April – June 2015
VOLUME 1. ISSUE 119
$11.95
Registered by Australia Post PP 643938/00057

Gold Mining JOURNAL

Kefi Minerals: Ethiopia's rising sun

- Africa focus
- Southern Cross's new owner
- Producer round-up

ISSN 1324-4396
02
9 771324 439005

Top of the class: Kefi in Ethiopia

Kefi exploration director Jeff Rayner has been instrumental in the company's success in both Ethiopia and Saudi Arabia

Those that claim to know the Tulu Kapi gold project in Ethiopia should think again.

Under the stewardship of previous owner Nyota Minerals Ltd there were doubts surrounding the viability of the 1.9 moz gold project.

A DFS, based on $US1,500/oz gold price, was completed in 2012 on an indicated and inferred resource estimate of 25mt @ 1.9 g/t gold, including a probable reserve of 17mt @ 1.82 g/t for 1 moz gold.

At that stage over $US50 million had been spent on the project, with drilling comprising 120,000m.

Enter Kefi Minerals plc.

After moving to acquire Tulu Kapi late in 2013, AIM-listed Kefi completed the takeover for a total £6 million in September 2014 and has taken the project from obscurity to the cusp of development.

An indicated resource update released in February, prior to **Gold Mining Journal's** visit to Tulu Kapi, further enhanced Kefi's credentials as Ethiopia's first international gold miner.

Led by Kefi executive chairman Harry Agnostaras-Adams and exploration director Jeff Rayner, there is a new dawn at the 18.8mt @ 2.7 g/t gold for 1.6 moz (indicated) Tulu Kapi project in western Ethiopia.

"We are the first internationally financed gold miner in the country and we expect to be licensed for development at Tulu Kapi this quarter (March)," Agnostaras-Adams said.

"We expect to complete the first phase of community resettlement next quarter and also [finish] the bankable DFS next quarter. The bankable DFS is a refinement of what was already published by the previous owner, so we are not starting from scratch. All we have done is to introduce more selective mining on a higher reserve base than had previously been worked on."

By overhauling Tulu Kapi in the past 14 months, some of the stigma attached to the project from Nyota's ownership has been removed by Kefi, but not entirely.

Kefi has increased the head grade to more than 2 g/t gold,

Kefi may just be the rising sun Ethiopia needs to unlock its mining potential

Ethiopia's population is about 97 million, the second largest in Africa behind Nigeria

boosted indicated ounces and slashed initial capex from Nyota's estimate of $US235 million to about $US100 million under Kefi.

The area and layout of the project has been reduced to lessen the impact on the surrounding communities and environment while minimising haulage distances from pit-to-plant.

Kefi has opted for a smaller pit and lower throughput rate of 1.2 mtpa compared with Nyota's previously scheduled 2 mtpa.

Precise details of exactly what Kefi has in mind will be known when the DFS is released and while the company hasn't been appreciated for its efforts at Tulu Kapi thus far (1.12p/share at the time of print) a robust economic study may change that.

"In my career I have tended to focus on buying assets when others are running scared. Half of the time, people ask me why I get involved in a particular asset. The other half of the time people are asking me how did we get it so cheap," Agnostaras-Adams said.

"It comes with the territory. We spotted an opportunity at Tulu Kapi in Ethiopia which we felt was misunderstood and we felt we could add value. We bought it for $US10 per reserve ounce and you can't find gold that cheaply. We have demonstrated with all the independent sign-offs, plus more, that we've lined it up in a robust economic manner. The proof is in the eating and we have demonstrated both on paper and

> **"...this particular project was already expected to be in development under the previous owner but they faulted, they stumbled on the last lap. We picked it up cheaply at $US10 a reserve ounce and we will get it into production.**

Kefi acquired Tulu Kapi from Nyota Minerals for $US10 per reserve ounce

There were about 30 people on site at Tulu Kapi when Gold Mining Journal visited in February. Numbers are expected to swell as Kefi moves into development phase

Tulu Kapi hosts a resource of almost 2 moz gold

with the quality of shareholders that have come to the party that we have turned the project around."

Tulu Kapi was first mined on a small scale in the 1930s by Italians, with Nyota following up generations later with a DFS in 2012.

History says Tulu Kapi was doomed under Nyota, even though it completed the DFS when gold was trading above $US1,600/oz with some pundits forecasting sustainable prices between $U1,800-2,000/oz.

The gold market crash of April 2013 inevitably ruled out Nyota's plans for Tulu Kapi, and proved to be a blow for the progression of Ethiopia's mining industry.

While SNL lists 35 different vehicles with mining interests, ranging from graphite and tantalum to gold and potash, in Ethiopia, Tulu Kapi and the $US1.6 billion (NPV) Danakhil potash project owned by TSX-listed Allana Potash Corp are the closest assets to development in the country.

Tulu Kapi – where former Perseus Mining Ltd country manager at Edikan in Ghana, Wayne Nicoletto, was appointed head of operations in February – is expected to come full circle when production begins in 2017 at all-in cash costs (including initial capex) of $US898/oz under an owner/operator, new plant (capex $US130 million) scenario. Opting for contract miners and a second hand plant would mean all-in costs in the realms of $US869/oz ($US95 million) are possible.

"We hope to be in construction in the fourth quarter of this year which will lead to production in 2017 and annual net operating cash flow of about $US40 million, double today's share market capitalisation," Agnostaras-Adams said.

"You don't have to be a rocket scientist to see there is a lot of upside in the valuation of the company based on today's market cap being half of the projected net operating cash flow."

Adamant a better long-term gold price is on the horizon – spot gold was trading above $US1,200/oz at the time of print – Agnostaras-Adams is comfortable with the capital and operating cost base at Tulu Kapi, with project NPV (discounted at 8% after tax) of $US177 million (at $US1,400/oz gold price), $US120 million ($US1,250/oz) and $US61 million ($US1,100/oz).

"We have stress-tested all of our stuff at those levels but gold is going to go north, we're certain," he said.

So too may be Tulu Kapi's reserve base.

Kefi will be initially aiming for an 11-year mine life at 86,000 ozpa gold from an

"Ethiopia is a great place to be, very pro-development and it has 15 years of just less than 10% GDP growth per annum.

open pit mine extending 1,400m. However, regional exploration, underground potential and heap leaching of lower grade stockpiles are yet to be factored.

The company is set to undertake metallurgical test work on more than 4mt @ 0.6 g/t gold of stockpiles and mapping and reinterpretation of mineralisation under the open pit and adjacent licences is ongoing.

Agnostaras-Adams said exploration and development were given equal importance in the company even if Tulu Kapi's development has taken precedence recently.

"We have obviously earmarked more people and money to the development job because of the scale of work that has to be done but by the same token the exploration function is equal priority because what we see around both projects is a lot of brownfields potential."

His confidence in the host country also compels Agnostaras-Adams to talk up Kefi's longer term plans in East Africa.

"Ethiopia is a great place to be, very pro-development and it has 15 years of just less than 10% GDP growth per annum, but this particular project was already expected to be in development under the previous owner but they faulted, they stumbled at the last lap."

Ethiopia is largely survived by its agriculture sector, where coffee is its main export crop. However, mining has been touted as an area of diversification for the country.

The privately-held Lega Dembi, Ethiopia's largest gold mine which is south of Tulu Kapi, produces about 100,000 ozpa gold (2 moz gold in reserve) and has been the main driver behind gold exports increasing to $US602 million in 2013 from $US5 million in 2001.

Kefi executive chairman Harry Agnostaras-Adams, with country manager Kebede Hailu, chief geologist Tadesse Worku W/Aregay and exploration director Jeff Rayner at the company's Tulu Kapi headquarters

There remains untapped gold potential in Ethiopia, while capitalising on tantalum, iron, salt, phosphorous, gemstones, coal, plus geothermal and natural gas discoveries is also on the country's radar as the nation expands.

Ethiopia is growing and with a population of 97 million, the country can ill-afford to rely on its agriculture sector forever.

However, with Ethiopia's reputation as the "home of coffee" in mind and with large sections of its host community dependent on their crops, Kefi has paid full attention to its community engagement responsibilities.

The local community will be well compensated for their coffee plantations

This year Kefi will start the resettlement of about 1,500 people from the community near Tulu Kapi.

The process of relocating 260 households to Gimbe, about 50km away, will be staged and is estimated to cost about $US6 million.

Agnostaras-Adams said having a strong local presence on

Kefi has access to an airstrip at Ayra, about 40km from Tulu Kapi

The view of Tulu Kapi (deposit to the left) from the proposed administration block

its roster allowed Kefi to piggy back on previous experiences in applying the right practices and procedures for a village relocation.

At the height of construction about 900 people will be required to build Tulu Kapi while a workforce of 260 will be needed when the project is at steady state.

Agnostaras-Adams said the company would leverage from local expertise as much as possible, while giving local industries and communities opportunities to supply goods and services to the mine site.

"We have really top class interaction with the Government and communities, so there are lots of meetings and discussions on anything that pops up and how best to handle it," Agnostaras-Adams said.

"There has been lots of community consultation; we were shown 17 areas the people could be moved to until they decided on that [Gimbe] particular one. There have been international consultants brought in that have been through this in different countries to make sure that we are sensitised to the Equator Principles and IFC standards, as applicable to this particular circumstance but frankly the most important thing is to be hands on and talk to people and we do that a lot.

"We keep working away until the issues are sorted out but the people will move, they actually don't own the land, so all the consultation and analysis is not about whether the move will take place; it is about how you do it properly and fairly."

Kefi has committed to establishing new dwellings and facilities at Gimbe – where conditions for growing coffee are favourable – for the communities it is affecting. Providing compensation for the coffee yield they will miss out on will be a numerical exercise.

"It will be done properly and

Kefi chief geologist Tadesses Worku W/Aregay at the proposed mine camp location which is about 1,800m above sea level

Tulu Kapi study comparisons

Kefi Minerals 2015 (pending updated DFS)
Ore processed: 1.2 mtpa
Average head grade: 2.4 g/t gold
Annual production: 86,000 ozpa
Open pit mine life: 11 years
Initial capital cost: $US130 million (owner/operated and new plant), $US95 million (contractor mining and second hand plant)

Nyota Minerals DFS 2012
Ore processed: 2 mtpa
Average head grade: 1.82 g/t gold
Annual production: 105,000 ozpa
Open pit mine life: 10 years
Initial capital cost: $US235 million

fairly under rules and regulations," Agnostaras-Adams said.

"The second thing they are owed is livelihood restoration. Those people that have moved – and we are doing it over a few phases to make it gentler – actually have their livelihoods reinstalled. That means they will have money in their pocket, a new house and they will also be provided with cultivated land to re-establish their enterprises. They will also be invited to supply part of the supply chain for the operation so they can make money out of the operation by supplying it.

"Ethiopia is where coffee came from in the first place, so coffee is an important part of the culture and we are even facilitating trial exports of their coffee from this area in an attempt to give them a bigger slice of the value-added pie but that is early days and is an experiment only," he said.

A smooth run into production at Tulu Kapi is vitally important for both Kefi and the country as the terms and conditions under which it is developed could be seen as a blueprint for other hopefuls looking for entry into Ethiopia's mining sector.

So far, Kefi appears to have the Government on side and expected to have a mining licence granted. The Ethiopian Ministry of Mines has approved project, with the Council of Ministers to have final say on the execution of a mining agreement and issuing of a mining licence and full permitting to develop and operate Tulu Kapi for 20 years.

Regardless, and even before the release of a revised DFS, Kefi has conjured the backing of another cornerstone investor – Perth Partners, acting for Goldfields Resources Fund, which is a new mining sub fund of Perth Global Funds, an Irish incorporated company.

Late last year Kefi undertook a three-stage placement to net £4.9 million, with Perth Partners coming in with the last tranche (£3 million) to become the largest shareholder with 15.7%, alongside Odey and Standard Life.

The placement enables Kefi to advance Tulu Kapi to mid-2015 before it starts arranging debt financing for the project.

"In the third quarter we will be nailing down development funding," Agnostaras-Adams said.

"We are currently looking at $US100 million senior project debt and we have got indicative term sheets from the natural African project finance specialists and about $US20 million equity or subordinated debt. We have got three cornerstone investors all of whom will be part of that $US20 million piece and we may or may not involve a fourth party at the time."

The company is targeting $US120 million in development capital in addition to the $US60 million pre-development capital invested as equity.

Once funds are locked in, construction is likely to take 16-18

"Tulu Kapi and Jibal Qutman [developments] will be close to each other... but my betting money would be on the Ethiopian project starting first with the other very soon thereafter.

The Tulu Kapi community resettlement programme will be done in phases, with the first starting this year

Ethiopia prides itself on being the "home of coffee"

The community closest to Tulu Kapi comprises about 260 households, with about five people living in each home

months in which time Kefi may be well on its way to building a second mine.

Upon its AIM listing in 2006 – when it spun out of EMED Mining's Turkish assets in a $US25 million IPO – Kefi has claims to nearly 2,000sq km of exploration licences granted or pending applications in the Arabian Nubian Shield.

The Arabian Nubian Shield, which comprises parts of Africa and the Middle East, hosts Tulu Kapi and Jibal Qutman, a JV between a Saudi Arabian group (ARTAR 60%) and Kefi (40%).

Barrick Gold Corp's stalled development of the 100 mlbpa Jabal Sayid copper concentrate project has left the Saudi Government shy on granting mining licences in the country, however, Kefi appears to be on side.

The company has not disappointed with its efforts in the country and within 12 months of being granted an exploration licence in July 2012, it announced the 630,000oz gold discovery at Jibal Qutman.

A PFS was completed in March 2014, with the focus on a low capex, open cut 1 mpta heap leach operation for 32,000 ozpa @ 1.1 g/t gold at all-in costs of

Core trays made by the local community

"...we have positioned ourselves in Ethiopia when others were running and we have got the backing to do it. The proof will be in the eating but we are excited about what we have established in Ethiopia and Saudi Arabia and at the moment it is a breath of fresh air dealing here which is quite exciting.

Gold accounts for 99% of mining revenue generated in Ethiopia. Artisanal miners are large contributors to gold production

under $US1,000/oz.

Kefi's plan is to define 250,000oz of oxidised material at surface and stage mine a number a shallow open pits, which it hopes to assess in a BFS this year.

"It's one of our own discoveries, it is not as advanced and as big as Tulu Kapi across the Red Sea but nevertheless it is just as important because that planned heap leach development is intended to be the cash flow source for our very large exploration portfolio in Saudi Arabia. We are the only company granted licences in Saudi in the last few years because of the quality of the work we do and particularly because of the JV partner we have – one of the leading families in Saudi Arabia who have a well established business and are respected by the Government," Agnostaras-Adams said.

"Tulu Kapi and Jibal Qutman [developments] will be close to each other... but my betting money would be on the Ethiopian project starting first with the other very soon thereafter.

"The fact we are straddling both sides of the Red Sea on the same geology means our team can straddle both projects and move from one to the other which will make it more cost effective."

In addition to Jibal Qutman, Kefi plans to dedicate time to another large gold and base metals prospect it has discovered in Saudi Arabia on the Hawiah exploration licence.

"There is a lot of grassroots potential in both countries, and while there will be milestones hit on the development front we expect a series of milestones to emerge on the exploration front," Agnostaras-Adams said.

"There is a very ambitious exploration programme on both sides of the Red Sea and there will be a series of results coming out of both of them.

"One particularly notable grassroots project is a VMS target at Hawaih. We received a license only last December and it has a 6km-long gossan where we have just completed 53 trenches and it is mineralised. It has never had one drill hole in it, which to us is the exciting thing about Saudi Arabia. If there had been a 6km-long gossan in Western Australia I can guarantee you that there would have been more than one drill hole in it. That is the exciting thing about going to these places, you can use experiences from Australia and apply them to ground which has not been hit yet."

Agnostaras-Adam's attitude may well lead Kefi – whose board comprises the likes of Ian Plimer (deputy chairman), former British diplomat Norman Ling (director) and John Leach (director) – into more unexplored territory in Ethiopia and Saudi Arabia, despite market sentiment not dictating exploration bravado right now.

"There's two choices when capital markets are so tough on our sector; one is either turn the company into a zombie and shut it down, ride out the storm and come back hitting, so to speak, when capital is cheaper or a lot more accessible," Cyprus-based Agnostaras-Adams said.

"The other choice is that you go for it while things are so tough and try and penetrate deeper and establish a wider platform so that you get set while capital is harder to come by but the rewards can be far more lucrative.

"That is what we are trying to do, we have positioned ourselves in Ethiopia when others were running and we have got the backing to do it. The proof will be in the eating but we are excited about what we have established in Ethiopia and Saudi Arabia and at the moment it is a breath of fresh air dealing here; that is quite exciting."

– Mark Andrews

The local school principal thanks Agnostaras-Adams for donating encyclopaedias to the school