

Developing Africa

The New Africa Mining Fund

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It is a well-known fact that Africa is well endowed with mineral resources and that the sustainable development of these mineral resources not only has the potential to make a significant contribution to the employment level, national revenues and foreign exchange reserves of a particular country, but also can make an impact on regional development.

It is also recognised that the development of a mining project, from discovery to production, is a risky undertaking that often sees identified resources not reaching production stage.

However, those projects that do reach the production stage, as well as making a significant impact on development, also result in handsome returns for investors. The New Africa Mining Fund (NAMF I) has realised both these outcomes over the past seven years, providing a 'win-win' for investors and communities alike on the continent.

NAMF I was established in 2003 to provide funding to the junior mining industry in Africa. The Fund raised around US\$77,8 million committed capital and made investments in projects in various metals and minerals, including precious metals,



base metals, iron ore, industrial minerals, coal and diamonds. The investment period of NAMF I ended in February 2009 and the Fund is now enjoying a 'harvesting' period with most of the investments being realised and cash being distributed to investors.

To provide a further brief history, NAMF I was set up to assist in the development of a sustainable junior mining sector in Africa and to assist new BEE players to enter the mining sector.

'In support of transformation initiatives in South Africa, as set out in the Minerals and Petroleum Resources Development Act and the Mining Charter, mining companies wanted to create a vehicle that could encourage new entries in the industry. The idea was also supported by the Chamber of Mines of South Africa, and a number of mining companies invested in the Fund, namely Harmony, BHP Billiton, Gold Fields and Exxaro. Other investors who supported the initiative were Absa Bank, the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC), the International Finance Corporation (IFC) and Sanlam,' says John Taylor, a principal of the Fund management team.

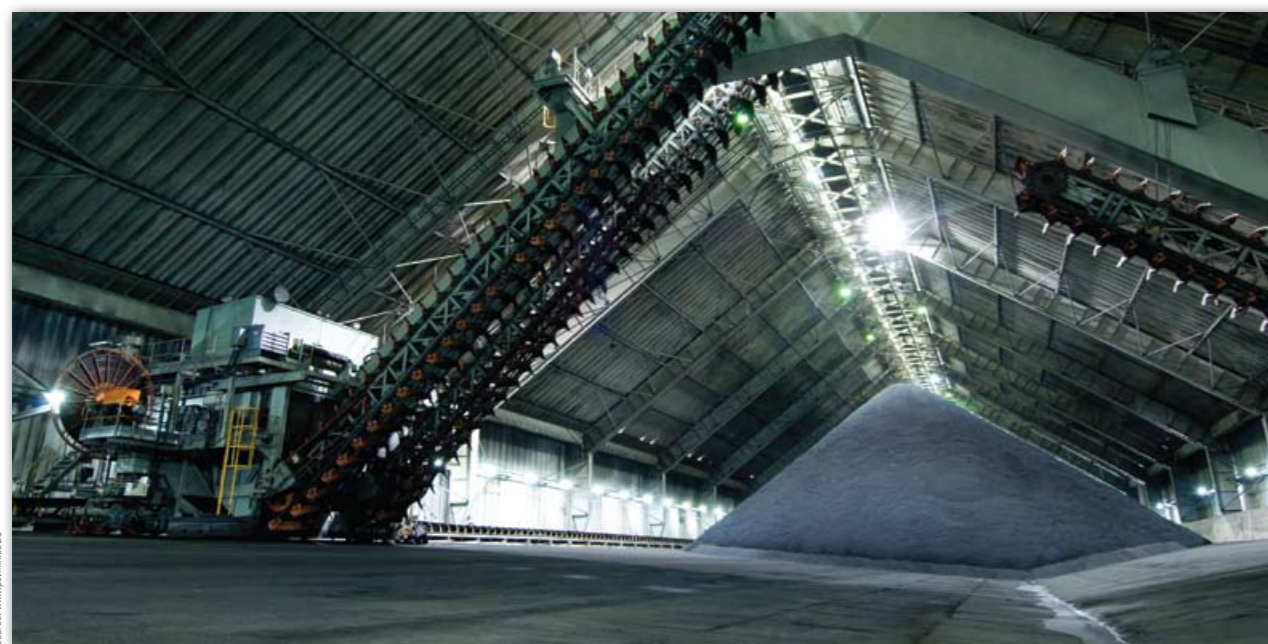
'The juniors we invest in typically develop projects until they become attractive to larger mining companies, which then acquire the projects and turn them into substantial mining operations,' says Taylor.

NAMF I investment portfolio has accomplished significant results. Investments the Fund has realised include:

- **Petmin Ltd:** The transactions included SamQuarz, a silica-producing mine; Springlake Colliery; the Somkhele Anthracite project and 50% of the Baobab Joint Venture (JV) (coal assets). (See case study on page 55.)

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- **Jubilee Platinum plc:** A prospective portfolio of platinum projects located on South Africa's Bushveld Igneous Complex. A definitive feasibility study for the Tjate project is currently being undertaken.
- **Veremo Holdings (Pty) Ltd:** A large opencast deposit in excess of 500 million tonnes of titaniferous magnetite ore in the Bushveld Igneous Complex. Kermas Limited, Korean steel company Dongbu Steel Limited and Korean state-run KORES have signed a Memorandum of Understanding to develop the project. The parties intend to develop the project in Stoffberg, east of Johannesburg, at an estimated capital cost of US\$475 million to produce 1,2 million tonnes of pig iron per year from 2013.
- **Lupa Goldfields Joint Venture:** An early-stage gold exploration project in Tanzania. Great Basin Gold recently acquired this project.
- **Africo Resources Ltd:** The company holds a 75% interest in the Kalukundi project, situated 65 kms east of Kolwezi in the Democratic Republic of the Congo (DRC). A feasibility study on the project has been completed. The company has effectively been acquired as part of a larger transaction that is likely to result in the consolidation of the highly prospective contiguous properties.
- **Limpopo Coal (Pty) Ltd:** Situated on the farm Overlakte, in the Limpopo province of South Africa, on the border with Zimbabwe. It now forms part of Coal of Africa's Vele project.



- **South African Coal Mining Holdings Ltd (SACMH):** Listed on the JSE Ltd and owns two collieries: Ilanga and Umlabu. The company is in the process of being acquired by JSW, a large Indian company with interests in steel mills and power generation.
- **Kiwara plc:** The company had an interest in a nickel-copper-cobalt exploration project in Zambia. Kiwara was recently acquired by First Quantum Minerals, which is pursuing the rapid development of the project. If a mine is eventually developed, it will have a major impact on development and infrastructure in the north-west corner of Zambia.

Taylor says the Fund has served as a vehicle for the development of mining operations that create employment for the local population and stimulate infrastructure development, among other economic benefits.

New Africa Mining Fund (NAMF II)

Following the success of the NAMF I, the managers of the Fund are setting up a second New Africa Mining Fund (NAMF II). The

launch of the Fund and its first closing is expected to take place before the end of 2010.

NAMF II is targeting capital commitments of up to US\$300 million, with a first closing of approximately US\$90 million. The investment objective of NAMF II will be similar to that of NAMF I – to make investments in early-to-late stage exploration, mining and beneficiation projects in Africa and to simultaneously realise commensurate risk and liquidity adjusted returns.

NAMF II will invest throughout Africa and has therefore been structured into two investment entities that will co-invest in all transactions. An entity for South African Rand investors will be domiciled in South Africa and a second entity for American Dollar investors will be domiciled in Mauritius.

Taylor says there are many exploration opportunities on the continent, but the junior mining sector in Africa needs a capital injection to take advantage of these. Meanwhile, local communities also need the development a new mine can bring.



Source: www.petmin.co.za

The success of the junior mining sector is evident in the number of junior miners listed on stock exchanges in London, Toronto and Australia. The JSE Ltd also has a number of listed junior miners, but less than its international peers. However, despite the fact that many doors have been opened for the junior mining sector in Africa, the fact remains that many junior companies still battle to gain access to equity finance.

Development

The mining industry has proved over and over again that it can make a significant contribution to development and wealth creation in communities. NAMF plays an important role as the facilitator of new mining ventures in this regard.

‘We will be looking to invest mainly in greenfield projects across the continent. Our aim is to provide capital for exploration, feasibility studies, development or expansion to entrepreneurs with successful track records.’

‘The Fund targets investments in projects for commodities with attractive fundamentals, projects that are in the early stage of the development cycle and that have the potential to move up the value curve and become medium to large operations within a relatively short period, irrespective of the initial investment size.’

‘It is our belief that investment must be made on a sustainable basis and we are therefore committed to responsible investment. We promote good governance standards, including the application of the Extractive Industries Transparency Initiative’s principles and we apply a strict Environmental and Social Management System,’ says Taylor.

Case Study

Petmin is an example of a NAMF I project that grew from a development project into a full-blown operational company with producing mines thanks to the assistance of the Fund. The project is also an example of how the Fund’s investment in mining can lead to significant development to the advantage of communities in the investment area.

Petmin is a multi-commodity mining and processing company listed on the JSE Ltd (1986) and the London Stock Exchange’s Alternative Investment Market (AIM) (2006). The company has a 30% BEE shareholding and is a supplier to blue-chip customers such as Xstrata SA Pty (Ltd) and Samancor Limited.

The company’s key assets include SamQuarz, an operation located 10 km east of Delmas, Mpumalanga, which the company acquired in September 2004. SamQuarz mines high-quality silica and chert. The mine is in the Nkangala District Municipality, which serves the towns of Delmas, Sundra, Eloff and Botleng. Approximately 84% of the mine’s employees come from these towns.

The company also owns Somkhele mine, which it acquired in its pre-feasibility stage in November 2005. Somkhele is located 85 km north-east of Richards Bay, KwaZulu-Natal, and mines high-quality anthracite. The mine falls in the Mpukunyoni Municipality in the Hlabisa district and draws 79% of its employees from the mine’s surrounding areas.

Petmin’s Veremo project is a potential pig-iron project acquired in May 2008, located in the Eastern Bushveld near Stoffberg in the Mpumalanga Province. The ore body consists of magnetite with 42% iron and 14% titanium dioxide.

All the company’s mines and projects mentioned were partly financed or acquired by NAMF I and subsequently sold into Petmin.

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Source: www.petmin.co.za

Developing people

Petmin not only employs people from communities surrounding the mine, but also assesses the education levels of its employees in order to update their training on a regular basis. A review and outline of skills development targets are drawn up every year.

Furthermore, the company has been assisting employees and community members with Adult Basic Education and Training (ABET) since 2008, with the help of a service provider from the local community.

The company's transformation programme also includes learnership programmes aimed at the development of trades such as electrician, fitter and boilermaker. The mine requires these skills and so identifies candidates from within its own ranks to complete the learnership programmes. Bursaries for study at a tertiary institution are also awarded to employees and community members; in 2009 five employees and two community members were awarded bursaries at Somkhele.

The company's career development and succession planning provides for employees to be selected for development and advancement based on core competencies. The career succession plan has two focus areas: the development of unskilled and semi-skilled workers and the advancement of skilled and professional employees to management level.

Career development for unskilled and semi-skilled employees is mainly aimed at developing women's skills so that they can assume key operational positions. A total of 56 women at the mine are currently on career development paths.

Mentoring also forms an integral part of the career development of employees. This function is well-established at SamQuarz, where nine historically disadvantaged South Africans are currently on a mentoring programme.

Community interaction

SamQuarz is in the process of establishing a Forum consisting of mine, municipality and community members. It has also started meeting with adjacent mines with a view to investigating the development of partnerships for community projects.

Meanwhile, Somkhele mine continues to interact with the surrounding communities through regular meetings of the Mpukunyoni Mining Committee, which consists of representatives from the mine and the Mpukunyoni Tribal Authority.

Through Somkhele's housing development project, a total of 124 families have received new houses, of which 116 have been built in the Mpukunyoni area. The total number of community members who have benefited from the project is 983. A library with 1 000 books is also being established.

The following projects are planned over the next two years:

- the upgrading of two community roads, one community dam and the cemetery
- construction of a new community dam and a new community hall
- provision of a mobile clinic
- water supply to all new houses
- a new sports field
- implementation of a wellness programme for employees and community members.

The mine has also commenced plans to develop skills among community members this year, which involves people with welding skills being organised to train others. A minimum of 20 community members will be enrolled in the first six months of a year and a further 20 in the second six. The intention is to manufacture tables so people can gain skills and experience that they can then use to generate an income. The tables will be donated to schools. ■

WHERE SOME SEE BARRIERS, WE SEE POSSIBILITIES.

We don't just dig deep when it comes to unearthing opportunity. Everything that we do at Exxaro, from extraction and beneficiation of our resources, to the recruitment of highly skilled employees and socio-economic development in the communities surrounding our operations, is backed by a relentless drive to push further, overcome barriers and find innovative and worthwhile solutions.

With mineral assets that include quality and strategic resources both in South Africa and abroad, supported by a strong growth pipeline, we are proud to play our role as one of the country's largest diversified resources companies. Through our innovation and growth we aim to be a powerful source of endless possibilities.