

ZIMBABWE MINING: FACTORS TO WATCH 2020

Mining: Zimbabwe's bedrock

Mining was expected to be the bedrock on which Zimbabwe built its recovery. The early months of President Emmerson Mnangagwa's leadership saw strong international interest in Zimbabwe's largely untapped resources.

A mining investment conference held in Harare in February 2018 was oversubscribed, while a survey measuring local executives' confidence turned positive

for the first time in years.

However, foreign exchange shortages, crippling power cuts, currency policies and the slow pace of political reforms have tempered many of those hopes.

Zimbabwe's Ministry of Finance expected the mining sector to fall by as much as 12.3% in 2019, with a recovery of 4.7% projected in 2020.

Despite concern over the sector,

2020 will be a key year for many of the companies operating in Zimbabwean mining, with several investment projects expected to move into development stages during the year.

In this report, [newZWire](#) details the main factors and companies to watch in Zimbabwean mining in 2020.

Zimbabwe: Untapped potential

Zimbabwe's mineral resource potential is one of the largest in the world.

According to the Ministry of Mines' mineral potential document (2018), among this wealth is the second largest Platinum Group Metals (PGMs) resource in the world after South Africa. Zimbabwe's platinum resources are, in fact, shallower than South Africa's and therefore more economical to mine.

The country has at least 29 coal localities with an estimated resource of more than 26 billion tonnes, and chrome deposits of 10 billion tonnes.

Zimbabwe has over 4000 known gold deposits.

However, years of under exploration and low investment has left much of that potential in the ground, unrealised.



Government plans

In 2019, the Ministry of Mines announced a plan to grow mining into a US\$12 billion industry by 2023, a highly ambitious target given little prospects of a swift resolution to the two main issues that have hurt mines; the power and forex crises.

In order to attract mining investment, the Zimbabwe government has increased funding for exploration, which has lagged behind.

On legislation, the Government introduced a new diamond policy in 2018, which ended the State monopoly on diamond mining. Diamond royalties have been cut in 2020 from 15% to 10%, to account for the higher costs that diamond miners will now face as extraction moves from the less costly alluvial to conglomerate mining.

The Government is also implementing a “use it or lose it” policy,

under which mines will be forced to cede unused permits and claims. This could force miners to either ramp up production or sell-off land to other investors.

Commodity Prices

Gold prices reached seven-year highs above US\$1600 an ounce early January after tensions escalated in the Middle East. However, the price has since come off and many do not see a sustained rally as uncertainty over issues such as Brexit and US-China relations wane.

Gold averaged US\$1,392.60/oz, according to the London Bullion Market Association (2018: \$1,268.41). For Zimbabwean producers, the higher price was not enough to offset the impact of rising costs and currency devaluation.

Platinum prices are expected to be affected by a surplus in supply that is expected in 2020, according to the World Platinum Investment Council. Ferrochrome prices began 2020 low and are expected to remain depressed through 2020.

What miners think

A Chamber of Mines survey at the end of 2019 showed that the majority of mining executives were pessimistic about prospects in 2020.

Key findings of the survey:

- 60% of respondents said they faced power outages of up to three days per week in 2019. Some 90% of mine executives said they continued to suffer power outages despite signing contracts with ZESA for dedicated power
- 60% of mine executives were pessimistic about political and country risk, while just 20% indicated that they are positive about the political environment
- 70% of miners did not anticipate a stable mining policy environment for 2020, while 20% were optimistic
- 60% were less confident about their prospects to raise capital in 2020. Just 20% are anticipating access to capital to improve in 2020.
- 60% expect the economy to contract in 2020.

Despite the largely negative outlook, executives anticipate some recovery in 2020. Some 60% of miners polled still expect their operations to be profitable in 2020, which is more executives than was the case in the previous (2018) survey. Some 60% of the respondents expect marginal growth of the mining sector in 2020. Of the respondents, 80% expect to inject fresh capital into their business in 2020, while 70% expect commodity prices to firm next year.

However, gold miners expect a fall in output of up to 35%, platinum producers see output falling by up to 7%, diamond output will drop this year by between 30% and 40%, chrome (-10% to -20%), nickel (-2% to -10%) and coal (-10% to -40%).



2020: Companies to watch

While the outlook remains largely pessimistic, there are plans for investment among companies that have invested in Zimbabwe over the past two years, and those that already had a long-term presence in the country.

New operations

Prospect Resources: Arcadia lithium project



The lithium developer is listed on the Australian Stock Exchange and listed in Frankfurt in September 2019. The company is developing a lithium mine, Arcadia, located at Goromonzi, near Harare.

Construction and development of the mine is expected from Q3 2020.

Prospect announced in December 2019 that the Africa Export-Import Bank (Afreximbank) is to arrange and manage a US\$143 million project finance debt facility to fund development of Arcadia mine. The bank is to fund and hold US\$75 million of the arrangement to fund development of Zimbabwe's Arcadia lithium mine.

The company has already moved to secure markets for its future production. In 2019, Prospect announced that Uranium One, a subsidiary of Russian state-owned energy firm Rosatom, could take up equity in Prospect, as well as 51% of Arcadia's future lithium production.

In 2018, Prospect signed an offtake agreement with Shenzhen-listed Sinomine, who agreed to buy 30% of Arcadia's annual production over seven years. Sinomine bought equity in Prospect for US\$10 million and put down a further US\$10 million in advance for

Arcadia's lithium concentrates.



Karo Resources: Ngezi platinum project



Karo Resources, 26%-owned by Tharisa, plans to develop a platinum mine in Ngezi, on the mineral-rich Great Dyke. In 2019, Karo now completed a 238 exploration boreholes and

32.4 km platinum group metal drilling programme on the property and the initial resource estimate had been expected by end of 2019. The company plans to start development of its first pit in the last half of 2020.

Caledonia Mining: Shaft project in 2020



Caledonia is listed in Toronto, New York and London and runs the Blanket Gold Mine near Gwanda .

The company plans to commission its new central shaft in the fourth quarter of 2020, which would take production to 80,000 ounces a year of gold by the firm's 2022 financial year (2019 full year guidance was 53,000-56,000 ounces).

In December 2019, Caledonia upped the dividend by 9.1% to reflect "increased confidence in the outlook for our business".



Shaft deepening project at Blanket Mine: Completion 2020

With the shaft deepening project done, Caledonia could be left with extra cash, which will not only be spent on shareholders, but likely also on new projects.

“If you believe things will be better in five years’ time, you have to get in now,” Mark Learmonth, Caledonia’s CFO, told Reuters in 2019. **“We’re not talking about a big, producing mine. We’re talking about advanced exploration or brownfield, but with good prospectivity. We plan to redeploy some of the surplus cash to be generated by the Blanket Mine.”**



Alrosa: Diamond JV for Manicaland



The world’s largest diamond producer by output, Russia’s Alrosa, in 2019 finalised a joint venture with the Zimbabwe Consolidated Diamond Company (ZCDC) for the exploration of diamonds in the country. The JV is to initially target prospecting in Chimanimani on claims

that were previously held by DTZ-Ozgeo, another Russian joint venture. The claims were ceded to ZCDC in 2018. Alrosa has already committed US\$12 million to the two-year exploration exercise, according to Vladimir Marchenko, Alrosa’s deputy chief executive in charge of Africa. The year 2020 will see the JV begin geological exploration of greenfield deposits, before extending into diamond mining and the sale of rough diamonds. The company has already applied for a number of greenfield licences.

Great Dyke Investments (GDI): Darwendale platinum project

A partnership between Afromet JSC, 100%-owned by Russia's Vi Holdings, and Zimbabweowned Landela Mining Ventures, GDI is a project to develop a platinum project at Darwendale. The first phase is expected to cost US\$500 million, targeting annual output of 280,000 ounces of platinum group metals and gold. Mine construction is expected after the financial close, which is expected by March 31, 2020.



Workers collect samples at GDI's Darwendale platinum concession

The African Export-import Bank was appointed as the main financial partner and lead arranger for the project. The continental bank has put up US\$192 million towards the project. The project will be implemented in three phases and is expected to produce 860,000 ounces of PGM and gold per year at full capacity. To put the scale of the mine's potential into perspective, annual output for Zimbabwe – from the country's three PGM mines – was 978,692 ounces in 2018.



Resources: JV for Chiadzwa diamonds



Listed on AIM in London, Vast Resources entered into a joint venture with the Zimbabwe Mining Development Corporation (ZMDC) in 2019 to mine the Heritage concession at Chiadzwa. Ahead of that ZCDC partnership, Vast agreed a partnership with Chiadzwa Mineral Resources, a company representing the

Chiadzwa community interests in the diamond concession. During 2019, the company sold its gold interests in Pickstone and Eureka mines to Padenga Holdings to focus on the diamond project. Vast signed a binding conditional bond issue deed for a facility of up to US\$15 million, via the issuance of secured convertible bonds to UK based fund Atlas Capital Markets, funds that will be partly used to bring the Zimbabwe diamond project into production. The factor to watch is how the ZMDC partnership works out and Vast's ability to raise further cash to develop the site.

Invictus Energy: Muzarabani energy prospect



Invictus Energy is an Australian -listed company prospecting for gas and oil in Muzarabani, Zimbabwe. In 2019, the Environmental Management Agency (EMA) approved Invictus' Environmental Impact Assessment (EIA) prospectus. Independent surveys pointed to "substantial resource potential" at the prospect.

The last estimate, released by GeTech Corp on July 1, 2019, showed potential gas resources of 9.25tcf (trillion cubic feet), which would make the prospect one of the largest in the region.

However, this remains only potential, and must be confirmed by the drilling of an oil well to confirm the find. A seismic survey is planned in the first quarter of 2020. Invictus plans to then spend up to US\$20 million to sink a well in the second half of 2020. A key factor to watch is Invictus' farm-out process, where it seeks a larger partner to develop

the prospect. Invictus hired UK firm ENVOI to run the process. Oil and gas projects take long to develop. Mozambique's US\$25 billion gas find, one of the largest in history, will only start production in 2024, a total of 13 years after the resource was confirmed in 2011, and following surveys done in the late 1990s.



Kamativi Tailings: Lithium development

Zimbabwe Lithium Company (ZLC) is expected complete a pilot plant and start production of lithium concentrates in 2020, after clearing legal hurdles. A term sheet was signed with Transamine Trading S.A., a Swiss based off-taker, to secure a US\$9.5 million debt facility to cover capital costs of Phase 1 of the project. A flotation plant to process Kamativi tailings is expected by Q4 2020.

Miners to watch in 2020

Prospect:
Afrex US\$143m fund, offtake deals, Arcadia development Q4

Caledonia:
New shaft completion in Q4, output ramp-up, acquisitions

Karo: Key resource estimate in Q1

Invictus:
Farm-out deal, exploration well in 2020

Vast Resources:
ZMDC JV for Marange development

Alrosa: JV with ZMDC for diamond exploration

GDI: Financial close Q1, Darwendale construction expected from Q2

Sotic International:
Kuda Tagwirei's acquisition spree

newswire.

Existing operations

Zimplats: Development of new mine

Zimplats will continue the development of Mupani mine, which will replace two of its older mines, Rukodzi and Ngwarati mines, which deplete in FY2021 and FY2025 respectively. The project is ahead of schedule. The new mine is scheduled to reach full production of 2.2 million tonnes per annum in August 2025 at an estimated total project cost of US\$264million.

Impala Platinum: New land for expansion

In 2019, Impala Platinum began talks to buy land from rival Anglo American Platinum (Amplats), as part of a plan by the world's second-biggest platinum producer to boost output from Zimbabwe. Impala operates the Mimosa platinum mine. Amplats's Unki mine has two properties adjacent to Mimosa.

Metallon: Asset sell-off

Once the country's largest gold producer, Metallon was forced to place three of its mines – Shamva, Mazowe and Redwing – under care and maintenance. The assets are ripe for a takeover, but a mix of political pressure, a large pile of debt and lack of clarity on the extent of its resources have stood in the way of the mines attracting quality buyers.



**Mzi Khumalo looking for buyers
for his Shamva Mine**

Canada - based B2Gold considered buying Shamva gold mine, but its interest cooled after Government rejected the company's demand that it be exempted from selling its gold to Fidelity Refiners, the Reserve Bank of Zimbabwe's gold buyer. Shamva was last valued at US\$167 million in 2012. Mazowe mine is now a tough sell after being overrun by illegal miners since formal operations were halted in 2019. The news to watch in 2020 is who ends up with Metallion's assets.

Eureka Mine: Open pit mine

In 2019, Padenga Holdings acquired an interest in Eureka Mine, a long idled gold mine in Guruve, through a 50.1 % shareholding in Dallaglio Investments.

Apart from Eureka, Dallaglio's assets include Pickstone Peerless in Chegutu, whose current output is around 27,000 ounces per year. The transaction included US\$19.99 million worth of mining equipment. Padenga plans to commission an open pit mine at Eureka in the second half of 2020.

ZMDC: Asset sale faces legal risks

The State-owned mining company faces legal risks after British Virgin Islands-based Amari Holdings won the right to seize ZMDC assets worth US\$65.9 million as compensation for Zimbabwe's cancellation of nickel and platinum ventures in 2007 and 2008. The ruling was made by the International Court of Arbitration at a hearing in Lusaka, Zambia, in 2019.

2020: Major players to watch



Kuda Tagwirei

Businessman Kuda Tagwirei had a busy year in 2019, acquiring interests key mining operations.

Sotic International, a Mauritius-based commodity company associated with Tagwirei, bought UK-listed Asa Holdings' 74.13% stake in BNC in October, 2019.

Tagwirei's Landela Mining was also announced as a 50% partner in Great Dyke Investments, which is developing the Darwendale platinum project. In 2020, Landela is also likely to bid for State-owned gold mines, currently held by ZMDC.

The mines were put up for sale in 2018, but Government subsequently cancelled the sale after failing to find quality investors. Press reports also named Tagwirei among potential buyers of Shamva Mine. The acquisitions would extend Tagwirei's influence in the resources and commodities business, where he already holds interests in Africa Chrome Fields and has been tied to a bid for ferrochrome producer Zimbabwe Alloys.

Benedict Peters



“Bravura holds legal and rightful titles to exploit some platinum claims in Zimbabwe awarded to it after interests ostensibly held by the previous owners were forfeited by the Ministry of Mines as a result of their non-performance of key statutory and commercial obligations,” the company said in 2019. The company has recently posted adverts for graduate trainees in engineering.

Bravura, an exploration company owned by Nigerian billionaire Benedict Peters, was in 2019 awarded exploration contracts and access to develop the Serui Concession, just south of the Hartley complex on the Great Dyke.

Key risks

The main risks to existing and new prospects remain the power crisis, the foreign currency shortages and policy unpredictability. Security is also an emerging risk as violence from illegal miners worsens in key gold producing areas. In terms of power, both new and existing mining operations have stepped up strategies to offset the power crisis.

Miners' planned power projects

- Zimplats is investigating the possibility of establishing a 160MW to support its mines
- Two new Hwange coal mines are expected to start production in 2020: Chilota Colliery expects machinery on the ground in first quarter 2020, while Western Coal expects production in the second half of the year
- RioZim in 2019 completed design work and grid assessment for a 178MW solar project to provide power to its mines
- Prospect Resources signed an MoU with African Continental Minerals (ACM) for the supply of 20MW to the Arcadia lithium project
- Caledonia will in February 2020 announce the winner of a bid to build a solar farm to support Blanket Mine. The power plant is to be commissioned in the final quarter of 2020
- Karo plans to generate 300MW from a solar power plant at its platinum project

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