

Congo expert shares the formula on how DRC mining may offer a real win-win

written by Melissa (Mel) Sanderson | November 3, 2022

For those who saw the Democratic Republic of the Congo ('DRC') President Etienne Tshikedi at the recent FT Africa Summit, you might have been struck by the curious mix of bellicosity and naiveté in both the substance and tone of his remarks. In his defense, Tshikedi, widely regarded as the illegitimate victor of the 2018 contested Presidential election, has trouble sounding credible in presenting a positive future for Congo, always "the land of great promise" where a prosperous tomorrow seems somehow illusive. However, he outdid himself when, close to the end of an interview with an FT reporter, Tshikedi declared that "investors shouldn't wait until we are perfect to invest, they should invest to make us perfect." Laying aside perfection, the key question is whether it is possible to build and operate a profitable modern mine in DRC. My answer? It isn't easy but with the right people and procedures, it can be done.

A quick snapshot of modern DRC history: Independence from Belgium in 1960 quickly leads to the assassination of Congo's controversial but popular PM Lumumba, the rise of infamous kleptocrat General Mobutu Sese Seku, over-thrown by Laurent "Muzee" Kabila and his Rwandan allies in 1997, Kabila's assassination in 2001 unleashes "Africa's WWII," intervention by the international community leads to a power-sharing transition government in 2003 headed by Joseph Kabila, son of Muzee, elections in 2006 and 2011 enshrine Kabila's Presidency, then in 2018 Tshikedi emerges as President (after negotiations with Kabila) from an election widely judged to have been won by

opposition leader Martin Fayulu.

It wasn't all doom and gloom though. Kinshasa's lovely tree-shaded boulevards and highrises, its lively music and café scenes earned it the sobriquet "Paris of Africa," the country was the breadbasket of Central Africa and beyond, American companies such as GM were producing cars for the burgeoning African market and the US military had a base in the southwest where it was providing training to Congolese military.

Why the history lesson? To be successful in Congo it's important to understand the pattern of exploitation and corruption which has run through the country for 60 years, shaping both experiences of Congolese and perceptions of foreigners.

It is equally important to realize Congolese know they have been great and that they aspire to be so again.

In my 20 year experience with Congo, first as Political Counselor/Deputy Chief of Mission/Charge d'affaires of the US Embassy and then as VP for Africa of a major US mining company which built one of the world's largest copper-cobalt mines in Katanga, I've seen positive changes. Transportation and energy Infrastructure, key elements for the mining sector, have become more widely available and more reliable – although still spotty. DRC always has had an educated youthful workforce, and specifically in Katanga province, generational mining expertise. Violence remains a problem in parts of Eastern Congo with the same old militia and terrorist elements proving difficult to eradicate. On the other hand, given that Congo is the size of the US east of the Mississippi and from Maine to Florida, vast tracts of the nation are mostly peaceful – and hold largely untapped resources.

So, with the mixed bag of elements, why mine in DRC? The grades of materials ranging from copper to cobalt to coltan to gold

continuously amaze – and elements in high demand to support global transformation such as lithium, graphite, rare earths and uranium are abundant. Particularly with the large deficit curves in virtually every critical material, DRC offers an abundance of possibilities for good return on investment.

One major pending rail project would further improve the ability of miners to export products and import materials from/to eastern Congo through Angola, opening a new and potentially faster channel. Likewise, a long-pending major energy project is again under discussion which could enhance the power grid through the eastern part of the country.

Speaking from experience, a company interested in doing business in DRC needs to understand the necessary investments up front, including ‘hard’ investments in energy and roads, and ‘soft’ investments in social programs and, most importantly, relationships. These relationships include with NGOs and Embassies to ensure that production isn’t complicated by poor monitoring of supply chains or allegations of human rights abuses. Above all, appropriate relationships with Congolese authorities and social leaders are key to avoiding the entanglements of corruption, a snare ever ready to trap the unwary. Knowledge of and adherence to laws such as the Foreign Corrupt Practices Act and similar laws in the EU and UK is key.

Bottom line? Doing business in DRC isn’t easy, but can be done profitably and well. Politically, there is more continuity than may be evident or understood. There is more social unity than suggested sometimes by Congo’s 252 tribal languages and “swahiliphone/lingalaphone” debates. There is dogged determination to overcome obstacles.

With the right people working in the right way, everyone can win.

Multitasking across the critical material supply chain, Auxico Resources is focused on rare earths in Colombia

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Every once in a while, I get to discuss a company of which it is hard to capture the true essence. For the most part, when we look at junior mining (exploration and early development) companies, they are focused either geographically or by resource, but one way or the other, they are a junior mining, basically exploration, company. Occasionally, they are also dabbling in special or creative ways to process the particular ore at the heart of their operations. But today we are going to dig into a company that does all of the above, as well as getting into the marketing and sales of the finished products, whether it be theirs or not. And at first glance, it's almost hard to tell which opportunity has the most upside. Given my background, my bias is the marketing side of things, but I will try and keep an open mind as we dig into this interesting and somewhat unique company.

Without further ado, let's have a look at [Auxico Resources Canada Inc.](#) (CSE: AUAG), which is a combination project generator, miner, processor and marketer all rolled up into one. Auxico is a Canadian company, founded in 2014 and based in Montreal, engaged in the acquisition, exploration and

development of mineral properties in Colombia, Brazil, Bolivia, Mexico, the Democratic Republic of the Congo and the Ivory Coast (so far). Across these countries, Auxico is involved in gold, silver, coltan (which I had never even heard of before but is a dull black metallic ore from which the elements niobium (aka, columbium) and tantalum are extracted), iridium, tin, manganese and last but certainly not least a full basket of Rare Earths.

Perhaps you might be starting to get a feel for why this is a tough Company to talk about but wait there's more...a lot more. The Company has numerous agreements in place to market various products to generate cash flow today, which is not typical for a junior mining company. A great example is [manganese ore sales from Brazil](#) to India, China and the UAE. Auxico has purchased and sold a total of 15,000 metric tons of manganese ore, with a minimum grade of 46% Mn (~15% net profit margin), as part of two contracts with customers to provide for shipments of up to 120,000 MT per month cumulative of manganese ore. Additional marketing agreements include an [MOU for exploitation and commercialization](#) of tantalum, niobium, iridium and tin from industrial sands located in Bolivia, and an [LOI for the exploitation and trading](#) of tantalum and iridium in Ivory Coast. These and other similar arrangements serve the company in two ways. As noted, it provides a source of revenue to the Company, so they don't always have to go to the market and raise cash to drill more on their exploration properties and it gets them into the deal flow to potentially acquire interests in some of these mining plays if they so desire.

I also made mention early about being an innovator on the processing side of the equation. On July 30th Auxico [signed a technology license agreement](#) with Central America Nickel for the use of a patent-pending ultrasound assisted extraction process ("UAEx") for mineral extraction. The UAEx process is a

sustainable metallurgical process for the refining of critical minerals using ultrasound technology. In particular, artisanal gold miners, who produce an estimated 15 million ounces of gold yearly, use mercury in their process plants. The UAEx process is able to extract gold and silver in less than one hour in a closed-loop system and does not use cyanide or mercury, which can solve the environmental issues created by artisanal mining. Additionally, this process will dramatically reduce capital and operating costs as most known metallurgical processes that use sulfuric acid, cyanide or hydrochloric acid do so in a 24-hour cycle. As you could well imagine, this could be Auxico's diamond in the rough, but it might not even be the most exciting aspect of the Company.

I think I've saved the best for last, at least as things currently stand for Auxico, and that's the rare earths project in Columbia. Auxico has [discovered high-value rare earths](#) with total rare earth oxide content over 56% at the Company controlled Vichada property. And if that's not good enough, they've also [discovered platinum group metals](#) on the property along with tantalum, niobium and tin. The Company has an MOU agreement with the Colombian company Minampro Asociados S.A.S., to earn a 70 % interest. Auxico's partner has an exclusive purchase agreement for industrial sands within 20,000 hectares of land owned by the indigenous community Guacamayas-Maipore.

The graph below is an eye opener:



Source: Auxico Resources MD&A for the period ended June 30, 2021

My head is starting to spin thinking about all the things on the go at Auxico so I will leave it here for now. To summarize they have impressive exploration prospects, a sustainable, environmentally friendly mineral extraction process, and

marketing agreements that are already generating revenue. That's quite a bit going on for a company that currently has a market cap of roughly \$84 million. I don't think I'd even know where to start to try and value all the various parts, but the Colombian assets have definitely caught my eye.