicking off in 2014 and really going very quickly for the first couple of years, the instability in Ethiopia did us a lot of damage."

AIM-lister Kefi has arranged finance for the mine now, through a mix of \$50 million in equity funding and \$160 million in bonds sold to local, Middle Eastern and Chinese groups.

The government has committed \$20 million, giving it 23% of the project's holding company.

Why they're there

A map of the Arabian-Nubian shield shows why explorers are keen on Ethiopia: the granitoid-greenstone terranes that stretch from the Gulf of Suez down to the south of Ethiopia hosts Centamin's massive Sukari mine, Orca Gold's Galat Sufar South prospect and Nevsun Resources' Bisha VMS copper-zinc mine.

Geologist Liam Bullock, who previously worked for explorer GP Resource Mining, said Ethiopia could be another major global gold producer.

"It probably is no exaggeration to say that Ethiopia's gold potential could rival South Africa's, which would put it somewhere around the top five gold producing nations in the world," he said.

It probably is an exaggeration, explaining why the Witwatersrand services companies are not hot-footing it up to Ethiopia, but Bullock's enthusiasm for the country is telling.

Outside of gold, there is copper also through the Arabian Nubian Shield.

Project generator Altus Strategies has two copper projects in Ethiopia, Tigray-Afar and Daro. Both are near the Eritrean border, on the southern edge of the shield's main block, and are part of a regional shear zone.

Tigray-Afar includes an Italian-funded pit from the 1930s, and recent exploration work has focused on its sediment-hosted copper potential.

CEO Steve Poulton told *Mining Journal* Ethiopia was an easy jurisdiction to like when doing exploration work.

"We're focused specifically on the northern portion of the country, really targeting the Arabian-Nubian shield.

"That geology is prolific for world class copper/gold discoveries.

"The good thing about those is that they're relatively straightforward to find, or at least the footprint or the trace of, because copper is what it is and you can see it, and gold through the seam allows you to define your targets relatively quickly.

"Great geology, great jurisdiction. The third, and perhaps the most important, is that it's still a frontier."

On top of the yellow and red metals, there's also plenty of potash.

The Danakil Depression extends into Ethiopia, where private Canadian company Circum Minerals is developing a 2 million tonne per annum muriate of potash of 750,000tpa sulphur of potash project.

The Danakil project has a resource of 4.9 billion tonnes, and a 2016 definitive feasibility study outlined startup costs of \$2.3 billion, although shareholder Premier African Minerals said this year a cheaper "modular" approach was being considered.

The incumbents

Tulu Kapi is a big deal for the country because if successful it would prove a mine could be built by a public company in Ethiopia.

The private Lega Dembi gold mine in the country's Oromia region won't give potential investors any reassurance, as the mining ministry suspended its licence in May over public upset at cyanide use.

According to The Reporter, the company said its processes were safe and suggested artisanal miners using mercury could be to blame for local birth defects.

The lack of projects comes from the government's former hesitance to allow miners in, put off by the various displays of destruction and corruption it had seen from international resources firms.

Anagnostaras-Adams said the tide had turned about 10 years ago, when it became clear minerals and hydrocarbons could help "address the fiscal and trade imbalance".

"Quite a lot of exploration came in," he said.

"Phosphate, gold, a few other minerals. But to its great frustration, negligible development has taken place.



Tulu Kapi is in a picturesque part of the country

"The Tulu Kapi project was the first that rose up as a candidate for development. It got very driven as a government and its agencies to try and get that to happen. When the project failed to proceed under the ownership of Nyota [Minerals] in 2013 the government was terribly disappointed."

On top of Tulu Kapi there is the East Africa Minerals Harvest project in the northern Tigray region, which is aiming to be the first heap leach gold operation in the country.

While fully permitted, EAM has had its own funding issues as it develops the Terakimti gold oxide project (which is part of Harvest).

Terakimti is a much smaller project than Tulu Kapi, with an estimated annual production of 18,000 ounces per annum compared to 140,000ozpa, and would cost \$17 million to build.

According to phosphate developer Circum's shareholder Premier African Minerals, "recent developments in the settlement of historic border disputes" (the peace deal signed by Abiy and Eritrea) would allow potash to be exported from Eritrean ports, cutting costs and adding to the project's value.

Circum was also looking around for funding, its shareholder said.

"The company believes Circum has engaged major brokerages and other debt advisors and a liquidity event may be anticipated during Q1 2019," Premier African Minerals said in its 2017 annual report.

The final hurdle

While financing can be tough for any project, especially during the downturn, being in an unproven jurisdiction makes it even harder.

Circum had initially planned to be producing by now, and as described above Kefi's first push for build Tulu Kapi was hit when protests intensified in Ethiopia.

Even in the excited rush of earlier this year, when it looked like gold might head to \$1,400/oz, Kefi lost a partner for its \$160 million bond sale.

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As announced in July 2017, Oryx Management would have issued the bonds and also operated and lease-financed all of Tulu Kapi's infrastructure, with Ausdrill as the contract miner, with development to start by the end of last year.

By November, the finance was still be worked and in January of this year Kefi said it and Oryx had "mutually agreed" to dissolve the partnership, and Kefi ended up issuing the bonds itself.

A local syndicate has also come on board with \$30 million in equity funding (alongside the government's \$20 million), meaning Kefi shareholders will have around 53% beneficial ownership of Tulu Kapi.

Anagnostaras-Adams said the bond offering (at 7% yield) marketing push had stayed away from Europe.

"It would be fair to say Europeans, UK [investors], North Americans, are too far removed to feel particularly comfortable [in Ethiopia]," he said.

"There's emerging markets investors everywhere, but from a distance Ethiopia looked pretty unstable for a number of years. Therefore, our focus on the bond side ... has been on regional investors who are familiar with East Africa, and some with Ethiopia in particular."

Anagnostaras-Adams said Ethiopian's sovereign bonds had gone up in value with this year's leadership change, so debt markets were engaged with the country's political situation.

"Our targets for the bond issue were Middle Eastern sovereign funds, Chinese sovereign funds and banks, and that has remained the case," he said.

"They're so attuned to what's going on there, that what's gone on has only made them more steady."

The next group of developers trying to build should have an easier time of it, as well, if Abiy keeps impressing.

"We've also found that in the past few months we've had a re-emergence of interest from the mining banks and development banks," Anagnostaras-Adams said.

"I think it's because the allocation to East Africa and Ethiopia has been re-opened at the board table of various financial institutions."

While this was still regional banks and sovereign funds, the Kefi MD said, more interest is still more interest.

East Africa Metals has more confidence it will bring European and North American money into Ethiopia.

The TSX-Venture developer had a financing deal with Luck Winner Investments in Hong Kong for up to \$250 million fall through at the start of the year.

It has a mining licence for Terakimti but not for the two nearby projects for which it also has PEAs.

At the time, EAM put on a brave face and said it would find other financiers, no replacement funding has been announced so far.

"The company has initiated discussions with a number of interested parties for the project financing of the Terakimti oxide gold project and/or all the Ethiopian projects," the company said in March.

"The parties include companies and groups based in North America, Europe and China."

Coming soon

Further down the development chain is project generator Altus' two copper plays.

As Altus' strategy is to demonstrate a site has some potential, sign a joint venture and then hand over the development work, its focus is finding early stage opportunities in and up-and-coming places.

Tigray-Afar is eight years into its exploration licence and Altus needs another joint venture partner after the Japan Oil, Gas, and Metals National Corporation (JOGMEC) bailed last year after three years.

Ethiopia gives explorers three years and then institutes 25% annual licence cutdowns, and then wants it turned into a mining licence after 10 years.

Vice president for exploration Will Slater said Altus was going back and having another look at where the best spot on the concession might be.

"The work we're doing just now is looking at the sediment-hosted copper potential on that licence, which is something we believe may exist based on some VTEM data we generated back in 2012," he said.

"We're having a fresh look at that one."

Altus' other Ethiopian project is Daro, about 100km west of Tigray-Afar.

Its licence is less than a year old, but the surface-level metals are obviously there, as shown by the artisanal mining population.

"We're doing several programmes of work on the licence and we have what we're pretty sure is a VMS discovery on the licence plus potentially what looks like an orogenic gold source to the east," he said.

For those looking to find similar projects, it's still not too hard.

"Dara was picked up on the back of historic data (BRGM), government geological mapping," Slater said.

"Something you can still do in Ethiopia, because there is still land which you can stake.

"There's not that many other people in there at the moment."

Ethiopia's Ministry of Mines, Petroleum and Natural Gas (MoMPNG) has set up an online cadastre system for permitting, and although explorers say it has been renewed attention under Abiy's government, the database was not accessible online this week.

Potential miners will also have to grapple with royalties ranging from 5% to 8%, with Kefi paying 7% once Tulu Kapi hits production.

State of euphoria

When the previous prime minister of Ethiopia, Hailemariam Desalegn, quit in February a state of emergency was imposed.

This set off alarm bells but since then the country has been on a tear.

Anagnostaras-Adams said the good vibes in the country were inescapable.

"It's almost a state of euphoria, not a state of emergency," he said.

"They're so proud, and everything is so positive there. It's a remarkable change in atmosphere both politically and among people generally."

It's almost a worry for Altus.

"Our only slight concern is we can see increased competition in Ethiopia, because our business model is to go and get new licences and to take on projects," said CEO Poulton.

"We can see a situation emerging in Ethiopia where it's a bit like Ivory Coast, where there's so many groups trying to get in there trying to get in there that it gets harder and harder.

"We're concerned whether we can still get good projects in two or three years' time."