Kozak on Xtra-Gold and making the Kibi gold belt a world class gold deposit

If you're like most people, the past four month's health-driven lockdown saw you going through the five stages of grief, supplemented by the potential for day-drinking! (Stage Six – finding meaning). Once you processed the craziness in the world, you realized that there was some free time that you may not have had and time to get into those projects that had been neglected – in my case, my brokerage account. Looking over my portfolio, I came across an old purchase confirmation slip….from late 2009! Apparently I still own the stock, so I decided to dig in and review it with gold prices 'soaring to the moon'.

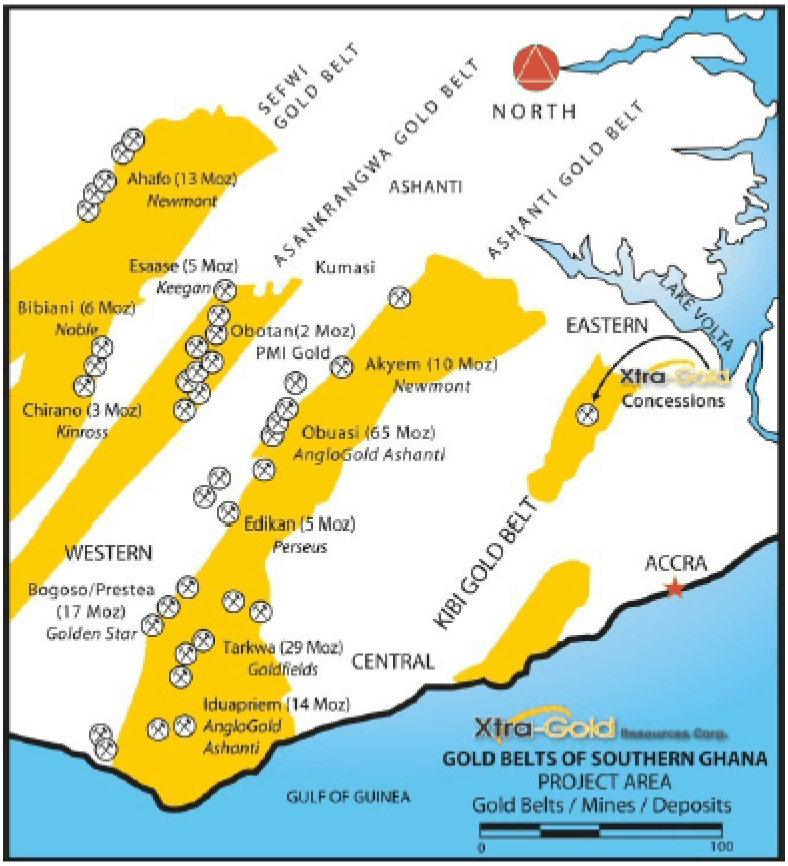
Xtra-Gold Resources Corp. (TSX: XTG | OTCQB: XTGRF) has been producing alluvial gold and "pioneering the discovery of a new gold belt in Ghana, West Africa". According to the Xtra-Gold website, Ghana is home to some of the world's largest gold mines including Anglo-Ashanti's Obuasi Mine (estimated at 64 million ounces) and Goldfields' Tarkwa Mine (estimated at 37 million ounces) and to date, more than 150 million ounces of gold has been discovered in Ghana. This includes more than 20 million ounces of gold that has been discovered by Newmont Mining Corporation since 2002 at its Akyem and Ahafo deposits. Ghana ranked 1st in African gold production in 2019 (4.5 million plus ounces produced).

Okay – it looks like gold production in Ghana has generally been going in the right direction – what about Xtra-Gold? Xtra-Gold was US OTC (XTGRF) listed when the shares were sold to me and became TSX listed in late 2010. The chart below shows the relative performance of spot gold and XTGRF since late 2009. It looks like I missed the early double and the long-term hold hasn’t been such a great strategy, so time to dig in.

Figure 1: Gold vs. XTGRF Price Movement

There are four main gold belts in southern Ghana, three of which are well explored and host some of the world’s top gold mining companies. Xtra-Gold is alone in the fourth, the Kibi gold belt, which is said to be geologically analogous to other gold belts, including the nearby Ashanti gold belt.

Figure 2: Southern Ghana Gold Belts



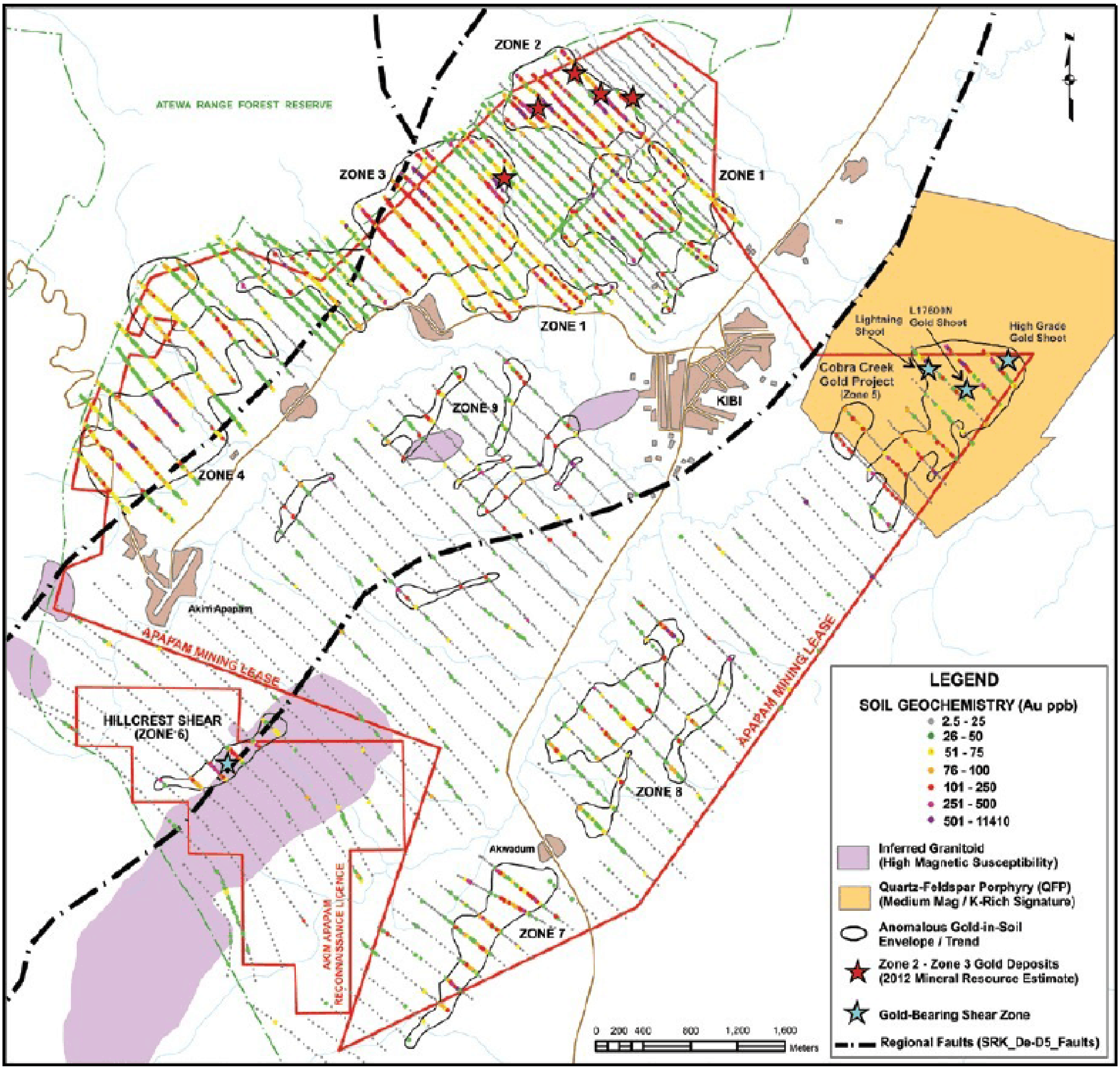
Xtra-Gold has a total of five mining leases (Muoso, Banso, Kwabeng, Pameng and Apapam), encompassing 55,905 acres. The company has been conducting contract alluvial (placer) mining for the past 7 years (mostly on Kwabeng), which has generated annual cash flow (more than US$4.0 million in bullion sales in 2019) and prevented the typical massive shareholder dilution seen in other gold exploration companies who issue new equity to fund exploration programs. There's a plus.

Early exploration resulted in a discovery of five gold deposits (Zone 2-Zone 3 on the Apapam Mining Lease) with an NI 43-101 prepared report (October 2012) estimated to contain an Indicated mineral resource of 278,000 ounces at an average grade of 2.56 g/t gold and an additional Inferred mineral resource of 147,000 ounces at an average grade of 1.94 g/t gold (@ base case 0.5 g/t cut-off). No mineral reserves have been established on the Kibi project.

Since 2012, the company has maintained a relatively consistent level of activity in Ghana, including geophysical, geochemical and structural geology analysis plus drilling on Zone 2-Zone 3 plus modest drilling on other leases as well as mapping, analysis and placer/alluvial mining. Negative – how come so long?

Of note is the additional prospectivity of the Apapam Mining Lease. The Zone 2-Zone 3 targets have not been fully defined as yet, meaning there is potential for more gold resources to be defined through future drilling of the existing discoveries. To the southeast of Zone 2-Zone 3 is the Cobra Creek Gold Project (Zone 5) and southwest of Zone 2-Zone 3 is the Hillcrest Gold Target (Zone 6). There's a potential positive.

Figure 3: Apapam Mining Lease Prospects



Recent drilling results on Zone 2-Zone 3 were released earlier in 2020 and point to an expansion of the potential of the gold discovery in this area. In March 2020, the company announced the purchase of a second diamond drilling rig for increasing activity in Ghana. The rig purchase was fully funded by the exercise of the last remaining warrants in the company. That’s also a positive – still no dilution (yet).

As of the March 31, 2020 financial statements, the company has approximately US$3.8 million of cash plus approximately US$2.0 million of investments and receivables and believes that with this cash plus continued placer gold sales, the company’s 2020 and 2021 exploration programs are fully funded. Neutral to negative – what happens after 2021?

The company's immediate goal is to define 1 million ounces of gold with an ultimate objective to define a multi-million ounce resource. This would make the Kibi gold belt a world class deposit and Xtra-Gold a valuable company. Since I do share the market's view – Xtra-Gold looks to be attractive given the upside potential, but the share price is lagging the increasing gold price. I know, exploration takes time and Xtra-Gold has great potential, but…hopefully, it doesn't take another 10 years.

[Publisher's Note: The contributing editor Frederick Kozak is not a licensed investment advisor and is not making any recommendations. He has communicated a position in this stock which he acquired a decade ago and is sharing his process on how he makes his own portfolio decisions. Frederick does have 25 years experience in the capital markets, and in addition to his bio below, his professional experience may be reviewed on LinkedIn.]

Chocolate lovers should stock up as Ebola threat sparks speculation in cocoa futures

Ebola and chocolate don't have much in common; however, the price of the latter has become inextricably linked to the spread of the former. Chocoholics don't have to visit West Africa to be affected by the Ebola virus; chocolate is at risk because the price of cocoa is skyrocketing. Fear of the Ebola virus spreading to the Ivory Coast, the world's largest producer of cocoa, and to its neighbor Ghana, one of the fastest growing cocoa producers. Neither country have yet recorded any cases. Ivory Coast has long shut its borders with neighboring Liberia and Guinea, which supply many of the seasonal workers who would now have been arriving on the cocoa plantations to supply the labor for the harvest. The Ivory Coast produces an average of about 1.6 million tons of cocoa a year, 33% of the world's total and the shortage of laborers combined with market speculation over the Ebola epidemic will send prices of chocolate products skyrocketing ahead of the Christmas season, when demand for the delicious bean is highest. Prices – and quality chocolate consumers – have already felt the shock on prices (cocoa futures have surged), while major international companies in the sector are organizing to raise funds to donate in aid to combat and prevent the virus.

The World Cocoa Foundation (WCF) has asked its 15 members, including Nestlé and Mars, to donate while Barry Callebaut, one of the largest international companies operating in Ivory Coast's cocoa sector, have already adopted on the spot preventative measures for all employees. The Ivorian government has ordered the closure of borders with its neighbors since last August and September the cost of cocoa futures have surged from an average of between USD$ 2,000-2,700/ton to between USD$ 3,100 – 3,400/ton thanks to unfettered speculation in global markets. As is the case for so many commodities from oil to iron ore and agricultural basics, there are inevitable consequences for consumers. Financial speculators have already laid their hands on cocoa, whose crops in the Ivory Coast and Ghana have been threatened, but not yet touched by the Ebola epidemic. West Africa, hard hit by the Ebola virus, is an area dominated by agriculture. Agriculture is the leading productive sector and the major source of income for most of the population in the three countries where the virus has left its biggest mark while neighboring countries suffer the consequences. Their main products are palm oil, cereals, rice and cocoa are the main products, most of which are for export. Increased use of mineral fertilizers such as potash have contributed to the increased and more efficient cocoa bean production. Yara International has sponsored various initiatives in Ghana to train farmers on such ‘best practices’ as correct fertilizer application techniques to improve cocoa yields.

The epidemic threatens to generate some USD$ 33 billion dollars in losses in West Africa alone. The agriculture sector is the most affected by the spread of Ebola. Panicking farmers have abandoned the countryside leaving their plantations behind, especially cocoa plantations that are the most profitable for the area. In recent weeks, in fact, the cocoa bean has been the target of a kind of ‘splash and dash’ financial speculation on the international market. In late September, cocoa price levels were starting to match the record highs set in 2011 levels only to collapse dramatically in the first week of October. Cocoa bean futures touched record values at the London stock exchange (GBP 2,187 pounds/ton and USD$ 3,399/ton on Wall Street. Values not seen since 2011, on the eve of the civil war in Ivory Coast. The enthusiasm, however, lasted for the space of a few days. The value has dropped to GBP 1,990 pounds in London and USD$ 3,079 in New York.

This sort of swing reflects the kind of speculation borne in fear and crisis even though the numbers one and two in global cocoa production – Ivory Coast and Ghana – have not been touched by the contagion and have put in place preventive health measures to reduce the risk of infection, while speculators have been ‘banking’ on the high probability of the epidemic spreading from Guinea, Sierra Leone and Liberia. The main problem is that in October, the traditional month of the cocoa bean harvest, seasonal workers from Liberia and Sierra Leone cross the border with the Ivory Coast to find work in the plantations. Thousands of people who could act as a vehicle for the virus enter the Ivory Coast. The consequences would start at a quarantining of the country, closing of borders and an export ban. The risks, however, may still be overblown and several organizations consider the export bans as representing unjustified alarmism and peaks of a speculative game designed to trigger panic in the market, in order to reduce the price and check the conditions more favorable. The risk, many say, certainly exists, but it is quite low. The Ivory Coast has long since closed the border to Sierra Leone and Liberia and deployed a health cordon sanitaire. Moreover, the authorities have invested a lot of energy on prevention.

Measures that seem to work judging by the fact that since March, the month in which the Ebola virus reappeared in Guinea, there has yet to be even a suspect in the Ivory Coast. However, the cocoa plantations are located in an area of the country in which it would be difficult to monitor the comings and goings of people, and this is the part that worries investors. The World Cocoa Foundation still believes that 2014 could still be a very bullish year for cocoa as the Ivory Coast has yet to revive forecasts that it will produce close to the 1.74 million tons collected harvested in 2011 after the civil war. But, should the Ebola virus cross the border and also affect the Ivorian population the consequences would be devastating and incalculable.

Ebola virus to take centre stage in US-Chinese

competition for African mineral resources

Today, 50 African Heads of State and Government will be gathering at the White House for an unprecedented US-Africa summit, the first of its kind ever held on U.S. soil. President Obama urged the summit after his 2013 African trip. The crises in Ukraine and Gaza may overshadow the event coverage but the Ebola epidemic will likely occupy centre stage at the summit. President Obama has stated that his government is observing the epidemic with great concern. The summit may well result in the formation of an international coordination effort to confront the Ebola virus, which will trump such other African issues like Boko Haram attacks and kidnappings in northern Nigeria, the civil war in southern Sudan, al-Shebaab attacks in Kenya. The original agenda of the August 4-6th summit was an economic one, aimed at strengthening the relations of the U.S. with a region heavily courted by China and where growth prospects are higher than those the rest of the world (5.4% in 2014 and 5.8% in 2015, according to IMF estimates). Now, a microscopic creature has taken precedence, because it must be addressed in order to facilitate any economic initiative. The White House intends to promote initiatives such as 'Power Africa' to link 20 million households across sub-Saharan Africa to the power grid. It's not a secret that the United States is competing with China for influence and access to resources. China has invested generously in the continent especially where mineral resources are concerned.

The Ebola epidemic in West Africa poses has threatened the economy of the region and foreign mining companies with sound sustainability policies are the best equipped to continue operations and survive. West Africa has grown tremendously in the past decade thanks to oil and mineral resources.

Nevertheless, many Africans diseases, whose proliferation and effects have been managed elsewhere – such as, AIDS, malaria, tuberculosis, and of course Ebola – continue to re-appear like a weed. Ebola is causing a veritable crisis: there is no vaccine, there is no test for diagnosis, there is no therapy, and there is a mortality rate of 90 percent. The valley of Ebola crossed by the river which flows into the Congo has given its name to the deadly virus identified here for the first time in 1976. And so far in Africa, the Ebola virus is akin to a biblical plague that resurfaces cyclically. The current manifestation is the worst epidemic in history. It started last January in Guinea from where it spread to Liberia, Sierra Leone and is now threatening Ivory Coast, Burkina Faso, Ghana and Nigeria to mention a few. Cultural attitudes contribute to its intractability. In Guinea, the population is terrified, suspicious, to the point that it prevents doctors from entering villages.

The discovery of valuable mineral deposits in Africa has driven mining firms into increasingly far-flung geographic regions. This expansion has been accompanied by new and often unanticipated environmental and social and health risks that have substantial implications for corporate competitiveness and profitability. The management of sustainability is especially important in Africa given that it is fast becoming a region whose primary exports consist of its non-renewable resources. In many, if not most, countries of the region, exports of fuels and raw materials are one of the primary sources of foreign exchange. A healthier community and one that is well equipped to deal with the inherent risks of any mining operations ensures a more favorable working environment, fewer lost hours due to health concerns and a greater sense of legitimacy and acceptance from the local population. In many ‘rich’ countries, governments establish a framework of rules and benefits that help businesses thrive thanks to widely available preventive and direct medical and safety rules and practices. In Africa, health and safety regulations are difficult to implement due to financial and sometimes cultural constraints. It is essential for private sector firms to invest in these areas in order to ensure the sustainability of their venture.

Africa is the global epicenter of at least three other pandemics: AIDS, malaria and tuberculosis, which have acted as a powerful obstacle to development. Mining companies have gradually equipped themselves to manage the spread AIDS through special programs. For the past two decades the main 'sustainability' focus of mining majors has been AIDS prevention. Poverty, scarce human and financial resources and the endemic problems of the continent have made the situation more alarming. Even malaria, practically extinct in the West, remains a major problem: every year there are about 300 million cases and 90% occur in sub-Saharan Africa, with an estimated cost of a few years ago at $ 12 billion. Tuberculosis offers an equally sad set of statistics. As for AIDS, one of the leading causes of death, it has prompted a massive reduction in the workforce – in some areas of southern Africa up to 30%. Resource companies operating in Africa cannot remain indifferent to these problems – not to mention instability, insecurity, economic marginalization.

Gondwana's rights over Tano Basin Block in Ghana confirmed

Ghana's oil sector regulatory environment has come under pressure and will be experiencing changes in the next few months, particularly as the Ghana National Petroleum Company (GNPC) wants to grow on the basis of an actual business plan rather than government subsidies and taxpayers' money. This may account for the confusion generated by a statement issued by the Ministry of Energy and Petroleum of Ghana dated April 10, 2014, which alleged that Gondwana's subsidiary, Miura, has not approached the Ministry to negotiate the rights to the OCTPS Block. Effectively, the announcement says that Miura has not even applied for the exploration license, let alone secured it. On April 29, not surprisingly, Gondwana Oil Corp. ("Gondwana", TSX: GO) was able to report that the Ministry has removed the announcement from its website and that "Gondwana continues to work cooperatively with Miura and the Ministry with respect to Miura's application".

The news was as surprising to Gondwana as it was to observers; however, the fact that such confusion has arisen, reflects the growing pains of the Ministry of Energy (MOE) itself. There is reason for optimism. Apart from the fact that Gondwana was genuinely surprised by the allegations, Miura Petroleum was confident that there was a misunderstanding related to pressure beyond the MOE itself. The fact that the MOE has ultimately confirmed that there was a misunderstanding beyond its control – proves that Gondwana enjoys good standing with the Ghanaian government and that it will be afforded all relevant consideration in the bidding process.Gondwana owns a 70% stake in Miura Petroleum Ltd., which, by all accounts, acquired the rights for an offshore exploration license at West Cape Three Points off the Ghanaian coast for the South Block, which comprises about 1,600 square kilometers.

As the MOE and Ghana itself learn to cope with the deep societal changes that rapidly emerging oil industry creates, problems will arise; especially, when the stakes and the quality of the resources so high, fueling competing interests. Indeed, the best reason for investors to remain confident is that as Troy Grant, Gondwana's President and CEO has stated, "the State of Ghana is widely regarded as one of the most business friendly and transparent jurisdictions" in Africa. Junior oil companies such as Gondwana have attracted many investors who understand the opportunity represented by Ghana and the possibility that the Company could be sitting on another Jubilee field, as was discovered by Kosmos Energy in 2007.

Ghana and West Africa in general have become very important among the world's emerging oil producers. Gondwana Energy will focus its activity in the Offshore Cape Three Points South Block (OCTPS), in one of the most important oil prospecting areas in the region. Gondwana announced that the Ghanaian Ministry of Energy confirmed the exploration license for the Block last March 18. Gondwana Energy will focus its activity in the Tano Basin, which presents over twenty discoveries of oil, liquids, and gas, including the Jubilee Field (2007), which is currently producing approximately 110 thousand barrels per day.

It is a very "big deal" for a junior like Gondwana to have acquired the rights to explore acreage of the Tano Basin's quality, occupied until recently only by such oil majors as Italy's Eni or Hess Corporation. Meanwhile, the improving US consumer confidence data suggests that as the US economy continues to show good performance, it will support greater private consumption and more oil demand. In addition, prices for gasoline are increased recently due to the strong decrease in stocks and a stronger demand. The only down side could be that tensions in Ukraine may push Russian oil demand down due to an expected weaker economic growth in Russia. Moreover, for oil producers, the established oil-producing regions of the Middle East and North Africa pose continued geopolitical risks. They have tried to confront this by searching sources in stable regions such as West Africa – a stable region compared to others – which has established itself as the new production site in the Atlantic. Gondwana Oil has the potential to become a major player in West African and Atlantic oil production, which has put it in the proverbial spotlight, such that misunderstandings can arise.

Gondwana Oil to benefit from Ghana's offshore oil infrastructure and fast growing economy

Gondwana Oil Corp. ("Gondwana") (CSE: GO), which commenced trading last February 26, is involved in the exploration and development of oil and gas resources in Ghana. Gondwana owns a 70% stake in Miura Petroleum Ltd., which has been officially been invited by Ghana's Ministry of Energy to negotiate exclusively for the exploration license at the 1,600 sq km "Offshore Cape Three Points South Block " off the Ghanaian coast, as confirmed on March 18.

There are two main reasons why Ghana, among other African emerging oil producers, offers good value for investors. One is geological and the other owes to the fast pace of change in African societies. Indeed, Ghana belongs to the South Atlantic oil complex of the former '*Gondwana*', the super-continent that paleontologists and geologists believe existed about 120 million years ago combining what we call Africa and South America today. The super-continent was parted by the Atlantic Ocean. This is highly relevant to present day geologists and mining engineers searching for new oil resources because the shared geological formations of the Atlantic coasts of Africa and South America means that highly similar coastal sediments exist on both sides of the ocean. By extension, the rich oil deposits found in the Brazilian pre-salt layer may well have counterparts on the opposite or mirror side of the ocean, which happens to be exactly where Ghana is located. Evidently, Gondwana Energy's name was not chosen by chance. As noted above, Gondwana Energy will focus its activity in the Tano Basin, which is in fact the most important oil prospecting area in the region.

The Tano Basin is home to over twenty discoveries of oil, liquids, and gas – including four major discoveries, the first being the Jubilee Field (2007), which is currently producing approximately 110 thousand barrels per day. Then there are the Mahogany (2008), the Teak (2011) rich in oil and gas condensate reservoir and the Akasa oil field (2011). The Jubilee field alone may contain as much as 1.8 billion barrels of oil and it has attracted major operators including Tullow oil , which has 23% of the Units, Kosmos Energy, Anadarko Petroleum and GNPC (Ghana National Petroleum Company). Moreover, Exxon Mobil purchased 23.5 % of Kosmos's rights on the exploitation of these resources, starting in 2010, which put Ghana on the map as a new West African oil exporter. China's CNOOC has also been snooping in the area, inevitably, in search of what can be called an 'armchair' to sit on a developed oil field, something increasingly rare and difficult to acquire, further highlighting the potential and significance of Gondwana Oil's block. In turn, Ghana's oil sector regulatory environment and infrastructure will be undergoing significant improvement. In late January, GNPC announced that it wants to become a world-class oil company, which means it wants to be fully funded with a balance sheet backed by assets, requiring less state control and relying on a solid business case rather than taxpayers' money. One or two more Jubilee type discoveries will certainly do the trick in this regard, and having entrepreneurial and dynamic companies such as Gondwana rapidly progressing development of the country’s prolific resource patrimony will give GNPC the shot in the arm that it needs via its carried interests.

Valuations of oil exploration companies involved in West Africa are beginning to pick up as speculators can now evaluate an almost unbelievable track record of success in this area for frontier exploration – a 65% discovery rate on new wells!

It is also significant that Africa is now the continent with the highest economic growth potential in the next decade and many countries such as Ghana, can now consume their own domestic production, and achieve major state revenues from the salutary transition to becoming net energy exporters in their own right.

As for the risks, it is worthwhile noting that companies such as Tullow oil, have been involved in Africa for over 25 years and the company is intent on increasing its engagement in the continent. Indeed, Gondwana’s risks are also mitigated by the fact that its team comprises individuals with long resumes in Africa (and Ghana specifically) at major companies such as ConocoPhillips, Kosmos, and the like. In addition, many major oil players are looking to acquire assets in Ghana and some neighboring countries such as Ivory Coast. Gondwana’s strategy is to ‘piggyback’ on the well established players with plenty of resources, who surround Gondwana’s concessions and who will conduct the bulk of the groundwork in these basins. The company also hopes to attract the majors to farm-in, such that drilling in 2015 can be executed with little to no expenditure net to the company, save what will be needed to secure the necessary licenses and permits.

Should Gondwana decide to fully develop its Ghanaian oil assets it will find additional impetus in the fact that Africa has become one of the fastest growing automobile markets in the world. France’s Total SA, one of the largest oil companies, has bet on this phenomenon. Until recently, global oil companies looked to Africa only to secure rights and drill for new oil and gas supplies, which were then promptly exported. The market for refined goods was simply not very attractive. Now, that perspective has shifted. African oil consumption is growing so quickly that some companies have already taken the continent as one of the hottest markets in sight to sell gasoline/petrol. Up to now, Africa accounts for only about four percent of global oil consumption according to the International Energy Agency (IEA), but by 2018, it is estimated that Africa will burn 4.5 million barrels of oil daily. This represents a 29% increase over the current level.

In Ghana alone, between 2006 and 2011, the number of car owners has increased 81% according to the African Development Bank. The country with its 25 million inhabitants, is one of the fastest growing economies in Africa. The automobile ownership rate in Africa itself is expected to double in the next ten years, reflecting the International Monetary Fund’s estimates that the Continent’s economy will grow at 6% per year, leading to the rise of a new consumer or middle class. Ghana presents the kind of market that oil giants like Total have in their gunsights as they look to downstream integration to further bolster profit margins alongside the major infrastructure development required to bring their product to market.

In the past decade, Ghana has become one of the most stable democracies in Africa. Hardly any other country in the world is growing so rapidly. The IMF estimated that the Ghanaian economy expanded by eight percent last year. Everywhere there are new shopping centers, car dealerships ,restaurants and of course, new and well appointed gas stations, complete with convenience shops and cappuccino machines. Ghana’s capital, Accra, has many millionaires, meaning that the pace of development will skyrocket. Gondwana has chosen its target oil asset well, and has the right personnel to see it through to commercial success.