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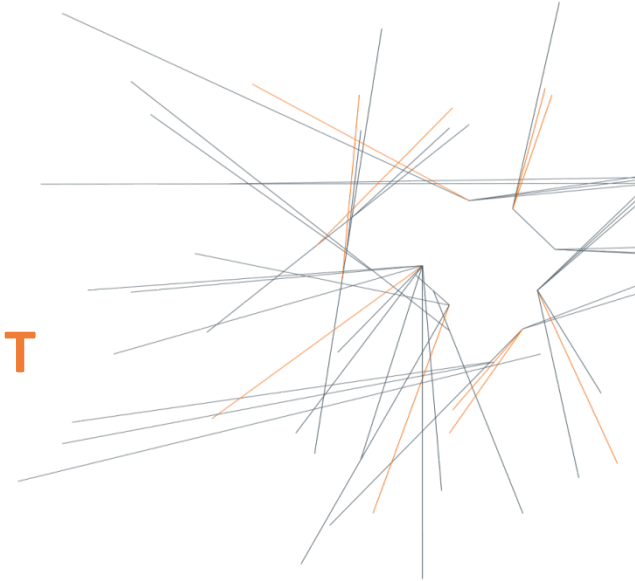
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AFRICAN MINING PROJECTS: THE RESURGENCE OF MINING ON THE CONTINENT

PRESENTATION BY:

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“The Minerals sector is one of the key sectors that will lead to the achievement of the aspirations of African people that define the “Africa We Want”. This can only happen if the mineral resources play their transformative role particularly contributing to the Industrialization processes.

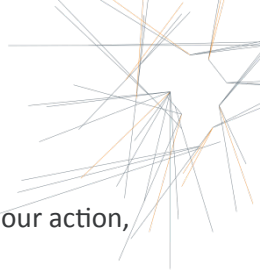
The African Mining Vision offers greater opportunities for governments, citizens, private sector, and development partners through innovative and holistic approaches to develop national owned strategies, policies and laws for governing the mineral sector to ensure growth and sustainable development.”

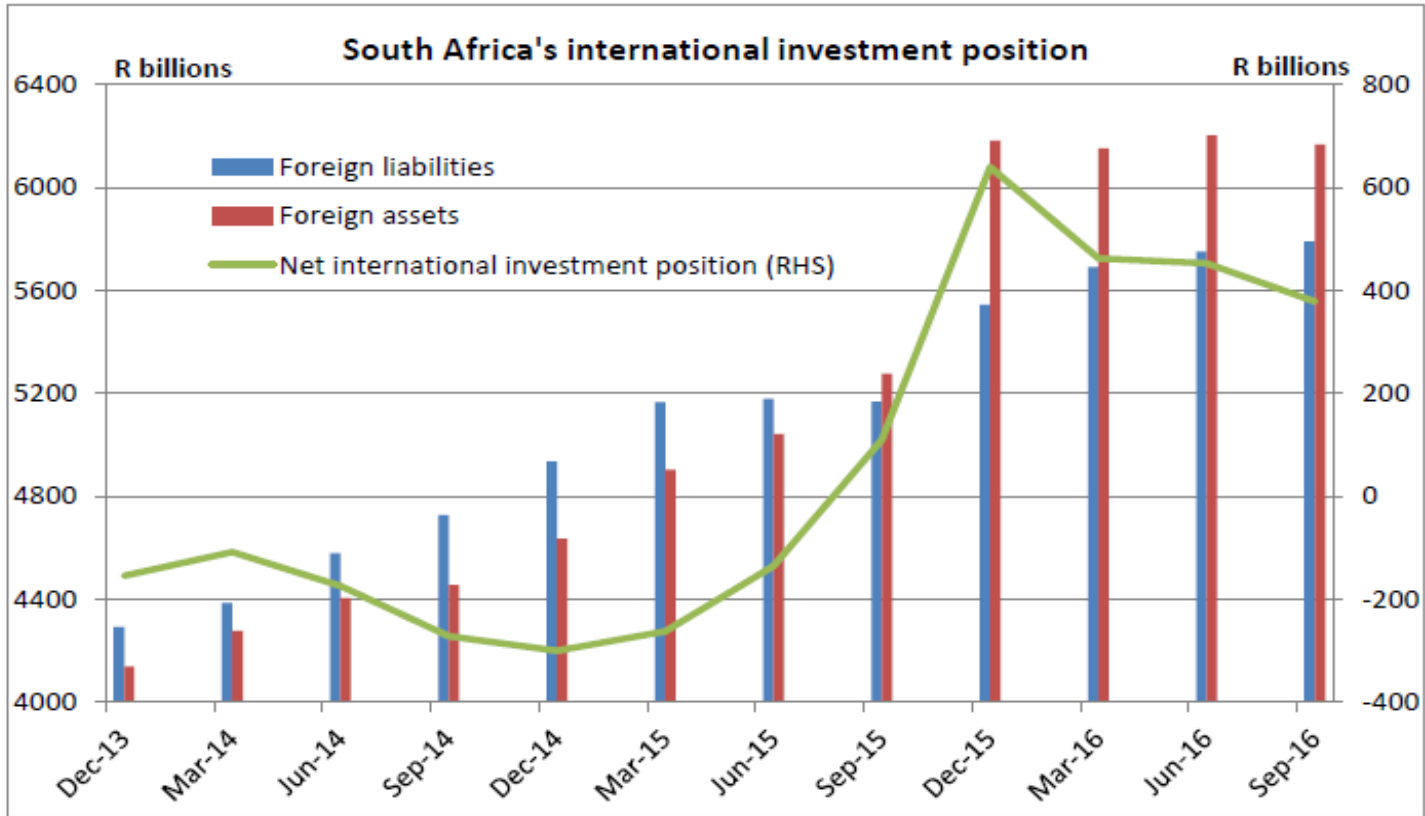
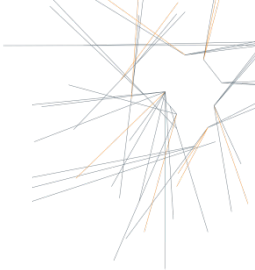
H.E. Fatima Haram-Acyl

Africa Union Commissioner for Trade and Industry

THE ARENA

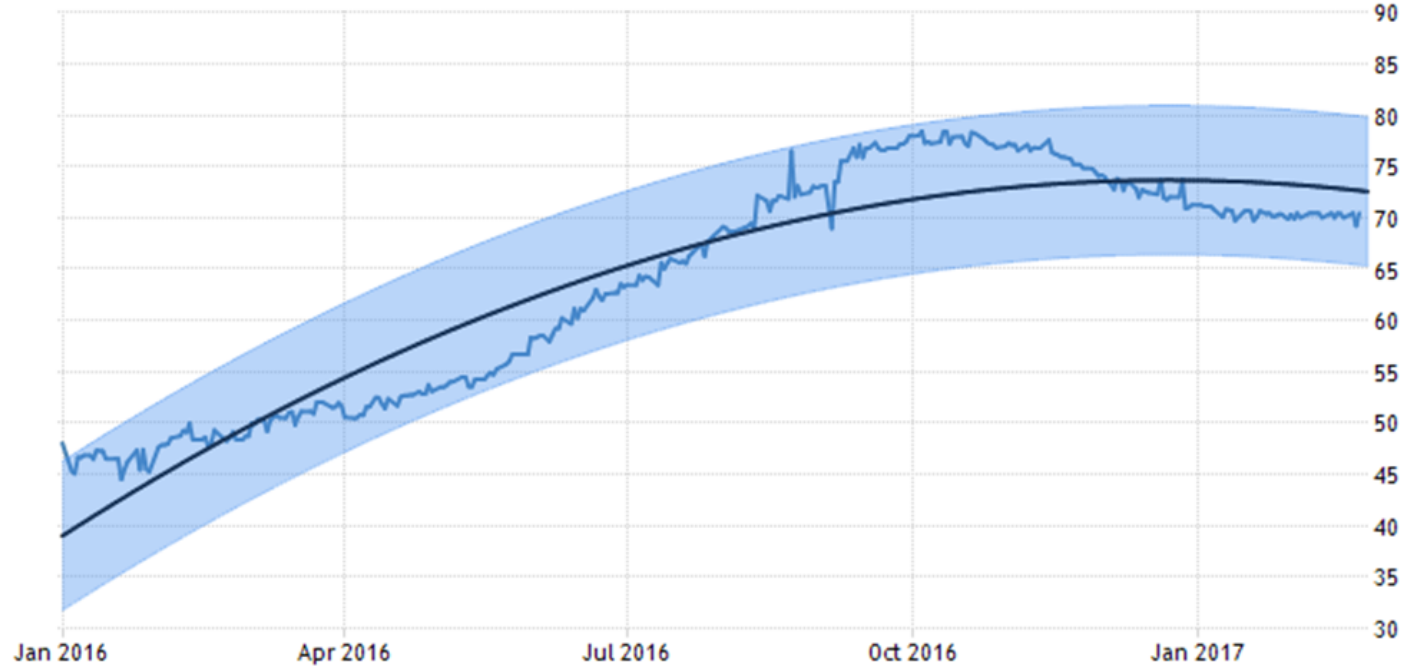
- High potential in mining & associated infrastructure but the last 4 years have seen a decline owing to local cost pressures, labour action, and a continuing downswing in commodity prices but there are signs of recovery
- Diverse continent in terms of languages, culture and systems of law. Some similarities and increasing economic and legal harmonisation
- Africa remains a volatile playing field with some 21 presidential elections in 2016 (according to EISA)
- Shifting political arena brings with it a review of:
 - the State's role in the industry – passive regulator/ active player
 - Tax and royalty regimes approved in May 2016 (Zambia)
 - Mining Codes (adopted in Guinea in April 2013/ Angola in September 2011/ Tanzania in 2010/ Mozambique in September 2014)
 - Contracts (DRC)
- Accountability, transparency and the sustainable development of finite natural resources for the betterment of the populace as a whole are key in elections with a shift against those in power seeking to grab as much of the pot for themselves
- Compliance with and the enforcement of anti-corruption laws (both local and international), as well as sanctions against rogue states and individuals are making their presence felt. The FCPA has become more prominent, as well as the UK Bribery Act
- Transparency is receiving greater attention through the Extractive Industries Transparency Initiative
- Lack of demand
- Selling of assets





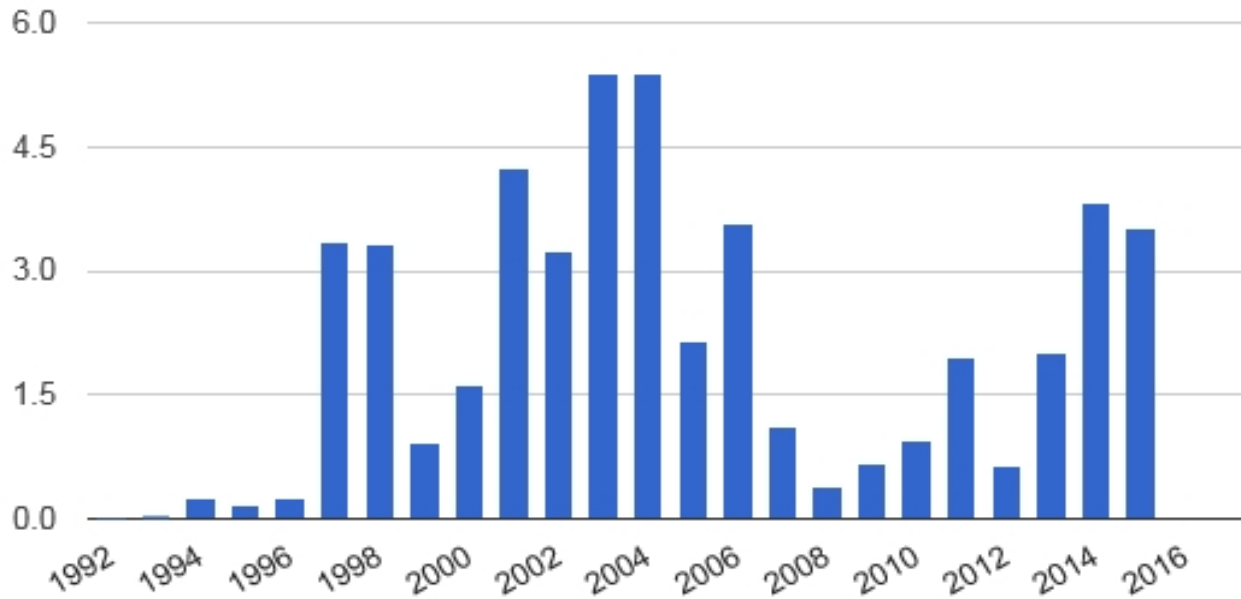
Source: South African Reserve Bank - 2016-09-30

MOZAMBIQUE METICAL

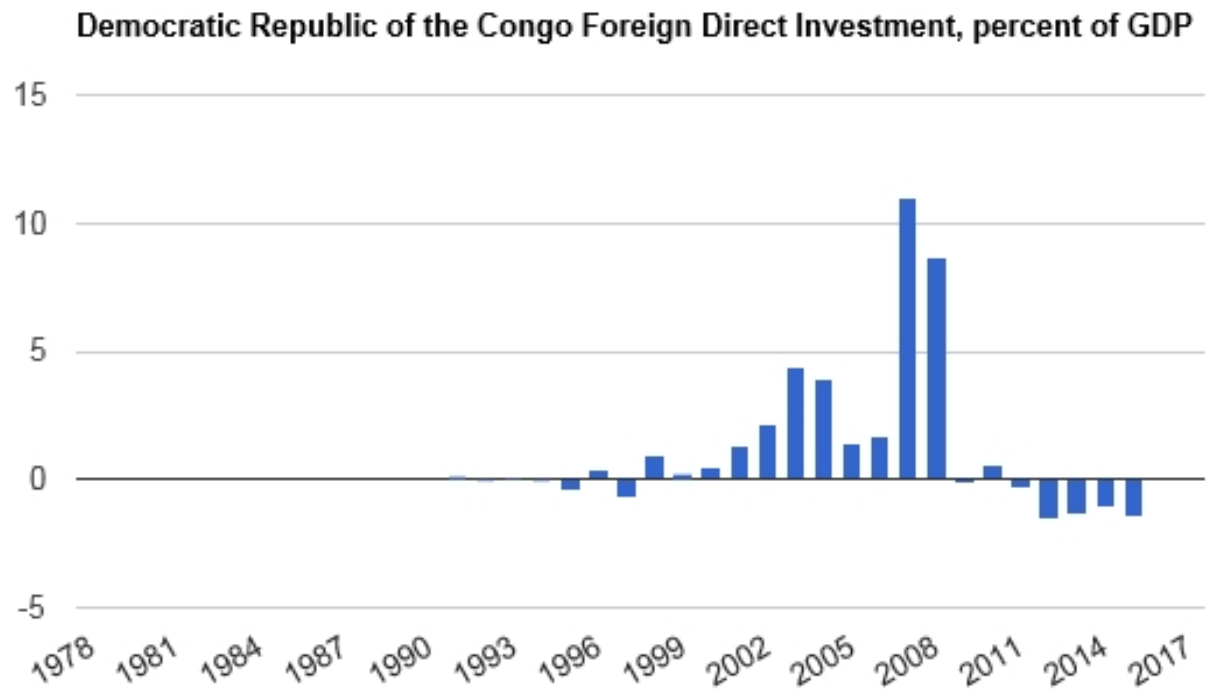


SOURCE: WWW.TRADINGECONOMICS.COM | OTC INTERBANK

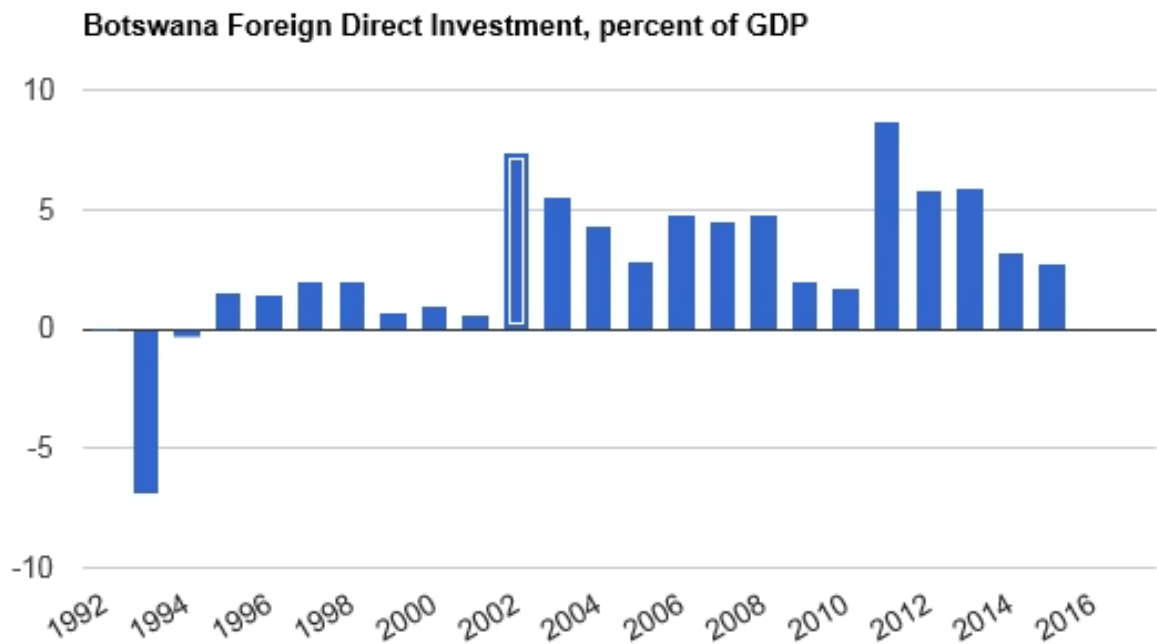
Ethiopia Foreign Direct Investment, percent of GDP



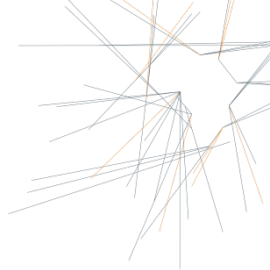
Source: TheGlobalEconomy.com, The World Bank



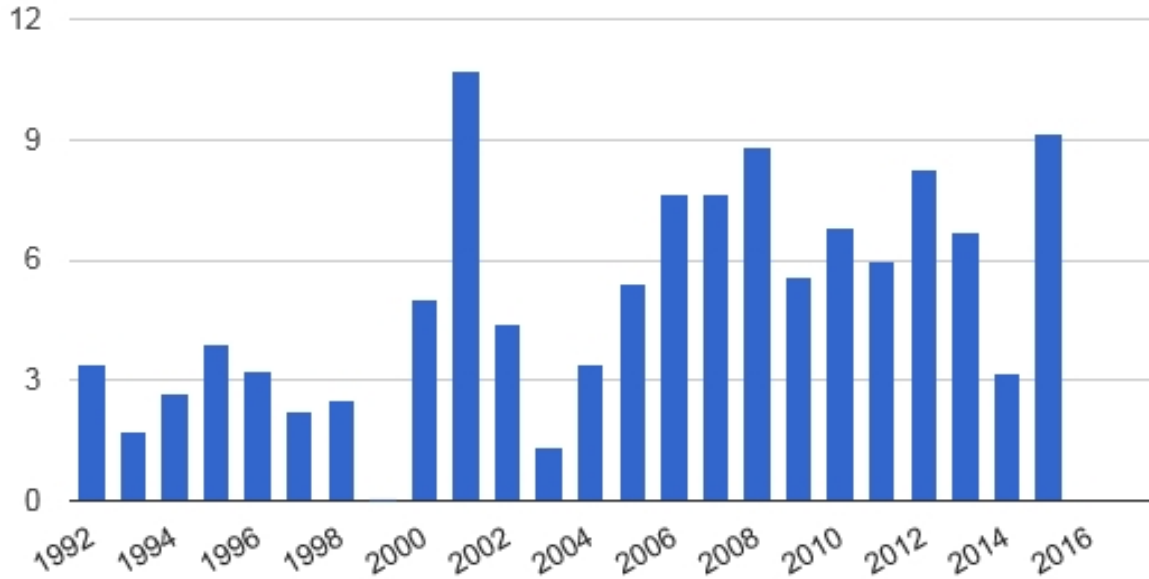
Source: TheGlobalEconomy.com, The World Bank



Source: TheGlobalEconomy.com, The World Bank



Namibia Foreign Direct Investment, percent of GDP



Source: TheGlobalEconomy.com, The World Bank

ENTERING THE ARENA

- Structuring entry into the host country – tax and commercial efficiency / BIT protection
- Important to identify upfront what security financiers may require and what needs to be done to meet these requirements. For mining projects in certain countries, security given over assets situated offshore may be the only security available
- Security of tenure, as well as securing all rights in relation to the entire project, is critical for any mining project
- Diligence – history of title very important, not just current title. If mineral titles are not granted in accordance with legislative processes, such rights may be for example validly withdrawn without compensation by the authorities. Increased risk of withdrawal or review in countries with political change
- Far greater emphasis by host governments on compliance with concession agreements and the time frames set out therein. For example, the review of the ports concession agreements by the Nigerian Ports Authority in 2016
- Understand the legal and fiscal environment that is being entered into and comply strictly. Popular misconception that legal processes and requirements can be by-passed and that short-cuts are available



RESOURCE NATIONALISM



- Foreign investment by the mining sector plays a fundamental role in the growth of many of the developing economies on the continent
- Host governments are forming strong views on the role that mining companies should play in sustainable development
- Increasingly important for African countries that they derive lasting benefit from the exploitation of their finite mineral resources
- Benefits are being sought on various levels:
 - Ownership* (SA, Guinea, Zimbabwe, Tanzania)
 - Community development*
 - Infrastructure development*
 - Employment and skills transfer
 - Health, safety and the environment
 - Beneficiation*
- Other key actions taken by host governments include:
 - resource rent taxes, increased royalties or other taxes (Zambia, South Africa, Burkina Faso, Zimbabwe, Mozambique)
 - greater controls over foreign investment
- Economic equilibrium - mitigate risk through balanced arrangements – profitable for all stakeholders (investors, shareholders, host country and population)

OWNERSHIP

- A number of countries are reviewing the manner in which they and their citizens participate in mineral projects. Views vary from the State acting as passive regulator through to calls for nationalisation
- Local ownership requirements becoming prevalent, be it through the formal enactment of such requirements or more informally through such requirements being incorporated as a condition of the grant of rights
- Requirements may take several forms:
 - Requiring citizens or companies controlled by citizens to own equity in the company granted the mineral title (South Africa, Botswana, Mozambique, Namibia, Zimbabwe). Inherent tension in maintaining local equity component versus funding requirements
 - Free carry for the State or State owned entities with or without an option to take-up a further interest on a commercial basis (Guinea/ Botswana)
 - Reserved activities for locals only – usually small scale mining activities determined according to, amongst others, size of mining area, value of the investment, production capability or specific areas set aside therefor

COMMUNITY DEVELOPMENT



- Growing emphasis on the role that mining companies should play in the sustainable development of mine communities, including post mine closure
- Mining companies need to address the growing resistance of mine communities to mining operations, particularly where there is little perceived benefit flowing to such communities
- Mining companies need a “social licence to operate”, which includes obtaining local, provincial and national government support, as well as local community support
- Emphasis on the upliftment and creation of self-sufficient communities through use of local goods and services, improving community health and education, employment and training of local citizens, safety and environmental issues
- Requirements vary:
 - Economic and social undertakings by a mining company as part of an application for and the maintenance of mining rights (South Africa)
 - Formal agreements negotiated between mining companies and local communities, generally after having been approved of by relevant Government ministries
- Recent phenomenon: pooling of resources by companies with closely situated mining projects in order to deliver more substantive upliftment projects to local communities

COMMUNITY DEVELOPMENT (CONT.)



- In most countries, it is the responsibility of the State to provide infrastructure. Often the law grants the State sole control over and sole right to provide such infrastructure and resources
- Exploitation of mineral resources often happens in areas without developed infrastructure - road, rail, port, power etc.
- Ownership of the infrastructure will commonly vest in the State with a notional usage fee being applied until sunk costs are redeemed. Right of access and priority usage usually guaranteed
- Tax incentives in place to promote investment in infrastructure
- Some issues to keep in mind:
 - State may have the ability to delegate the right and power to develop infrastructure, but there may be public procurement rules in respect of such delegation
 - If the right to develop infrastructure has been granted, has the correct entity or person within the State granted such right? Common occurrence that the wrong ministry grants a right and that grant is thus invalid and ultra vires
 - Does the State have the right to redirect a resource from one use to another use? Permitted generally where redirection is for the greater socio-economic benefit of the country and its people
 - Cross-border/ regional considerations

BENEFICIATION

- Increased emphasis on extracting greater value from mineral products, with mineral beneficiation being seen as a driver of employment, skills and industrial development and ensuring maximum value from mineral products accrues to local fiscus
- Shortage of power remains a major constraint
- Requirements may take several forms:
 - Investment in and development of an industry in the country - requirement to develop diamond cutting in Botswana, local gas industry in Mozambique
 - Access to mineral products – requirement to supply State and/or local processing entities
 - Obligation to establish processing installations, for example, steel mills
- Value shifting being closely monitored – generally an explicit requirement to provide services, sell mineral products on arm’s-length terms
- Taxes adjusted to promote local beneficiation – tax benefits for set up of local installations - penal / increased tax rates for export of unbeneficiated minerals



MINING INDUSTRY TRENDS



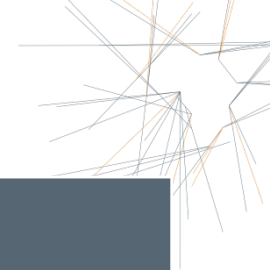
Angola	Democratic Republic of the Congo
<p>The largest export products in Angola are oil and diamonds and have started focusing on the mining of copper and phosphates</p>	<p>The DRC has 80 million hectares of arable land and over 1,100 identified minerals and precious metals</p>
<p>Angola's mining industry is growing at an average rate of 5.3% a year and is expected to be worth \$7.5 billion in 2018</p>	<p>According to BMI, the DRC will receive increasing amounts of foreign investment in the coming years, particularly from China</p>
<p>Angola still has a high potential to expand mining since only 40% of the Angolan mining resources are known.</p>	<p>This is due to the DRC's rich endowment of copper and gold and low production costs</p>
<p>There has been increasing international interest from investors in new areas of mining, including iron ore, copper and phosphates</p>	<p>In May 2016, Freeport McMoRan sold its 70% interest in TF Holdings, which controls an 80% stake in the Tenke Fungurume copper/cobalt mine, in the DRC, for \$2.65-billion to China Molybdenum.</p>

MINING INDUSTRY TRENDS (CONT.)



Ethiopia	Mozambique
Gold is Ethiopia's main mineral export	The key commodities in Mozambique are coal, gold and aluminium. Commodities such as tantalum, ilmenite, rutile, zirconium and beryllium are also mined in Mozambique.
The mineral industry is not a significant sector of the economy as it contributes less than 1% to GDP	Mozambique is expected to reach a coal output of 41.8 million tons by 2017
Ethiopia has a single large-scale gold mine, Lega Dembi, owned by Midroc (98%) and the Ethiopian government (2%)	The majority of this coal is destined for export, most notably to China and India
Ethiopia has reserves of platinum, copper, potash, natural gas and hydropower.	Mozambique's mining sector is expected to reach US\$735 million in 2017, from US\$178 million in 2011
The Government of Ethiopia will invest \$20m in the Tulu Kapi gold project which will be used to fund the project's roads, power and other associated infrastructure	A consortium of two Chinese companies, Anhui Foreign Economic Construction Group and Yunnan Xinli Non-Ferrous Metals will invest more than \$471-million in the Chongoene Logistics Corridor project which will include the construction of a railway from Swaziland to the port of Chongoene, in the Xai-Xai district
In 2015 Allana Potash Corp. was acquired by fertilizer giant Israel Chemicals Ltd. for \$109.50 million	Xtract Resources agreed to sell a gold mine in Manica, Mozambique to Nexus Capital and to Mineral Technologies International for US\$17.5 million

MINING INDUSTRY TRENDS (CONT.)



Namibia	South Africa
Namibia's main commodities include diamonds, uranium, gold, zinc, copper and lead	South Africa's main commodities include platinum, iron ore, gold and coal
Namibia's mining industry also produces magnesium, silver, semi-precious stones and industrial minerals.	Other commodities in South Africa includes diamonds, manganese and chrome
Namibia has two significant uranium mines, which together provide for roughly 5 per cent of the world's uranium oxide mining output	South African Mining GDP increased to R231 242 Million in the third quarter of 2016 from R225 875 Million in the second quarter of 2016. The Mining GDP average was R234 238 Million from 1993 until 2016. The largest contributors to total mining GDP are the coal, PGM and gold sectors.
De Beers and the Namibian government have signed a 10 year sales agreement in which Namdeb (De Beers and the Namibian government are equal partners) the right to sort, value and sell diamonds	During 2015 and 2016 commodity prices fell as demand slowed and oversupply emerged in some commodities
	In 2015, investment in mining shrank by 0.6% as companies scaled back

MINING INDUSTRY TRENDS (CONT.)



Tanzania	Zimbabwe
Mining in Tanzania includes metals (gold, iron ore, nickel, copper, cobalt, silver), industrial minerals (diamond, tanzanite, ruby, garnet, limestone, soda ash, gypsum, salt, phosphate, gravel, sand, dimension stones), and fuel minerals (coal, uranium)	Zimbabwe has 40 known mineable resources
Tanzania's mining industry value is expected to decline from USD 0.86bn in 2014 to USD 0.82bn by 2020	Zimbabwe's key commodities include gold, diamonds, platinum group metals, nickel, coal and chrome
However, the new CATA Mining's Mara gold mine, the second largest project in the region, has invested over USD 54mn to develop the project in March 2016. Further, Shanta Gold recorded gold production of 24.5 thousand ounces (koz) at its New Luika gold mine in June 2016	Zimbabwe hosts the second largest known platinum reserves in the world, after South Africa
	The mining industry in Zimbabwe accounts for over 60% of exports in the country

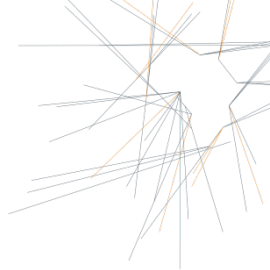
WEST AFRICA

- Ghana is one of the top gold producing countries
- Asanko Gold in Ghana expects to have the mine producing at a steady state of greater than 200,000 ounces of gold per year in the second quarter of 2016
- Mali is Africa's third-largest gold producer after South Africa and Ghana
- Although Mali has a significant number of gold reserves, it also has a lot of illegal mining
- The government recently canceled 130 mining permits which are effectively free for the government to issue to other investors that will pursue exploration
- Between 2006 and 2015, 18 new mines have been commissioned in West Africa
- A significant amount of projects which are being advanced in West Africa especially Burkina Faso, which has Nordgold's Bouly project, Endeavour Mining Corp's Houndé operation, True Gold Mining's Karma mine and the Yaramoko project by Roxgold Incorporated
- The projects being developed in West Africa have the potential to add 80 tonnes of gold per year by 2020



CONCLUSION

- Mining and resources projects certainly can be undertaken in Africa and undertaken well
- However, an essential ingredient in that recipe for success is to ascertain the pitfalls in advance and mitigate, as far as possible, such risks



Many Thanks!

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