DEMOCRATIC REPUBLIC OF CONGO

By a Special Contributor

The Democratic Republic of the Congo, formerly Zaire, is one of the largest countries in Africa, covering an area of some 2.3 million km^2. It is landlocked for all but a 37 km length of coastline on the Atlantic Ocean. Since the overhrow of President Mobutu in 1997 by Laurent Kabila (who was assassinated in 2001 and succeeded by his son Joseph), the country has been wracked by prolonged civil war and ethnic strife. Much of the limited infrastructure has been destroyed, the legal framework is uncertain and corruption is rife. The economy is in tatters and the 58 million people living in the DRC are amongst the poorest in Africa, with a per capita GDP of just US$700.

Nevertheless, a little optimisim is breaking through. President Joseph Kabila is proving to be a very different man from his warlord father and his regime has achieved a fair degree of legitimacy (despite the continued support of Zimbabwean and Angolan troops brought in by his father), mainly arising from his determination to end the civil war that has dragged on in the east of the country. In mid-2003, the DRC's total external debt was reduced by 80%, to US$2 billion, at year end the Paris Club of donors pledged US$3.9 billion for the period 2004-06 and this year the World Bank, the IMF and the US have extended a total of US$448 million to support economic and social recovery.

The DRC has vast natural resources of base and precious metals, and diamonds. The southern province of Katanga, for example, has 10% of the world's copper and 50% of its cobalt resources, and in the 1970s the DRC was one of the world's leading copper and cobalt producers. Since the mid-1980s, however, mineral production has fallen dramatically. Joseph Kabila is attempting to stem the decline.

Early in 2003, a new mining code, prepared with the assistance of the World Bank, came into force in a bid to encourage greater investor interest in the minerals sector. Investors are no longer allowed to negotiate ad hoc mining conventions with the State, and a set list of tax and customs exemptions is provided, to which any investor will be entitled, provided there is compliance with the Code's requirements. The new regime is intended to encourage investment by making the role of the State more transparent and objective. Under the revised code, foreign investors are allowed to hold mining concessions in the copper-rich Katanga Province in the southern DRC where previously state-owned Gécamines had exclusive rights.

There have undoubtedly been signs of improvement over the past year and a number of new mining contracts have been approved. However, the level of investment in the DRC's minerals sector remains far below that required to revitalise the economy. This situation seems unlikely to change unless, or until, there is far greater political and economic stability and the confidence of investors is fully restored.

Base metals

La Générale des Carrières et des Mines (Gécamines) is the state-owned mining and exploration company controlling much of the DRC's mining sector but the company is in a dire state. Most of its complex of mines and concentrators at Kolwezi are closed, as is the Luilu refinery, and it has a mountain of debt. In 2003, Gécamines' production slumped to just 8,200 t of copper and 1,200 t of cobalt from 25,000 t and 8,200 t, respectively, in 2002. (These figures compare with nearer 460,000 t and 15,000 t in the mid-1980s.) For 2004, Gécamines was hoping to secure investments of some US$27.5 million in a bid to increase production to around 25,000 t of copper and 8,200 t of cobalt. Further ahead, the company aspires to raise production towards 100,000 t/y of copper and 10,000 t/y of cobalt by the end of the decade but this would need an investment approaching US$250 million.

The company has interests in a number of other mining ventures including the Tenke Fungurume copper-cobalt project, the Kipushi zinc mine development and an 80% interest in Soc Miniere de Bakwanga, the country's principal diamond producer. It is understood that the World Bank would like to see a foreign company take over the management of Gécamines as a means of putting the organisation into some sort of order.

In June this year, Adastra Minerals Inc (formerly American Mineral Fields) announced that it had secured unequivocal title to 112.8 Mt of oxide tailings at Kolwezi. The tailings average 1.49% Cu and 0.32% Co and an operation producing 42,000 t/y of copper and 7,000 t/y of cobalt is contemplated. The feasibility study for Kolwezi has been awarded to a JV between Murray & Roberts and GRD Minproc.

Elsewhere, Adastra has restarted negotiations with Gecamines concerning the latter's Kipushi zinc-copper property in southern DRC. Kipushi was mined until the 1990s before being put on care-and-maintenance because of a lack of foreign exchange. Remaining measured and indicated resources are estimated at 16.9 Mt averaging 16.7% Zn and 2.2% Cu. Adastra has had an agreement with Gécamines concerning Kipushi since 1997, and early in 2002 it signed a JV agreement with Kumba Resources Ltd of South Africa to develop the project.

Metorex Ltd of South Africa is planning to treat high-grade tailings at the Ruashi and Etoile deposits and, subsequently, a mining operation. In the first phase, production of 7,000-10,000 t/y of copper and 1,100-1,300 t/y of cobalt in concentrate is envisaged from stockpiled tailings (3.2 Mt at 1.9% Cu and 0.6% Co). A second phase would mine the orebodies (31.9 Mt of proven and probable reserves at 3.5% Cu and 0.35% Co) and could involve investment of US$150-180 million. Metorex has a 68% interest in Ruashi Holdings Pty Ltd, and an option to increase this to 84%. The balance of ownership is held by Sentinelle Global Investments (Pty) Ltd. Ruashi holds an 80% interest in the Ruashi and Etoile stockpiles, with Gécamines holding 20%.

A smaller cobalt project is planned by London-based Central African Minerals and Exploration Co at Lubumbashi.

At the Tenke-Fungurume copper-cobalt project, there were ownership adjustments announced during 2003. Through these adjustments, Phelps Dodge will own a 70% interest in Lundin Holdings Ltd which, in turn, holds a 55% interest in the project. Vancouver-based Tenke Mining Corp retains the balance of 30% in Lundin Holdings and will hold a 'free-carry' up to the time of the decision to build a mine. Gecamines holds the remaining 45% interest in the project. Tenke Fungurume is located near the Zambian border and has measured and indicated resources of 233 Mt at 2.9% Cu and 0.3% Co.

During 2003, First Quantum Minerals Ltd produced 29,513 t of copper from its Lonshi open pit in the extreme south of Katanga Province. The high-grade oxide ore is processed at the Bwana Mkubwa SX-EW processing facility 35 km distant across the border in Zambia. Cash operating costs were reported at US$0.44/lb and at the end of 2003 there was a resource of some 5.9 Mt averaging 4.62% Cu.

Elsewhere, in the course of exploration at its Lufua copper property, First Quantum reported cobalt in drill-cuttings from a reverse circulation hole. A 69 m interval in the hole averaged 0.61% Co and has led the company to re-assay all its previous holes at Lufua, which had only been assayed for copper.

First Quantum has an 18.6% interest in Perth-based Anvil Mining Ltd, which operates the high-grade open-pit Dikulushi copper-silver mine. Measured and indicated resources amount to 1.5 Mt at 7.27% Cu and 207 g/t Ag. Production began in 2002 and in 2003 the operation produced 13,349 t of copper and 1.04 Moz of silver at cash operating costs (after silver credits) of US$0.48/lb. In mid-2004, capacity was increased to 240,000 t/y of ore, sufficient for the production of 20,000 t/y of copper and 1.8 Moz/y of silver in concentrates. A four-year open-pit mine life is envisaged and then an underground operation. Earlier this year, Anvil intersected mineralisation at a depth of 300 m in the course of seeking to test for extensions of the deposit below 120 m.

Gold

Early in 2004, it was announced that Mvelaphanda Holdings Ltd of South Africa had entered into a memorandum of understanding relating to gold exploration and development in the Kilomoto region in eastern DRC. Mvelaphanda, in partnership with Afriminerals Holdings, concluded a JV agreement with the Okimo group, a gold mining and exploration company based in the DRC. A first-phase investment of US$10 million was envisaged.

More recently, Toronto-based Banro Corp has launched a US$10 million exploration programme on its properties within the 210 km long Twangiza-Namoya gold belt in South Kivu and Maniema Provinces. Banro's 2004-05 exploration programme is designed to double the existing 2.01 Moz measured and indicated resource on its properties (using a 1.0 g/t Au cut-off grade). The focus will be on the Twanziga, Kamituga, Lugushwa and Namoya properties.

In addition to mapping, soil sampling, adit and trench sampling, the programme will include 28,000 m of core drilling.

Other newly-active companies in the sector include AngloGold Ashanti, Goldfields and Moto Mines.

Diamonds

The DRC is one of the world's main diamond producers. The largest concentrations of diamonds are in Eastern Kasai Province near Mbuji Mayi, in Western Kasai at Tshikapa and near Kisangani in Upper Congo.

The main company involved in the commercial exploitation of diamonds is Soc Minière du Bakwanga (Miba) which is 80% state-owned, the remaining 20% interest being held by the Belgian company Sibeka. The small-scale sector comprises diggers, traffickers and trading posts.

In the past two to three years there has been a big increase in diamond production by the small-scale sector whereas production by Miba has been declining. In 2003, the DRC's total production is estimated to have been around 16 Mct worth some US$400 million.

Miba has implemented an ambitious programme for the coming years, in a bid to halt the decline in its production. The company has set itself production targets of 7.8 Mct in 2004 and 9 Mct in 2006 – the level it achieved in 2000. Nearly US$120 million worth of investments have been earmarked for commissioning a 5 t/h processing plant, rehabilitating the sorting plant, starting up two sediment-removal lines and installing three turbines at the Lubilangi II hydroelectric power station. In October 2003, Emaxon, part of the Israel-based DGI group provided US$15 million to Miba for the purchase of new equipment under a four-year marketing agreement, and in July this year Miba is reported to have sold to Emaxon 624,000 ct worth US$8.69 million.

A significant emerging producer is Sengamines, which describes itself as an autonomous, privately-owned limited liability company. It was established in 2000 and began production on an industrial scale in June 2001. It has mineral rights to some 712 km^2, about 40 km southwest of Mbuji Mayi, including seven of Miba's concessions, and reserves have been estimated at 35 Mct. There are two active operations: the Senga Senga alluvial mine and the Tshibwe kimberlite where an open pit with an eventual dimension of 900 m x 400 m to a depth of 200 m is planned. The gem content is reportedly higher than at Miba's kimberlite mines. A third mine, Movo, is an alluvial operation currently on care and maintenance. The company employs around 60 expatriate staff and has a workforce of nearly 1,200.

Sengamines' ambition is to become a world-class producer aiming for 10% of world diamond production by volume. A new 150 t/h dense media separation plant commenced operation in June 2003, raising processing capacity to 300 t/h. Rough diamonds are exported for sale in Antwerp, and all exports require authorisation by the Ministry of Mines. According to government figures, Sengamines exported 166,152 ct worth US$2.03 million in the period June-

December 2001, 432,123 ct worth US$3.45 million in 2002 and 904,465 ct worth US$13.19 million (US$14.59/ct) in the first nine months of 2003.

Sengamines was originally established as a joint stock company with funding of some US$140 million provided through Oryx Natural Resources, which acts as manager. Oryx now owns 49% of Sengamines, with Miba owning 16%, the DRC Government 33.8% and four individuals holding the remaining 1.2%. In June 2003, it was revealed that the Libyan Arab African Investment Co had acquired a significant shareholding in Oryx. A UN report on the plundering of the DRC's natural resources has linked Oryx with Osleg, a Zimbabwean military company.

On the exploration front, Gravity Capital Ltd announced in July 2003 that a JV agreement had been reached with BHP Billiton to explore for diamonds in the DRC. BHPB's geologists have designed the so-called 'Kasai Craton Programme' to explore for major new kimberlite pipes in an area in excess of 400,000 km^2, and has applied for licences covering 40,000 km^2. Gravity Capital can earn up to a 100% interest in BHPB's interests in return for agreed levels of spending. BHPB may buy back up to 60% in any discovery for four times the cost of that discovery. Thereafter, a JV will be formed, with BHPB funding further exploration up to the prefeasibility stage. The first phase of exploration will comprise regional indicator mineral sampling and should take about 12 months, followed by a target-generation phase, probably using the Falcon gravity gradiometer, and a final phase of drilling and bulk sampling.

De Beers and SouthernEra Resources have also recently applied for exploration permits.