



FARC rebels searching a truck driver in Colombia

Photo: Bloomberg News

Community activism on the rise

Colombia is shaking off its past to become an attractive mining investment destination

FAST FACTS: COLOMBIA

Capital:	Bogota
Population:	45.2 million
Real GDP growth:	5.7%
Currency:	peso

BY CAMILA REED

COLOMBIA has struggled to shake off its image as a nation wracked with violence and that is synonymous with the illegal drugs trade and a bloody insurgency.

The country has been dogged by five decades of internal conflict that have left around 600,000 dead and another four million displaced.

But by the mid-2000s, security had improved under the 2002-2010 presidency of Alvaro Uribe, and soaring commodity prices led to a flood of investment, encouraged by tax breaks and other incentives.

Colombia still makes millions from the export of illicit drugs, but it has an abundance of natural resources. Its major exports include: oil, gas, coal, emeralds, gold, nickel, coffee, flowers and bananas. The US is Colombia's main export partner. According to the World Bank, foreign direct investment soared by 126% between 2004 and 2010. In 2012, overseas investment in Colombia's oil and mining sector exceeded US\$13.12 billion, an 8.3% rise on 2011, although there are signs that interest is cooling.

Colombia has slipped from third to fifth place globally as the ideal place for foreign mining investment, according to the Fraser Institute's 2012 survey. The report also indicated that Colombia had become less attractive to mining companies and that investment was being delayed.

"The Colombian government has quite clearly made a commitment to use mining as a principal driver of economic growth for the country," Joao Carrelo, president and chief executive of Eco Oro Minerals Corp tells *Mining Journal*. "But the country has lacked a clear set of rules for the legal and structured mining sector, which is reflected in deficient regulatory frameworks and government structures that in turn increase the country risk for publicly traded companies such as ours."

During 2006-2011, Colombia was consistently rated as one of the top 10 reformers in the World Bank's Doing Business Report. The economy grew at an average rate of 3.1%, compared with 2% in the previous five years, and the population living below the domestic poverty line declined by almost 8%.

Successive governments have promoted mining as the locomotive of economic growth in a nation located in the northwest corner of Latin America. Colombia's GDP was worth US\$333.4 billion in 2011, according to the World Bank.

Now, however, the economy is slowing. Gross domestic product (GDP) was growing at just 2.1% in the September quarter of 2012, its slowest pace since the same period in 2009, central bank data showed. Activity was hit by a

steep fall in the construction sector, weaker manufacturing and the effects of the global economic slowdown.

Despite the phenomenal investment in mining over this period, the sector only accounted for 2.4% of GDP in the first half of 2012, according to figures from the Colombian Association of Large Scale Miners.

"Successive governments have promoted mining as the locomotive of economic growth in a nation located in the northwest corner of Latin America"

President Juan Manuel Santos, who has been in power since 2010, slammed the brakes down on the most lucrative incentives introduced by his predecessor. Nevertheless, he is pro-mining and has followed in Uribe's footsteps in taking a hard line with the left-wing Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) guerrilla groups.

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PEACE TALKS

In November, a two-month unilateral ceasefire, which ended on January 20, was declared by FARC. Peace negotiations are taking place in Cuba between the Colombian government and FARC, although recent reports have suggested FARC has been rearming and stockpiling weapons, indicating that the group could be planning an offensive.

"The [FARC] leadership may find it expedient to carry out some attacks, but the army will be prepared for that," says Nicholas Watson, head of Americas analysis at Control Risks in Bogota.

FARC's chief negotiator, Ivan Marquez, has offered another ceasefire if the government reciprocates. The Colombian government has said no to a truce until a peace deal is signed. The government wants the rebels to end their armed struggle and join the political process. Both sides remain at loggerheads over the issue of land reform, agreeing that it needs to be addressed but not on how to do it.

In October, Marquez used the launch of the peace talks in Oslo to attack international mining firms, which Watson said appeared calculated to gather political support and tap into the rising frustration and resentment of communities to miners, rather than as a call to arms.

"Let's put a stop to BHP Billiton (BHPB), Xstrata and Anglo American," Marquez said. He also attacked US coal producer Drummond Company Inc and South Africa's AngloGold Ashanti Ltd, and called Canada's Pacific Rubiales Energy Corp a "transnational vampire".

There has been a substantial increase in both the number and intensity of social conflicts associated with natural resource exploitation in Colombia and this growing trend has been noted by miners, the oil industry and non-governmental organisations (NGOs).

Watson says: "That [social activism] is the new emerging threat to mining companies in Colombia. A lot of companies entering the country are worried about FARC and extortion, and they are right to think about these issues, but depending on the area, they are not the be-all-and-end-all of operating successfully in Colombia.

"Dealing with communities and the environment is something companies need to be alert to."

This view is held by a number of mining companies.

"In 1992, physical security was always an issue.

COLOMBIA'S METAL RESOURCES

Project	Company	Resources (Mt)	Reserves (Mt)	Metal
El Volcan	Galway Resources Ltd	n/a	n/a	Gold
Batero-Quinchia	Batero Gold Corp	0.49	n/a	Gold
Toldafria	Rio Novo Gold inc	n/a	n/a	Gold
Miraflores	Seafield Resources Ltd	83.37	n/a	Gold
Marmato	Medoro Resources Ltd	488.8	n/a	Gold/silver
Marmato (Zona Baja)	Medoro Resources Ltd	n/a	n/a	Gold
El Zancudo	Gran Colombia Gold Corp	n/a	n/a	Gold
La Mina	Bellhaven Copper & Gold Inc	78.87	n/a	Gold/copper
Segovia	Gran Colombia Gold Corp	3.35	n/a	Gold, silver
Mineros Antioquia	Mineros SA	n/a	n/a	Gold
Quintana	Bluecrest Capital Management Services Ltd	0.11	0.03	Gold/silver
Oronorte (El Limon)	Grupo de Bullet SA	n/a	n/a	Gold
Gramalote	AngloGold Ashanti Ltd	73.98	n/a	Gold
La Ye	Mineros SA	n/a	n/a	Gold
Los Chorros	Gemini Explorations Inc	n/a	n/a	Gold
El Pino	Angel Gold Corp	n/a	n/a	Gold
Cisneros	Antioquia Gold Inc	n/a	n/a	Gold
Coloro	Ventana Gold Corp	n/a	n/a	Gold
La Bodega	Ventana Gold Corp	27.8	n/a	Gold/silver
Mongora	Eco Oro Minerals Corp	3.1	n/a	Gold/silver
Angostura	Eco Oro Minerals Corp	52.86	n/a	Gold/silver

Source: Bloomberg

Today there is still a physical security concern but in general it is much less than in the 1990s," says Robert Carrington, president and CEO of Canada's Colombian Mines Corp.

"Unfortunately, today there's a risk that did not exist in the 1990s. Anti-mining, foreign NGOs have entered Colombia on the heels of the junior miners," adds Carrington.

He says these groups had almost unlimited access to the Environmental Ministry and agitated local populations, often with deliberate misinformation campaigns about the impact of modern mining techniques.

He says that Colombian Mines strove to develop good relationships at all levels of government and especially with the local communities.

"So far we have been very successful. There is always the risk of NGOs spreading misinformation so we try to

be very pro-active. One of our key strategies is to hire as much local labour as possible, and for them to live, work and stay within the local community. That way when someone starts telling people how bad we are, they don't get much of an audience," he says.

Colombian Mines owns a number of properties in the country. It also operates several joint ventures, including Teck Resources Ltd, which aims to develop the gold-copper porphyry Yarumalito property, in the central northwestern department of Antioquia, where drilling is likely to take place this year.

At its El Dovio gold-copper-zinc concession, Colombian Mines is waiting for water permits from the environmental authority of El Valle department, which it expects to receive by the end of February.

"Once we have those permits, we will be able to start construction of the water diversion and discharge installations and the actual drill platforms. Drilling at El Dovio is scheduled to start during the second quarter of 2013, or sooner if everything goes well. The drill sites have been selected and the drill plan is in place for phase-one drilling," says Carrington.

ACTIVISM SURGE

Meanwhile, some companies such as BHPB's Cerro Matoso, AngloGold Ashanti and Eco Oro Minerals Corp have been at the sharp end of activism.

Canada's Eco Oro has been in Colombia for more than 15 years, during which time it has invested more than US\$200 million in the development of its project and in the surrounding communities.

The Angostura deposit, in the northeastern department of Santander, is the company's principal asset and has been subject to a lengthy campaign as parts of the concession site lie within the Santurban national park and a paramo - a high-altitude, wetland ecosystem above the timber line - whose boundaries have still to be decided.

For a short time last year nearly half of the company's mining concessions were revoked. These covered some 70% of the project and jeopardised development of the proposed underground mine, before they were later

COLOMBIA'S COAL RESOURCES

Project	Company	Resources (Mt)	Reserves (Mt)
CerroLargo	Vale SA	20	n/a
Galway Cundinamarca	Galway Resources Ltd	n/a	n/a
Galway Cesar	Galway Resources Ltd	n/a	n/a
Hunza Coal Mine	MMEX Mining Corp	n/a	n/a
Galway Guajira	Galway Resources Ltd	n/a	n/a
El Hatillo	Vale SA	46.70	46.70
La Jagua	Glencore International plc	140	128
La Jagua Op	Glencore International plc	140	127.1
La Francia I	Melior Resources Inc	105.3	39.60
El Descanso	Drummond Co Inc	1763	980
La Loma (Pribbenow)	Drummond Co Inc	561	561
La Jagua UG	Glencore International plc	n/a	n/a
La Francia II	Glencore International plc	42.9	n/a
Calenturitas	Glencore International plc	400	209
Caypa	Melior Resources Inc	64.8	10.3
La Guajira	EBX Group Co Ltd	110.5	n/a
Cerrejón	Anglo American plc	1809.0	696.5
San Juan	EBX Group Co Ltd	5642.0	671.8

Source: Bloomberg

Shining a spotlight on mining investment in Latin America

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Above and below: South Africa's AngloGold Ashanti sees Colombia as the world's "most prospective new gold destination" and has three 100%-owned projects in the country

reinstated. Since then, Eco Oro has been granted another two years of exploration rights at its main resource.

Locals have expressed concern about potential water pollution and the destruction of a fragile environmental area or paramo.

"We have been at the forefront and exposed to most, if not all, of the anti-mining groups who focus on Colombia. They have tried to promote the erroneous idea that mining cannot co-exist with the paramo and the park of Santurban. So while we have had a lot of experience in receiving criticism, we are committed to educating stakeholders on the benefits of mining," Joao Carrelo, chief executive of Eco Oro tells *Mining Journal*.

In January, the company received an important boost to its project when the environmental corporation of Bucaramanga, Santander's capital city, set the park's boundaries. The decision to dedicate large tracts of land for national parks is part of a broader policy led by the Ministry of the Environment.

Eco Oro said that 90% of the Angostura concession fell outside the surface boundaries of the park. A significant part of Eco Oro's non-core mineral rights are covered by the park.

"When we compare the rights of the park with the resources declared in the March 2012 updated preliminary economic assessment (PEA), 3Moz of gold

equivalent, or 89% of indicated resource, and 2.3Moz of gold equivalent, or 96% of the inferred resources, fall outside of the park's boundaries," Carrelo says.

The company said the long-awaited declaration of the park represented a significant milestone as it works towards advancing the development of Angostura.

But it still has several obstacles ahead, including the definition of the paramo, and a lawsuit over a challenged court ruling.

Participating at the declaration of the Santurban park, senior government officials made statements recognising that responsible mining and environmental protection could coexist for the common benefit of the Santander region, he said.

"The authorities could quite easily have drawn a line through the project and impeded it from proceeding. But that was not the case, so that gives us quite a lot of hope in terms of the definition of the paramo. It is not a certainty, because the parameters for defining the park are different to those of the paramo," Carrelo says.

Eco Oro says it has confidence in the practices and standards at its site, and in recent months has been inviting anti-mining groups and others to the site.

The company is conducting a prefeasibility study, which it hopes to conclude by the end of the September quarter, and would like to see a decision from the authorities on the paramo by June so it can go ahead with a full feasibility study.

"The creation of the mineral reserve areas that the ANM is supposed to auction off destroys the right of self initiation for local Colombians and foreign companies alike, putting the decision as to when and where to look at the discretion of bureaucrats that have little if any knowledge and even less interest except their pay cheque and the next election," says Carrington.

Companies are waiting to see whether regulation will improve under the new regime. But in December, the ANM flexed its muscles when it renegotiated mining contracts with Cerro Matoso, owned by BHPB, and then in January with Brazilian Votorantim's subsidiary, Minas Paz del Rio SA.

Cerro Matoso is the world's second-largest producer of ferronickel and one of the lowest-cost producers. Located near the town of Montelíbano in northern

"Companies are frustrated by the delays to environmental permitting and gridlock over licensing, and want more detail on how an auction of mining areas will be conducted"

REGULATORY GRIDLOCK

Aside from the community issues, companies are also increasingly frustrated by the delays to environmental permitting and gridlock over licensing, and want more detail on how an auction of strategic mining areas will be conducted later this year.

"Unfortunately, the Environmental Ministry at present seems to have unlimited power, no oversight and no responsibility, so that required permits that are supposed to be issued in weeks sometimes take nearly a year -- if they are ever issued. And if they are not, nothing happens (and) the applicant is never notified that there is a deficiency or problem," says Carrington.

Other mining companies reported similar tales of lengthy waits and uncertainty.

Mine licensing has been overhauled and is now under the control of a newly created agency, the Agencia Nacional de Minería (ANM). The agency said that, in order to tackle corruption in the granting of licences by regional mining authorities, its aim was to administer all mining licences from Bogota. The agency will also establish which properties will be sold as part of the auction.

A number of mining companies have expressed concern about the proposed auction.

Colombia, the asset combines a lateritic nickel-ore deposit with a low-cost ferronickel smelter. The smelter produces high-purity, low-carbon ferronickel granules. Under the new contract, which runs to 2029 with an option to 2044, Cerro Matoso's royalties will rise by 2% to 14% and the company must build a new plant and raise production 50% by 2019.

"What is clear from Cerro Matoso's renewal is that the government is prepared to impose more stringent conditions, but it still wants to do business. It does not want to give the impression that Colombia is not an attractive environment," says Watson.

In January, the ANM extended Minas Paz del Rio's metallurgical-coal and iron-ore mining contracts, in the department of Boyaca, to 2039 and 2022 respectively.

Coal royalties will rise from 10% to 15% on output of less than 2.5Mt/y, and to 19% on additional output up to 8Mt/y, the ANM said. The miner plans investment to raise coal output from 200,000t/y to 2.5Mt/y over the next 7 years.

At both Cerro Matoso and Paz del Rio, the contracts also set out obligatory direct social investment.





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Infrastructure challenges



Colombia's paramo alpine tundra ecosystem



In with the new

ILLEGAL MINERS

Artisanal mining is widespread in Colombia and the current rules do not address the issue of land ownership and extraction clearly enough to deal with the phenomenon.

A new mining bill seeks to tackle illegal mining and formalise the role of unlicensed small-scale miners, aiming to distinguish them from criminal gangs, though critics say the proposed legislation is inadequate.

The allure of high gold prices has not only encouraged small-scale mining and foreign investment to Colombia, but also guerrillas and criminal gangs, known as 'bacrim's, who have turned to gold to fund their activities. In some departments it is now their main source of income. Gangs either tax the artisanal miners or they set up their own extractive operations.

The government has had limited success in cracking down on these practices, but as they mostly target small placer miners for extortion, this is not a major problem for multinational companies.

But multinationals still need to be security conscious and nearly all extractive companies employ private security firms or have agreements with the army.

Watson estimates there are up to 80,000 troops protecting assets and infrastructure in the extractive sector, and that FARC attacks rose by 10% year-on-year nationwide between 2008 and 2012. During the ceasefire, the number of attacks dropped by 80%, he said.

Mining and oil companies are viewed as natural targets and during 2012 the country's largest coal producer, Cerrejón, suffered at least five guerrilla attacks on its installations. In January this year, five miners were kidnapped by the ELN.

Coal producer Drummond tells *Mining Journal* it was not concerned about an escalation of violence or attacks on its operations.

COAL

Colombia is the world's 10th-largest coal producer and fourth-largest coal exporter, behind Australia, Russia and Indonesia. The sector is dominated by major producers such as Glencore International plc's Prodeco unit, Drummond and Cerrejón, which is jointly owned by BHPB, Anglo American and Xstrata. They all plan to grow and are expanding their mines, railways and ports accordingly.

"Companies are frustrated by the delays to environmental permitting and gridlock over licensing, and want more detail on how an auction of mining areas will be conducted"

The largest coal mines – and the ones that generate the most exports – are located in the north of the country, in the departments of La Guajira and Cesar. Cerrejón is the world's largest open-pit coal mine.

A National Mining Presentation showed coal output rising from 98Mt in 2013 to 103Mt by 2020, according to a Reuters report.

Cerrejón says it produced 32.3Mt of coal in 2011, some 38% of Colombia's total output.

Drummond is Colombia's second-largest coal exporter. The company tells *Mining Journal* that production in Colombia should rise to around 32.5Mt from 26.1Mt in 2012. The company says it has received environmental permitting for its El Descanso mine,

where output is being ramped up and should reach approximately 22Mt by 2015.

Colombia's coal output suffered last year from strikes at the Fenoco railway, whose shareholders include Prodeco, Drummond and Goldman Sachs.

Prodeco is the third-largest producer of export thermal coal in Colombia. It also produces metallurgical coal. During 2012 output at Prodeco's mines was hit by a lengthy strike at the La Jagua mine, which offset the growth achieved during the first half of the year, and at the Calenturitas mine.

Prodeco is undertaking a broad expansion project and aims to increase coal production from 14.6Mt in 2011 to 21Mt by 2014.

Construction of a new direct loading port, Puerto Nuevo, is expected to be commissioned in the first half of 2013.

GOLD

Canada's Gran Colombia Gold is the largest underground gold and silver producer in Colombia, with several mines in operation at Segovia and Marmato. It is also advancing a project to develop a large-scale gold and silver mine at its Marmato operations.

The company reported gold production of 26,912oz in the September quarter of 2012, up 24% from the same quarter the year before, bringing total gold production for the first nine months of 2012 to 78,779oz. The company's long-term plan is to produce 200,000oz of gold annually at its Segovia operations by 2014.

Another project set to come on stream in 2018 is AngloGold Ashanti's La Colosa gold mine, which also plans a processing plant at the site. It could produce some 700,000oz a year of gold and cost US\$3.5 billion.

Meanwhile, dozens of other smaller projects are being considered by companies that are drawn to Colombia, despite the risks.

The Pacific islands of Papua New Guinea, Fiji and Solomon Islands are being sized up for their vast mineral potential



Coming up in next week's issue...

