

Revvng Up or Out of Steam?

Colombia's mining locomotive chugs uphill



This report was researched and prepared by Global Business Reports (www.gbreports.com) for Engineering & Mining Journal.

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A REPORT BY GBR FOR E&MJ

MARCH 2014

Colombia

An Exacting Climb



Aerial view of B2Gold's Gramalote project. Photo courtesy of B2Gold.

Over the last decade Colombia has undergone a transformative age that has vastly enhanced the long-term prospects of the country's mining sector. As the administration of former-president Alvaro Uribe aggressively improved the country's security situation from 2002 to 2010, majors and juniors alike demonstrated unprecedented interest in the country in the hope they could capitalize on the exciting geological potential of the "Last Andean Frontier." According to Colombia's National Administrative Department of Statistics, foreign direct investment in the mining sector grew at an average rate of 5% per year between 2005 and 2010. Buoyed by the potential of the industry and the optimism derived from high mineral prices and easy financing, Colombia was already the darling of investors on the TSX when Uribe's defense minister and successor, Juan Manuel Santos, took the reigns of the country in 2010. In an effort to capitalize on this momentum, Santos identified the extractive industries (mining and hydrocarbons) as one of five "locomotives for economic development."

As Santos's first term reaches its twilight (he is up for reelection in May) the mining sector has faced a number of challenges, both internally and externally, that have slowed the country's once robust locomotive. Many proposed gold projects are stalled either by regulatory hurdles or internal financing issues, while Colombia's second largest source of export revenue, thermal coal, saw a 4% decline in production in 2013. Of course, a major factor in this slow development is the uncertain outlook of global markets; gold prices hover \$650/oz below their record highs and cheap gas in the United States is reducing the medium-

term demand outlook for Colombian coal. In 2012, foreign direct investment in Colombia's mining sector declined 5.5% compared to 2011. The situation is not improving; during the first seven months of 2013, investment in mining and aggregates fell by 3.1% compared to the first seven months of 2012. "We are in the last quarter of the recession cycle for the mining and energy industries because of adverse international circumstances. This influences emerging economies, such as Colombia. The country is preparing for the next boom because we recognize mining markets are cyclical," said Amylkar Acosta Medina, Minister of Mines and Energy in an interview.

Unclogging the Backlog

In 2012, the government established the National Mining Agency (ANM) under the authority of the Ministry of Mines and Energy. In 18 months, the ANM sifted through a backlog of some 19,000 mining applications. Although about 95% of these applications were subsequently rejected, this did

not deter companies from expressing interests in the country. When the window for new applications reopened in June 2013, after a two-year hiatus to sort through the backlog, the ANM received some 2,200 applications for new mining licenses on the first day. "Getting the ANM up and running has been a challenge not only from an infrastructure point of view, but also in dealing with the backlog of applications. We are working to establish a baseline for the industry that is more on par with other more established mining jurisdictions. This requires stronger processes. We are working on enforcing these and improving inter-institutional coordination, but this takes time," said Carolina Rojas Hayes, promotions manager of the ANM.

While unclogging the bureaucratic bottleneck at the ANM has made significant progress, the principle criticism amongst industry leaders is a lack of coordination between the different government stakeholders in mining. Despite President Santos's directive for mining to be a part of the country's national development, mining companies are receiving mixed signals from government agencies as they seek to go from titleholders to developers. Chief among these mixed messages is the Ministry of Environment's decision to exclude 21 million hectares, approximately 25% of Colombia's territory, from extractive industry activity. On a similar note, the Ministry of Environment has also forbid mining in the páramo ecosystems of Colombia, yet the exact parameters of what constitutes a páramo, generally defined as a high altitude tropical ecosystem above the timberline, are not clearly delineated. For many mines in the promising Santander department,



Amylkar Acosta Medina, Minister of Mines and Energy.



David Arce, president, Arce Rojas Consultants.

this has led to an indefinite delay in the environmental approval process.

In addition to the lack of clarity from national agencies, the presence of regional and local governments with differing agendas only further complicates the country's regulatory dynamics. As companies try to navigate the opaque development paths at the national and departmental level, the cliché that all politics is local certainly holds true in Colombia. AngloGold Ashanti's La Colosa project has met a myriad of on-the-ground opposition, which has effectively stalled the project. Meanwhile other projects that have not met such widespread opposition, such as Continental's Buriticá project or Minatura's alluvial production, have received the required permits. "When a mining company is coming to Colombia they should understand that they are guests in this country. Extraction activity directly affects local communities, and therefore foreign companies must have a clear understanding of the rules and regulations. The mayor is normally the chief of the community and holds keys to facilitating all the processes for the mining companies," said David Arce, president of Arce Rojas Consultants, a legal-based consulting firm.

For a country that has come back from the brink of failed state status and become a thriving economy in a generation, it is understandable how mining regulation had taken a backseat to more pressing matters. Now, Colombia is experiencing the growing pains of regulating a complex industry. "We are at the stage where the different ministries are still figuring out how the gears fit together. What we are currently missing is someone to lead and coordinate all these ministries who see each other as colleagues and cannot direct one another around. There has been progress in the last three years, but there needs to be a bit more consistency from the government," said Mark Moseley-Williams, president and COO of Continental Gold.



Mark Moseley-Williams, president and COO, Continental Gold.

The Illegal Mining Challenge

In October 2013, Cerrejon, the country's largest coal miner, was the victim of a railway bombing by the Revolutionary Armed Forces of Colombia (FARC). In August, Canadian geologist Gernot Wober of Braeval Mining Corp. was released after being held hostage by the National Liberation Army (ELN) for seven months. Despite ongoing peace negotiations with the FARC in Havana and the dramatically weakened position of both guerrilla groups, these instances show the hydrocarbon and mining industries remain the target of insurgent attacks and kidnappings.

Primarily due to a legacy of five decades of violence, Colombia is home to only a handful of legal, producing gold mines, which are operated by companies such as Mineros SA, Gran Colombia Gold, and Minatura. Although it is the third largest gold producer in South America, the majority of Colombia's production comes from informal sources. This gold is difficult to track, giving terrorist organizations a funding vehicle to complement their infamous source of revenue, narcotics production and trafficking. "It is necessary to separate informal mining or traditional mining, which has a long history in Colombia, from the nexus of criminality. For informal or traditional miners, the government is working towards a process of formalization for its legalization. However, for those miners that have entered into the nexus of criminality, there is no tolerance for this activity," said Amilkar Acosta Medina, Minister of Mines and Energy.

While engaged in peace talks, the government is also taking steps to curtail illegal mining. In 2013, the government issued a directive that any equipment used by illegal miners is to be confiscated and destroyed. While a necessary step in the right direction, the directive has caused some confusion for the country's equipment dealers and leasers. "Unfortunately,



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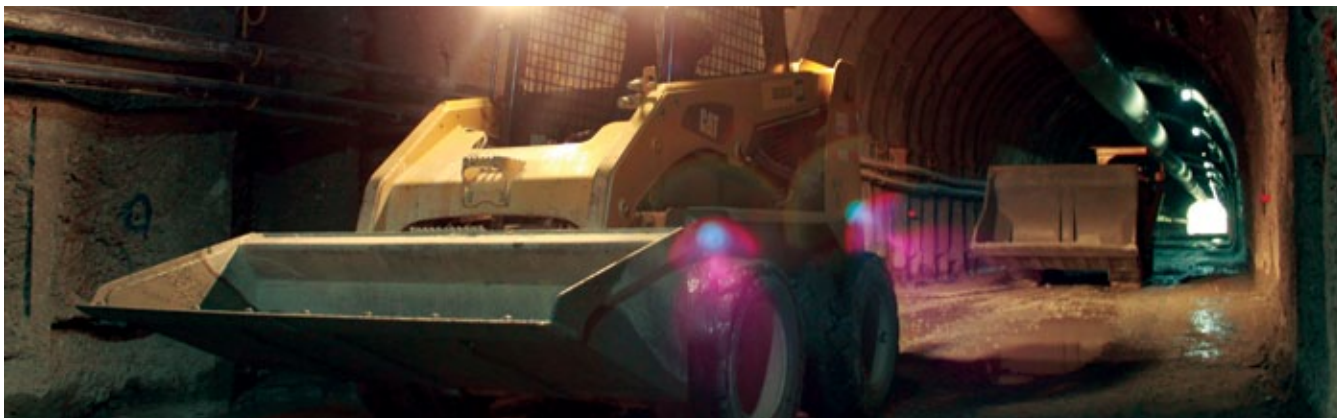
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Development activities at Continental Gold's Buriticá mine. Photo courtesy of Continental Gold.

the regulations have not been clearly defined, creating misinformation and delays on the machines deliveries to our legitimate customers, affecting them profoundly. Once the rules are clearly defined and communicated, we believe that these conditions will be beneficial for the legitimate miners," said Fredy Daza, mining sales and marketing manager for Gecolsa, the country's Caterpillar distributor.

As foreign companies have entered the country, many have had to contend with preexisting informal miners working on their titles. The issue is thorny as the government estimates that over half of the country's 102,000 miners are involved in unpermitted mining activity. In many cases these informal mines are the main source of livelihood for entire communities, while at the same time they follow no environmental standards and their production may be used as a financing vehicle for the country's guerilla groups.

One company that encountered informal miners on its title was Gran Colombia Gold when it acquired the Segovia mine in 2010. Since then, the company has implemented its Artisanal Mining Program. Profits are shared between the mining company and artisanal miners, while standards for these once informal miners are implemented and upheld. "It [the Artisanal Mining Program] has transformed the community as the informal miners have gone from being in the shadows to becoming integrated members of society. In Segovia the informal miners used to process the ore with mercury, making the area the most polluted in Colombia. Formalization provided a solution for this environmental challenge because as the titleholder we were liable for the adverse environmental impact they created. This program was a risk, as we have to share profits with these artisanal miners on our title. We figured if everyone walks in the same direction we would be more productive as a whole," said María Araujo of Gran Colombia Gold.

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Re-strategizing Investments

The last two years were not easy years for the cash-strapped junior sector and Colombia's decline in mining investment reflects this harsh reality. Many juniors exited the market giving the remaining players a prime opportunity to fill the void. In such a difficult market environment, defying norms could favor the bold as traditional strategies have led to failure for many. With fewer players in the market, companies are finding financial success because they are able to blend strong projects, experienced management teams and attractive prices all into one enticing package for investors.

According to the Colombian Chamber of Mines, 90% of the country's territory remains underexplored, making Colombia a project developer's dream. Exploration activity has come to a halt for many juniors in the market and recent merger and acquisition activity in Colombia has been slow. "The current struggles of the junior market are not so much based on their exploration results but on the current poor market conditions that are determining the progress or lack of it on a project. There are certainly acquisition opportunities to be made at the right price," said Stephen Jensen, B2 Gold's vice-president for Colombia.

B2 Gold is currently in the midst of a prefeasibility study on the Gramalote project with operating partner AngloGold Ashanti. According to Jensen, Gramalote has recoverable gold reserves of 3.9 million oz with potential production of 300,000 oz/y. While AngloGold Ashanti's other Colombian asset, La Colosa, faces significant opposition, Gramalote is moving forward. "Gramalote is probably Colombia's first opportunity for modern, large-scale, open pit gold mining to come into production. Colombian mining



Mario Stifano, CEO, Cordoba Minerals.



Paul Dias, CEO, Minatura International.



Stephen Jensen, vice-president for Colombia, B2 Gold.

needs good news; this mine coming to fruition provides this," said Jensen.

A company that is creating a buzz on the market is newly formed Cordoba Minerals. The company was formed through the merger of several companies to acquire all of the land surrounding the copper gold porphyry district at Montiel. In November 2013, Cordoba announced drilling results of 1.0% copper and 0.65 g/mt of gold at 101.1-m depth. "This discovery puts the focus on this newly discovered porphyry district which we control 100%. It is very rare to have 100-m holes with these types of grades within a district that is controlled by one company. What the drill holes and our exploration work to date have shown is that this project has the potential to be a high-grade porphyry cluster, hosting significant grades of both copper and gold. The area is unique when compared with the rest of the middle Cauca belt, where open-pit porphyry discoveries are economically challenged due to the high elevation in a mountainous region with lower grades," said Mario Stifano, CEO of Cordoba Minerals.

With a number of Colombia's most prominent mining figures as stakeholders, including incoming chairman Ari Sussman, current CEO of Continental Gold, Paul Dias, CEO of Minatura International, and previous Cordoba CEO Simon Ridgway as director, the project certainly has an experienced team and the market took notice. "Taking our discovery and company on the road to potential investors around the world we raised \$15 million in January 2014 and the financing was significantly over subscribed. The investors saw the potential of this district just as we did," said Stifano. While others have shied away from the Colombian market in recent years, Cordoba is proceeding with unabashed confidence. "Cordoba is a young company, though we are a major in the making," he said.

Another encouraging development for the Colombian market in the latter half of 2013 was the announcement that IAMGold had agreed to an option agreement to earn up to a 70% interest in Solvista Gold's Caramanta project. "We are very happy to have IAMGold come into the project not just because they will be investing a significant amount of money, but it also gives a vote of confidence in the project and the work we [Solvista] have done. There were obviously not many deals done [in Colombia] last year, and this probably is among the larger ones," said Solvista's president and CEO Miller O'Prey.

Prior to the announcement, Solvista had halted its drilling program to conserve cash, a move common amongst the junior sector in Colombia as financing runs tight. With IAMGold coming onboard O'Prey expects exploratory drilling to recommence on Caramanta by the middle of 2014.

Atico Mining, formed in 2009, attained a purchase option agreement on Colombia's only producing copper mine, El Roble. In exercising its option after promising exploration results, Atico paid \$14 million to obtain a 90% interest in the mine. Through mechanization and further exploration on the 6,679 hectare property, Atico is not only planning to significantly extend the mine's life, but is also targeting production to increase from its current figure of 1,200 to 1,500 mt/y of copper to 6,000 to 7,000 mt/y. Additionally, Atico is planning to produce 10,000 to 12,000 oz/y of gold.

Despite the challenging market environment, Atico was over-subscribed when it raised capital to exercise the purchase option in summer 2013. "The few investors that have stayed in this market are choosing very carefully where to invest and Atico is an attractive option... Atico reduces many of the risks that exploration companies have. El Roble generates cash flow, has growth potential and

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MINING IN COLOMBIA

we are a group with a successful track record of developing mines behind us; this is important in the face of the overblown investment budgets that have been highly disappointing for investors in the last years," said Fernando Elías Ganoza, CEO of Atico Mining.

For some of Colombia's non-producers, drilling programs to prove additional reserves have taken a backseat to initiating production as soon as possible. "The problem is one of perception; from our point of view, we have hard assets with good metallurgy where a valuable project can be developed. Everything is undervalued and that is why we are going to the production side of the business and acquiring new assets that are near production," said Mario Escobar, president and CEO of Ashmont Resources.

TSX-listed Antioquia Gold has accelerated the production timetable at their Cisneros project in order to generate cash flow in the near term, while shelving some costly exploration activities for the time being. Antioquia Gold is in the final stages of securing financial backing and completing feasibility studies, once these steps are completed, the company estimates Cisneros can begin producing in 18 months with initial production targets at 35,000 oz/y. However, Antioquia Gold's president and CEO, Fernando Jaramillo, contended that this figure



Hans B. Kulp, general manager, Exsa.

could eventually triple once full exploration at Cisneros is completed. "The exploration is focused on an area below a mountain; therefore exploration is not cheap because the holes to test the veins which are close to vertical run deep. "We can always do more exploration as we are producing. The problem is that the market does not understand this; it wants as many ounces as possible in the resource, but drilling some holes costs as much as the amount of gold they can add to the resource," he said.

Antioquia Gold's plan is by no means conventional, however Jaramillo believes this will help reduce operational expenses



Fernando Jaramillo, president and CEO, Antioquia Gold.

in the long term by saving more expensive, deep hole drilling for when the company has a solid cash flow.


Those that are willing to take what some investors see as a risk by purchasing an asset or establishing early stage production are showing that they are not going to simply stop progressing because the market has forced others to cease. This type of perseverance is necessary in order for an entire industry to avert stalling in the short term and can have handsome implications for shareholders in the medium-term. "The potential for growth here is perhaps not what the government forecast for this year (2013), but we must remember that Colombia faced severe delays in its development because of security concerns, which lasted a good 20 to 30 years. It is only in the past decade that things have been looking up. We are running behind, but we have a proactive government now," said Hans B. Kulp, general manager of the recently established Colombian branch for Peruvian explosives firm Exsa.

Despite the short-term market uncertainties and the continuing growing pains of the country's regulatory regime, the geological potential of Colombia is too appealing of a prize for the mining industry to ignore. As an Andean country with the same geological DNA as mining powerhouses to the south, Colombia's mining fortunes will certainly turn as the global market recovers. "The reality is that mining takes a long time and this is a normal progression. Some companies that are idling right now are facing the market realities, while others have stepped out because their projects are simply not feasible. That is part of the risk of the junior mining industry. There are companies that are struggling and have stalled, but the groundwork is being put in place and this takes time. You cannot build a mine, or a mining industry, overnight," said Mark Moseley-Williams of Continental Gold.

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