

# MINING & TRADE *Review*

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Mining & Business News that Matters

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# Lilongwe graphite mining quagmire

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By Chiku Jere

Members of the Malingunde community in western Lilongwe are living in fear that they will be relocated from their ancestral land to pave way for mining activities following the reported discovery of a large graphite deposit in their area.

ASX-listed Sovereign Metals Limited is currently conducting a feasibility study for the Malingunde Graphite Project and projections are that mine construction at the site may commence next year with commissioning set for 2020.

Mining & Trade Review's field visit to the prospecting area established that the project will require massive relocation of villages as the deposit has traversed the main road from Lilongwe City to Malingunde, homes and gardens in this fertile part of rural Lilongwe where communities depend on agriculture including the growing of the green gold, tobacco, which is Malawi's major foreign exchange earner.

The 26 villages affected by the graphite prospecting project include those under Group Village Headmen Chitsulo and Pingeni in Traditional Authority (T/A) Masumbankhunda's area.

...cont. on pages 4



Teniwaya at his drilled home yard



Eladi at her drilled garden




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Left to Right: GVH Chitsulo, VH Kalinde, VH Kumalindi and VH Katawa.



GVH Pingeni



Dimba: Legislator for the area

**From page 1** As part of the feasibility study for the project, Sovereign Metals has engaged local and international consulting firms which are executing an Environmental and Social Impact Assessment (ESIA) study which has involved consulting various stakeholders including community representatives to sensitise them on the project.

But random interviews conducted by *Mining & Trade Review* revealed that communities, including chiefs, still require more sensitization as they are not yet convinced that the project will bring them tangible benefits as compensation for being relocated from their ancestral land, which they say, has for ages hosted and sustained their livelihoods through farming, fishing in Malingunde dams and livestock rearing.

“Off course we are aware of the pending mining activity in this area but we do not want to relocate as that will mean losing all our property including our fertile land which do not require fertilizer to grow maize and our livestock grazing land. All these make a bedrock of our livelihood which we do not want disturbed,” said one villager found in his groundnuts field, Chiotcha Ntsinde.

The 55-year-old from Kokotani Village, Group Village Head (GVH) Chitsulo, flanked by his 46-year-old colleague, Tsogolani Kotala, said the whole prospect of having people who were born, raised, and know the area as their only home moved to a new unknown location is sending waves of fear, anxiety, and uncertainty.

“The entire community is gripped with fear of relocating. We feel betrayed by our chiefs who are involved in this arrangement and above all, by government for their decision to relocate us,” said Ntsinde.

Sharing the views were other villagers found working in their gardens, among them, 39-year-old farmer Eladi Wisiki, his 49-year-old wife, Anne Eladi, from Mbonekera Village and Adson Teniwaya from Ndumila Village, GVH Chitsulo.

Wisiki and his wife corroborated that the impending relocation will deprive them of their fertile land left by their forefathers, through which they have managed to raise and educate six children.

“Taking this land from me is like killing me and my entire family,” he said.

His wife explained that they do not trust that the government will give them enough compensation when they relocate since the same government gave them peanuts as disturbance allowance during the company’s exploratory drilling programme.

“Initially, we were given K4000 as disturbance allowance but in drilling their holes, they destroyed ridges and groundnuts crop that we had already planted. My

husband could not stand that so he returned the money and told them to leave our land. This is when they increased the amount to K20,000,” said Wisiki.

Teniwaya, whose house yard and garden contain holes that were drilled as part of the exploration programme, also said he is not in support of the relocation.

“We have everything here. We do not apply fertilizer to our gardens because the land is fertile, the environment is good for animal husbandry and we have dams with plenty of fish. What else can a man ask for? It is really sad to hear that all that will be taken away from us,” the villager mourned.

While denying accusations of being a sellout, GVH Chitsulo, whom the *Mining & Trade Review* crew coincidentally found at his court about to commence an in-house indaba with several of his village heads bemoaned that inadequate community sensitization on the project is breeding suspicion among his subjects who are made to believe that when chiefs go to attend consultation meetings on the project at Lilongwe District Council, they receive bribes from government officials to agree to all government plans.

“It is really painful and heart-breaking to lose trust of your subjects, but it is not of our making. We are just called by the District Council through the T/A to such meetings,”

claimed Chitsulo.

The consensus among the chiefs who was that they did not want to relocate, only that they believe it will be difficult for them to resist government on the issue.

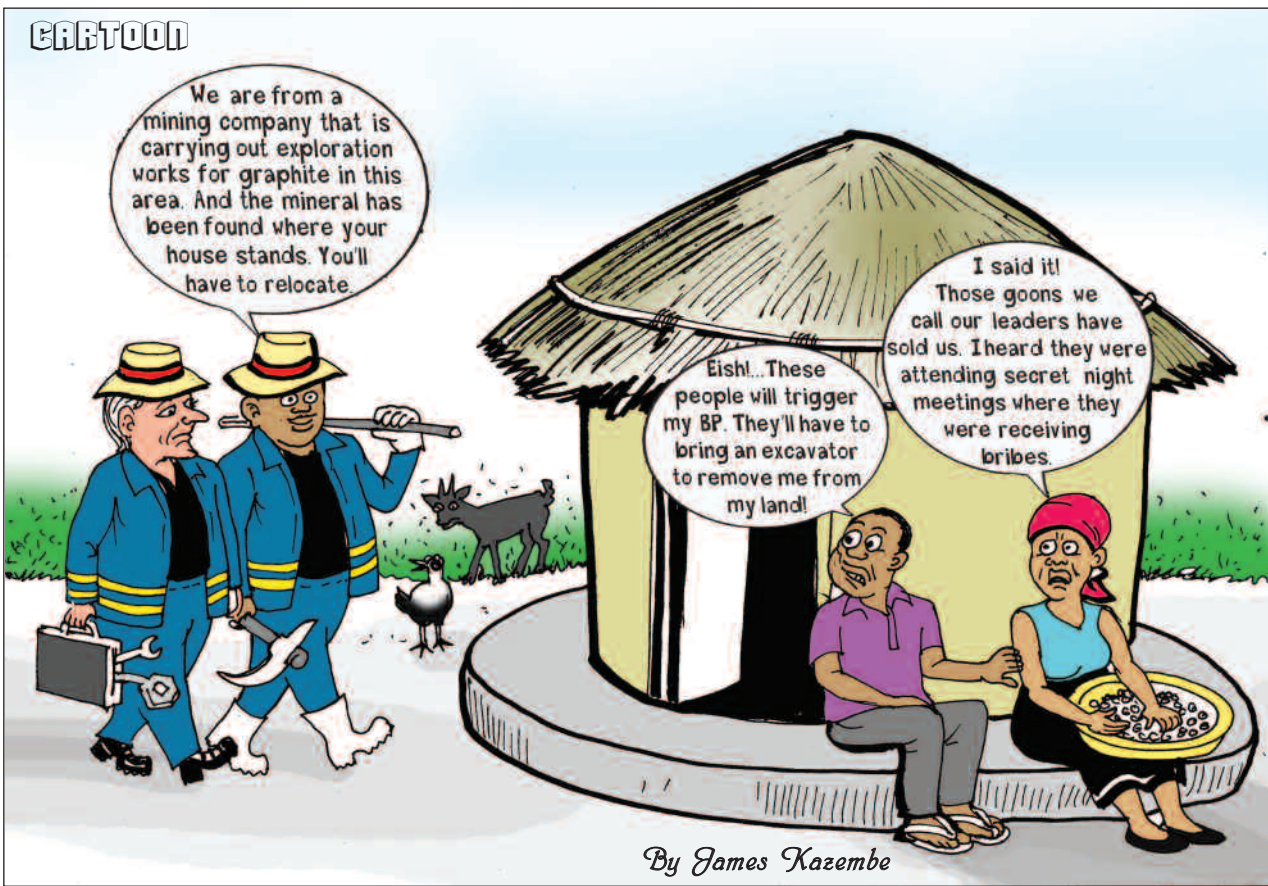
“We know government is behind this predicament because they are the ones who gave a licence to the investor. So what we will strive for is justice and fairness, particularly on the issue of compensation,” Village Head Katawa said.

Butting in was Village Head Kumalindi who said the resettlement package should match or even surpass the productivity of the land they will leave behind so that those relocated should not look back later and regret.

“We do not want our children, grandchildren or generations to come, to blame us for trading their productive ancestral land for nothing but some little money,” she said.

On his part, GVH Pingeni who heads 12 villages said in as much as they know they cannot fight government and prevail, authorities should ensure that they make the resettlement as comfortable as possible to prevent inflicting more pain on the people who are being taken away from their land.

...cont. on page 5



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# Government to establish gemstone market centre

By Deborah Manda

The Malawi Government has planned to establish a gemstone market centre in the country to enable artisanal and small scale miners (ASMs) have a ready market for their gems and curb smuggling of the minerals which is rampant.

Director for the Department of Mines in the Ministry of Natural Resources, Energy and Mining Jalf Salima told *Mining & Trade Review* that the development is one way of formalising the ASM subsector to maximize income for the miners, owing to better prices to be offered at the organized market, and the government through an upsurge in collection of revenue in form of taxes and licence fees.

Salima said: "It is unfortunate that a lot of ASMs are operating illegally and smuggle the precious stones to sell in neighboring countries, which is a very big loss for Malawi as we are unable to collect any royalties and taxes



Salima: Report smugglers to police, Malawi is losing big.

from these activities."

"We hope this gemstone market centre will enable small scale miners find a good market for their gems right in the country."

He also said the government is conducting training workshops for ASMs in cutting and polishing of stones to assist them add value to the minerals and sell them at better prices.

Salima said his department has, therefore, procured equipment for cutting and polishing of stones which will be installed in its new head office currently under construction in Lilongwe.

He said: "Soon the Ministry will send officers to Madagascar for training in gemstone evaluation and certification, which will add value to marketing standards."

"In terms of training for the miners, we have worked with the Ministry of Trade to organize them into cooperatives because it is easy to offer training to cooperatives rather than individuals."

It is believed that impoverished Malawi, which largely depends on tobacco as a major foreign exchange earner, is losing millions of dollars in revenue due to smuggling of gemstones because of government's failure to regulate ASM operations.

But Salima said his department is addressing the problem and has, among other things, engaged the police and Malawi Revenue Authority in sensitization campaigns to ensure that any export of minerals is backed by valid documents such as a valid Mining Licence or Reserved Mineral Licence, Inspection Certificate from Geological Survey Department and an Export Permit from the Commissioner of Mines.

"The ASMs have been sensitized to conduct their business in a formal way by having relevant documents and conducting mining in sustainable manner by, among other things, observing occupation health and safety standards. There are also routine inspections of mines by the Department and the miners are encouraged to add value to the minerals locally," he said.

Salima is, meanwhile, appealing to members of the public who have evidence of smuggling of stones to report and share information with the law enforcers, Immigration, Mines Department or Malawi Revenue Authority as smuggling is a criminal offence punishable by law.

Currently, there are reports of illegal mining and smuggling of gold in Makanjira area in Mangochi where foreigners have invaded Namizimu forest to mine alluvial gold, which is being smuggled into neighbouring Mozambique.

Salima said in addressing the situation, the department has sensitized the miners on the need for formal operations and has involved the police, Immigration Department, traditional and community leaders to form patrol teams to flush out the smugglers.

"The community leaders have pledged not to harbor the illegal miners in their areas and the Department of Immigration is involved to deal with illegal immigrants carrying out illegal mining," said Salima.

Malawi is in the process of developing an artisanal and small-scale mining policy which seeks to guide and direct the artisanal and small-scale mining subsector by formalising and legalizing its activities.

Salima said the draft policy is currently under scrutiny by the Office of President and Cabinet, and the government will conduct a public launch to adopt the policy after the process ■



Gold panning system used in Mangochi



An excavator on what is believed to be gold field in Makanjira



Gold prospecting machine spotted in Mangochi



Gold panning in Mangochi's Unga River



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**EDITORIAL**



BY MARCEL CHIMWALA,  
PUBLISHING EDITOR

**Political will needed to develop mining sector**

It is a welcome development that State President Arthur Peter Mutharika recognized mining as a sector with huge potential to spearhead the country's economic growth and development in his State of the Nation Address at the opening of the 47th session of parliament and 2018/19 budget meeting.

Mutharika said Government has been implementing a number of initiatives aimed at increasing investments in the sector.

He said some of the initiatives include: capacity building in mining contract negotiation and in development of modern mining agreements to ensure that the country enters into mining agreements that are balanced, equitable, fair and beneficial to the people.

The President also said the country has adopted a regionally competitive Mining Fiscal Regime, which will ensure that investors have confidence in the sector.

He said his government is reviewing the Mines and Minerals Act of 1981 and the Petroleum Act of 1983 to improve the legal environment of the mining industry to enhance development of the sector and increase its benefits to the people promising that the Bills will be tabled in the current session of Parliament.

Mutharika explained that increased investment in mining will result in job creation and more revenue for social and economic growth.

We commend the President for recognizing the potential for the mining sector after he neglected the sector in the third phase of the Malawi Growth and Development Strategy (MGDS III)

We feel political will is all what is needed for Malawi to develop the mining sector to substantially contribute to socio-economic development.

In Malawi's 30-years of autocratic rule, the leaders used to say that the country has no minerals and its people should only work hard in agriculture. The result was that small-scale agriculture emerged as a key driver of the economy.

Likewise, we feel if the government in this era shows political will to develop mining, many investments will blossom in the sector which will transform mining into a key economic driver.

It is, therefore, unfortunate that despite Mutharika's encouraging words, his government seems to be sleeping on the job in terms of facilitating mining developments.

For instance, it has taken a number of years for the government to talk of bringing the new Mines and Minerals Bill to parliament.

Similarly, the talk of repealing the 1983 Petroleum Act started way back but there has not been tangible progress on the issue.

The process of developing a model petroleum sharing agreement which was 80% complete in 2013 when the government signed petroleum sharing agreements with multinational oil firms is also at a standstill.

We believe that with political will all these challenges that are inhibiting the growth of the minerals sector can be addressed and we can see the sector thriving with projects such as Kanyika Niobium, Songwe Hill Rare Earth and Malingunde Graphite on stream as history has shown that with political backing ambitious projects have been implemented in the country.

An example is the Kayelekera Uranium Mine which had political backing from the late President Bingu Wa Mutharika who presided over its official launch ■

From page 3 Among other amenities, the chiefs are demanding better homes, portable water, and school for their children; a health centre, and above all, land with fertile soil for farming, where ever they will be relocated to.

However, Sovereign Metals has moved to allay the fears raised by the communities.

In a recently released Environmental and Social Impact Assessment (ESIA) Comments and Responses Report (CRR) the company says a Resettlement Action Plan (RAP) will be compiled with due care of the Malawian legislation, international best practices and in consultation with all stakeholders, so that those that potentially have to be moved are satisfied with where they will be relocated to.

On the usually contentious compensation issue, the company assures that the RAP and associated compensation will be compiled according to the requirements of the country's legislation and international best practice, which includes consultation with all resettlement-affected households and the relevant authorities.

The company further explains that relocation of the affected communities will only happen upon authorisation by the Environmental Affairs Department after an ESIA which will include rehabilitation and closure plan, as well as the issuing of a Mining Licence by the Department of Mines.

Sovereign Metals' Country Manager for Malawi, Andries Kruger, says the company is on course to complete the ongoing feasibility study and ESIA for the project towards the end of this year, or early in 2019 and after this the company will seek a mining licence from government.

"The works that people in the project area are currently seeing are part of exploration activities and specialist investigations to inform the ESIA," he says.

An economic scoping study for the high-grade saprolite-hosted flake graphite deposit in Lilongwe plain was completed in mid-2017.

The results of the study demonstrates that the project has the potential to be developed as a low capital and operating cost operation, with an annual graphite concentration production of approximately 44,000 tonnes over an initial life-of-mine of 17 years.

Lilongwe District Commissioner Lawford Palani is quoted in the report as having said that the council is excited with the Malingunde Graphite Project and assures the investor of the District Commissioner's office support.

But Palani urges that the project should be executed in a way that it is beneficial to both the mining company and the people of Malawi.

"Malawi cannot afford to lose an investor; however, no development can be at the expense of the environment and the people," he stresses.

Member of Parliament (MP) for the area, Peter Dimba, who professes his support for the project has since warned that if there will be injustices and unfairness in the handling of the issue, he will lead his people into blocking the continuance of the project.

"Let me put it on record here, if we feel that people are being short-changed, I will personally lead a resistance that will block the project, and on that, I can categorically state that there won't be any compromise," he said.



Ntsinde and Kotala: Worried villagers

The legislator who was speaking in an exclusive interview with *Mining & Trade Review* assured his constituents that all will be done to ensure that those who will be moved are adequately compensated to allow them start a new life wherever they will go.

He acknowledged that initially the company was hiding some information about the project because officials were afraid of the people's reaction, something, he said, gave room to speculation.



Wisiki: A tobacco farmer who also rears animals

"People thought the chiefs were being bribed into towing the line of the investor and government with consultation meetings attendance allowances, so we advocated for the formation a Community Mining Committee to allow direct community participation in consultations to dispel this fear," Dimba said.

He also addressed the allegation that the chiefs were not being allowed to voice their views during consultation meetings by saying language barrier was the problem as the meetings were being held in English.

Dimba said during one of the consultative meetings, he proposed that consultations with stakeholders should happen at every stage of the project to ensure that people are kept abreast of the progress of the project.

"This will help curb speculations that bleed unnecessary fears culminating into avoidable tension," he said ■

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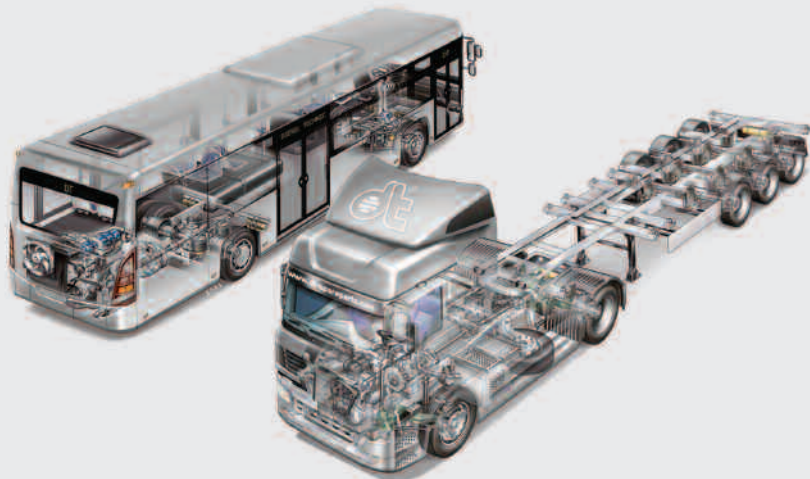
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# Oxfam lobbies legislators



Members of Parliament and Oxfam Malawi officials pose for a group photo

By Marcel Chimwala

Oxfam Malawi says there is a need for members of parliament (MPs) to utilize research based information to push for fair fiscal terms in oil contracts which the government signs with multinational firms in order to ensure substantial benefits to the country when an oil discovery is made.

Interim Country Director for Oxfam Malawi, Lingalireni Mihowa, said this when the organization presented “an analysis report on fiscal terms in Malawian oil contracts and their implications for potential government revenue” to Members of Parliament (MPs), mostly drawn from the Parliamentary Committee on Agriculture, Natural Resources and Climate Change, at Capital Hotel in Lilongwe.

Oxfam engaged local and international experts to develop the report which analyses Petroleum Sharing Agreements (PSAs) which the government signed with multinationals RAK GAS MB45 Limited for Blocks 4 and 5 and Pacific Oil & Gas for Block 6 in comparison with similar agreements signed by other countries which are prospecting for hydrocarbons such as Uganda and Kenya.

“We urge you our members of parliament to utilize this high quality evidence from experts to push for the interest of Malawi in these agreements,” said Mihowa.

She said her organization realizes that it is important to engage MPs to lobby for sound policies and legislation for the extractive sector which can be an alternative to agriculture as the latter is encountering several challenges including climate change.

Oxfam Malawi started its extractive industry programme in 2016 to lobby for good governance of the sector by, among other things, promoting transparency and accountability.

“Our aim is that Malawi should get it right in managing the extractive sector including the emerging upstream oil



Mihowa: Push for Malawi interest in agreements

and gas subsector. We have to learn from other countries that have discovered oil and are doing things right for the benefit of their citizens,” she said.

Oxfam Malawi Coordinator for Extractives Industry, Elyvin Nkhonjera Chawinga, said as Malawi is developing its oil and gas exploration and production sector, it is important to prepare the ground to ensure that when discoveries are made, they contribute to sustainable development.

Chawinga explained that the best preparation for the oil discoveries is to come up with win-win agreements with companies, which will ensure that there are tangible benefits to the country while not scaring away the investor.

“If we get it wrong in the awarding of contracts, Malawi has lost,” she said.

Chawinga also urged the government to promote



Hon. Musowa: This information will be helpful

transparency and accountability in the managing of the oil and gas subsector by, among other things, disclosing to the public the contracts that it signs with prospecting firms.

She said it is unfortunate that the government rushed to sign the existing contracts with RAK GAS and Pacific Oil in 2013 while using the outdated law (Petroleum Exploration and Production Act 1983) and before it finalized the development of a model PSA.

Chawinga, therefore, stressed the need for Malawi to review the Petroleum Act, finalise development of the model PSA and develop a national petroleum policy in order to establish a clear legal and policy foundation on which to promote the development of the oil and gas subsector.

...cont. on page 11

# Media drilled on extractives sector reporting

By Chiku Jere

**C**entre for Environmental Policy and Advocacy (Cepa) in partnership with Catholic Commission for Justice Peace (CCJP) Karonga recently coached members of the Malawi Media on how they can promote transparency and accountability in the extractives industry sector through effective news coverage and issue-based reporting.

The two-day workshop conducted under Strengthening Governance of Extractive Industry Project with funding from Oxfam and Australian Aid was held at Blue Waters lodge in Salima and attracted journalists from print, electronic and online media.

The project which is being carried out by several CSOs is aimed at building capacity of the community in mining areas to enable them demand a fair share of proceeds from mining activities.

Among the subjects tackled through various presentation was Systematic Coverage and Accountability, Transparency in the Mining Sector and Understanding the Global Demands for Transparency

Other topics included Investigative Journalism, Journalism and Social Media, Mining Economics and Political Economy of Mining.

Cepa Project Officer – Extractives Desk, Cynthia Simkonda, said the workshop was organized after noticing that there is lack of capacity among media practitioners in Malawi to effectively cover extractives industry issues.

“It is our belief that with this two-day training, journalists will gain knowledge that will guide their effort in writing issues concerning the sector,” she said.



Journalists from various media houses attending the workshop

exposing weakness as well as corruption.

Simkonda observed that transparency is impaired when the media, civil society, parliament and interested stakeholders do not fulfill their roles.

“So there is need to develop a zeal of diagnosing extent of corruption and monitoring use of proceeds and scrutiny should be deployed throughout entire mining stages, from licensing, contact agreement to mine opening, production as well as mine closure,” she said.

Simkonda noted that exposing weaknesses in the country’s extractive industry will help curb corruption that

system influence each other.

Nkhata urged journalists to use their investigative skills to penetrate the structure of the country’s government institutions and expose shortfalls that are hindering the effective management of the Extractive Industry.

“As media you should be able to interrogate the functioning of these elements of governance, the relationship of these elements; the character of, and relationships between key political figures. These issues and others relating to the host country’s political architecture, are all relevant when it comes to ensuring



Journalist Joseph Mwale making a presentation

Simkonda explained that currently, there is growing public interest in the extractives industry hence the media needs to step in and play its noble role of informing and educating the public on the sector.

Apart from detection and publication of cases, creating public awareness and investigating issues, Simkonda said the role of the media in the extractives industry is to encourage public debate and political engagement around policies, legislations and governance initiatives such as Free, Prior Informed Consent (FPIC) as well as Extractives Industry Transparency Initiative (EITI) principles.

She said transparency is a tool to promote accountability and the media needs to vigilantly play watchdog by monitoring the management of the extractives industry and



Cepa’s Simkonda, stressing some point

has marred the industry.

She stressed that improved transparency in the mining sector revenue streams will reveal what resources are available for investing in development, how they are spent, and the results that are achieved.

“This will help ensure resources are invested effectively for development – in better health services, more productive agriculture, higher quality education, and improved infrastructure,” said Simkonda.

Making a presentation on Political Economy of Mining, Louis Nkhata, CCJP Karonga Project Officer – Extractives evoked an interactive session in which participants delved into the nitty-gritty on how political institutions, political environment and the economic



Nkhata of CCJP Karonga drilling the media

transparency and accountability,” he said

Nkhata said economic development cannot properly be understood without taking into account the political dimension as it focuses on power and resources, how they are distributed and contested in different countries and sector contexts, and the resulting implications for development outcomes.

The objective of the presentation was to let journalists understand the political economy of the mining sector and facilitate interaction of knowledge sharing.

Participants were also updated on the on-going review of the Petroleum Act as well as the stage at which the revised Mines and Minerals Bill is at. The expectation is that the Bill will be abled during the 2018/19 Parliamentary budget meeting ■



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# Kumanga Malawi Program

## ABOUT THE PROGRAM

Kumanga Malawi is targeted at uplifting the quality of life of members of the communities in which LCM operates whilst showcasing LCM's forward thinking, environmentally conscience corporate citizenship. The program was launched on 20 April 2018 at Ufulu Gardens in Lilongwe.



1



## IN FOCUS

- 1 The Guest of Honour, Principle Secretary at Ministry of Lands, Housing and Urban Development, Mr. Charles P. Msosa delivers his remarks.
- 5 LafargeHolcim's Hilary Mkulichi and Chimwemwe Khonje presenting the mechanics of the design competition.
- 13 LafargeHolcim CEO briefing the media on the Kumanga Malawi Program.

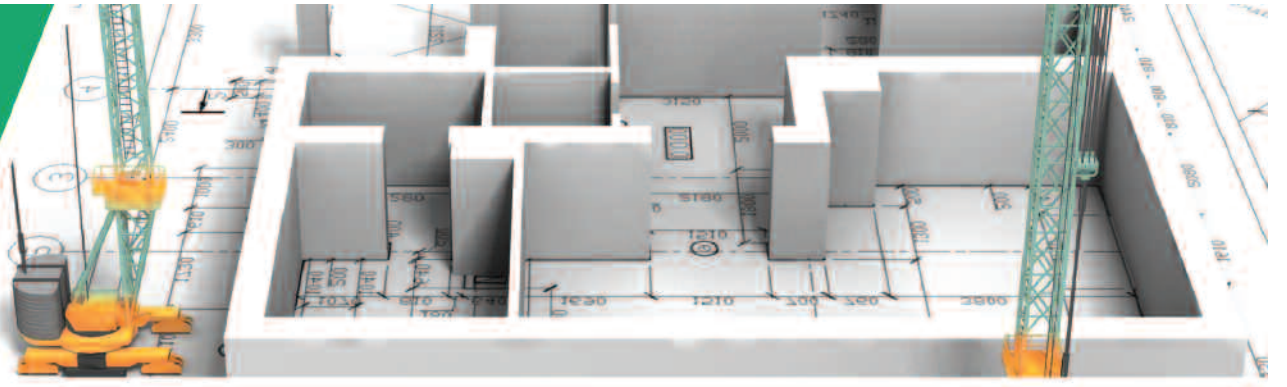
- 2 President of Malawi Institute of Architects (MIA), Ms. Maliam Mdoko gives a vote of thanks on behalf of MIA and other stakeholders.
- 6 Members of the media attentively detailing the Kumanga Malawi program.

- 3 LafargeHolcim CEO briefing the media on the Kumanga Malawi Program.
- 7 LafargeHolcim executives presenting the mechanics of the design competition.



# LAUNCH

20/04/18



LafargeHolcim Malawi CEO, Mr. Albert Sigei, introduces the Kumanga Malawi Program to the patrons.

4 Mr. Hilary Mkulichi, LafargeHolcim Commercial Manager introducing the Kumanga Malawi design competition.

LafargeHolcim Malawi CEO engaging in discussion with ICT Association of Malawi (ICTAM) President, Mr. Wisely Phiri.

8,9,10,11&12 Patrons networking and socialising at the launch.



# Geological mapping commences in northern region



Participants at one of the GEMMAP conferences

By Deborah Manda

**T**he Ministry of Natural Resources, Energy and Mining has commenced field surveys marking the second phase of the Geological Mapping and Mineral Assessment Project (GEMMAP) in the northern region.

The Ministry is implementing the project through the Departments of Mines and Geological Survey, and engaged a consortium of the Geological Survey of France, Geological Survey of Finland and Council for Geosciences of South Africa as technical partners.

Principal Secretary in the Ministry of Natural Resources, Energy and Mining Patrick Matanda says in a statement the field investigations shall involve, mapping of geological units, collection of soil sediments and rock samples for laboratory analysis, collection of data on mining activities in the areas visited and mapping of geohazards.

“The project is also doing in-depth surveys in places where it shows that there are precious stones in connection with the recent countrywide high resolution airborne geophysical survey named Kauniuni,” said Matanda.

He says the main objective of the project is to support the Geological Survey department and the mining sector by advancing the geological knowledge and capacity building.

GEMMAP has six components which are; geological mapping, mineral resource potential mapping, natural risks (geo-hazards) mapping, support to small scale mining, procurement of laboratory field equipment and construction of a documentation center at GSD and capacity building.

The Ministry appeals to the general public to take note of the commencement of the field mapping and render their support for the success of the project.

The implementation of GEMMAP is consistent with the Government of Malawi’s development blue print, the Malawi Growth and Development Strategy (MGDS II) and Mines and Minerals Policy document of February 2013, the main aim of which is to maximize the mining sector’s contribution to the country’s sustainable socio-economic growth.

The geological mapping component of the project involves systematic mapping of the geology of Malawi, doing field observations and collecting samples for petrographic, geo-chemical and geo-chronological studies.

The project will replace the archival geological maps produced in 1966 based on aerial photo interpretation, field mapping and thin section petrography with new ones produced using advanced technologies which will integrate archival geoscientific data, high-resolution geophysical data, satellite multi-spectral data, GPS-referenced field

observation, advanced structural analysis and modern laboratory analysis.

Deliverables shall include updated geological maps at scales of 1:1,000,000 (1 map); 1:250,000 (10 maps) and 1:100,000(40 maps) and accompanying reports.

Under its inception phase, GEMMAP has worked to improve the data storage situation at GSD through organisation/classification of data/creation of metadata, selection of relevant data for various GEMMAP modules, data treatment and analysis.

This resulted in the production of an inception report covering a review of the Malawi geology in relation with that of surrounding countries, mineral resources assessment of Malawi, geohazards catalogue, review of Artisanal and Small Scale Mining (ASSM) sector, production of geological and structural maps, metadata of GSD Technical Reports, transfer of past geochemical surveys into GIS and georeferencing of historical 100k geological maps.

The project has, therefore, improved the data storage situation at GSD by replacing analogue data with modern digital data which is easier to access.

Data at GSD has been mostly in hard copy format which is difficult to access, query and analyse with most books at the library older than 40 years ■

## Mining gurus mourn gemstone association president

Players in the gemstone industry have expressed shock over the death of President of the Gemstone Association of Malawi (GAM) John Chikokoto who passed away on Thursday, May 24 at Mtengowanthena Mission Hospital in Dowa.

National Coordinator for GAM Xina Lungu described the loss of Chikokoto as shocking saying the GAM President was a man with great honor in the mining sector, having headed a number of positions in different mining associations.

Lungu said Chikokoto also ably represented GAM in various local and international conferences, and gemstone exhibitions.

“A pillar has fallen in the mining sector. In him we had a library of gemology findings. He was a campus always giving direction and now it is a difficult task we are faced with. GAM is wounded. GAM is grieved,” said Lungu.

Lungu added that the late Chikokoto as President served with diligence and honor, made them love gemstones and led the way in the search for the treasure that could boost the economy of the country.

Joining several people who expressed their condolences through Facebook were Deputy Director of the Department of Mines Atileni Wona another official of the Mines

Department Gibson Nyirenda and Coordinator for Chamber of Mines and Energy Grain Malunga.

“The death of Chikokoto is a very sad development for the Gemstone industry. He was like a father to me,” said Nyirenda.

On his part, Department of Mines (DoM) Director Jalf Salima described the passing of Chikokoto as a big loss to the mining sector, saying the man had great passion for gemstones.

“He was a fountain of knowledge in as far as gemstones business was concerned and he was always ready to share his knowledge and provided advice whenever needed,” Salima said.

Apart from being GAM President, Chikokoto also served as the chair of Blantyre Gemstone Association for a couple of years.

He was also in the group of small-scale miners who, a couple of years ago, were sponsored by FDH Bank to showcase their products at the Investing in Arica Mining indaba in Cape Town, South Africa

Chikokoto succumbed to cancer and was laid to rest at his home village, Mambala near Ntcheu boma. He is survived by eight children and 14 grandchildren ■



Chikokoto at Cape Town - South Africa 2016 Mining Indaba

# s to push for fair oil deals



**Munthali: Protect Malawians**

**From page 6** Chairperson of the Parliamentary Committee on Agriculture, Natural Resources and Climate Change, Victor Musowa, commended Oxfam for producing the report and engaging the MPs in the learning and sharing session on analysis of fiscal terms in oil contracts, which included a dinner.

“This is very important information because parliament needs issue-based discussions. Our committee is in support of Oxfam’s goal to promote sustainable extraction of resources for the benefit of the country’s population,” he said.



**Chawinga: Promote transparency and accountability**

protect citizens from harmful mining practices and ensure that Malawians substantially benefit from resource extraction projects.

“We also ask you to push for transparency in the governance of the extractive sector because there is more secrecy in the issuing of licences to mining investors and even the renegotiation process for oil contracts,” he said.

A local consultant who took part in the development of the report, Fredrick Maliro Chanza, summarized the report to the MPs highlighting that Malawi stands to benefit more



**Chanza: Govt. needs to strengthen its capacity**

taxation and public policy, and energy and mining economics including financial modelling.

He also said the Malawi government needs to strengthen its capacity to undertake an economic analysis of the fiscal terms contained in existing or future contracts.

“The economic model prepared as part of this project is a tool that can assist in meeting this objective,” Chanza said.

He also emphasized the need for the Malawi government to build on previous efforts to renegotiate the fiscal terms contained in the already signed PSAs in order to ensure that the government protects its revenue interests and secures fiscal terms that generate an increased share of revenue for the government, particularly for projects that are highly profitable.

The fiscal terms contained in Malawi’s three signed PSAs are based on the same basic instruments included in the model PSA.

However, Chanza said specific provisions in the signed PSAs are more generous to the oil firm than is the case with the model PSA.

He explained that the terms contained in the proposed addendum of late 2016 improve the government’s position but still do not enable the government to secure a larger share of the divisible revenue for highly profitable projects.

“The provisions in the signed PSAs relating to profit oil allocation and a potential reduction in the rate of corporate income tax fall outside the bounds of international good practice. The government of Malawi should, therefore, seek to remove these two provisions, as appears to have been the objective in negotiations on the proposed addendum,” said Chanza.

Comparative analysis with contracts from Kenya and Uganda signed before suggests that Malawi should target a government take of around 70% as according to IMF, a government might expect to secure between 65% and 85% of the divisible (after-cost) revenue from a petroleum project. However, countries like Malawi with no history of a commercial oil discovery should expect to be on the lower end of the spectrum.

Chanza also says further review of the fiscal terms applicable to deep water projects may be appropriate given the very high challenging economics for deep water projects in a lower oil price environment.

“This review can likely be pursued after onshore discoveries have proven the availability of commercial oil discoveries in the country and the companies are excited to invest in deep water offshore exploration which is very expensive especially in a landlocked lake hundreds of kilometres away from the East African coast,” he said ■



**MPs and other participants engage over dinner**

Musowa, who is MP for Mulanje Bale Constituency, also said the session has come at an opportune time when parliament is expected to debate and pass the long awaited Mines and Minerals Bill, which is also targeting the extractive sector.

Chairperson of the Natural Resources Justice Network, Kossam Munthali, asked the legislators to show commitment in debating and passing both the Mines and Minerals Bill and the revised petroleum law when they are tabled in parliament.

He also urged the MPs to ensure that the new laws

from the oil and gas subsector if it utilizes the terms in the model PSA currently being developed other than the signed contracts and an addendum that has been developed on the signed contracts as part of the renegotiation process with the oil firms.

“A model PSA with well-calibrated fiscal terms provides a sound basis for negotiations with international oil companies. Malawi should finalise the development of the model PSA, including comprehensive review of the fiscal provisions, and use that document as a foundation of all future negotiations,” said Chanza who is an expert in

# MINING & Social Issues



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## Elements of a Bankable Feasibility Study (BFS) as applied in Mining Projects

**A** Bankable Feasibility Study is a phase of the mining cycle that compiles all the results of other feasibility studies as fully analyzed as possible when planning a mining project. Information added include Environmental and Social Impact Assessments, mine closure costs, land reclamation/rehabilitation, engineering costs, contract agreements/negotiations, mine closure strategies, permit requirements etc. This full analysis is then presented to an investor or bankers for funding. However, presenting a BFS does not constitute or guarantee funding instantly because it is perceived to be more of a detailed business plan for a mining company and can be rejected.

Therefore, an investor or a banker is required to do due diligence on the information that is presented. It is said to be “bankable” because it is a funding proposal ready to be presented to the bankers/investors. In strict sense a feasibility study is bankable if it is prepared enough in a detailed manner objectively so that the company can attract bankers/lenders. The goal of this study is to determine whether the project can progress with the resources available, generate cash flow that will sustain it, and can last long as anticipated based on the life of the mine as applied in mining.

### Why Resource and Reserve Estimate in BFS?

The resource estimates of a mineral ore are classified using JORC (Joint Ore Reserves Committee) guidelines.

The JORC Code is currently used as a model for reporting codes of other countries with appropriate modifications to reflect local conditions and regulatory systems.

Examples of JORC reporting codes are:

~ SME (Society for Mining, Metallurgy and Exploration 2004) used in USA.

~ SAIMM (South African Institute of Mining and Metallurgy (2004) and the recent SAMREC.

~ IMM now IMMM as used in United Kingdom.

~ CIM (Canadian Institute of Mining and Metallurgy) Definition Standards complying with Canadian National Instrument 43-101, for the ‘Standards of Disclosure for Mineral Projects’ of February 2001 (the Instrument) and the resource and reserve classifications adopted by CIM Council in August 2000. This complies with disclosure and reporting requirements set forth in the Toronto Stock Exchange (TSX) Company Manual, National Instrument 43-101, Companion Policy 43-101CP, and Form 43-101F1.

~ ‘Australasian Code for Reporting of Mineral Resources and Ore Reserves’ of September 2004 (the Code) as prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy.

~ Australian Institute of Geoscientists and Mineral Council of Australia (JORC).

\* Our own Kayelekera Resource estimates used a combination of the last three captioned bullets.

The JORC code sets out a system for classifying tonnage and grade estimates as either ore reserves or mineral resources and subdividing these into categories that reflect different levels of confidence. The purpose of this is purely for public reporting. JORC does not regulate how estimates should be done, nor does it attempt to quantify the amount of data needed for each mineral resource category.

An anticipated miner requests the services of an

independent consultant referred to as “Competent/Qualified Person” to undertake the estimation of a Mineral Resource for the project. This work is done to enable the miner to make decisions on the project regarding progress towards a Bankable Feasibility Study (BFS). Initially the mining company undertakes diamond drilling program to provide samples for metallurgical test work and an RC drill program follows if needed. Cut off grades are also reported as the most likely range to be economically viable.

A Competent Person(s) makes these decisions based on direct knowledge of the deposit in question. The criteria used may be entirely subjective or they may involve some quantitative measures, or mixtures of both. It is very important that the selected methods of distinguishing resource classes should be geologically sensible in the context of the deposit being studied.

If the initial outcome of the pre-feasibility study commissioned demonstrates improved price of the product, local politics and infrastructure in the long run, the project could be viable and breed successful mining operations. These findings result in a formal evaluation through a Bankable Feasibility Study (BFS) to verify. The BFS covers all aspects of the Mining Project, including resources/reserves detailing, mining, production, tailings disposal and marketing of the processed ore. The BFS is supported by comprehensive environmental studies and management plans. The Project is designed to give an annual tonnage production and processing. Estimates of mineral reserves necessarily depend on a number of variable factors and assumptions all of which may vary considerably from the actual results such as;

- Assumed effect of government regulations, taxes inflation, operating costs, price fluctuations, development costs, severance taxes etc, rehabilitation costs, change in technology among others.
- Historical production from the area as compared to other producing regions of similar nature.
- Geological continuity
- Mining conditions due to available data from exploration activities that might differ with current operations.

The overall results from the BFS financial model, which provided the basis for the resource and reserve estimates are reported by independent consultants, and in summary contain the following:

- The operating costs for the reserve averages of the ore over the life of the project.
- The total capital costs for the development of the project.
- Financial analysis in the BFS incorporating ore pricing schedule over the life of mine.
- The Project’s ability is able to pay back initial capital and working capital for a calculated period after commencement of operations scheduled for ramp up.

The identified critical path activities during the feasibility study phase are the one that drive the project schedule. Environmental approvals and granting of a mining licence are critical to accessing site and even final implementation phase approval. Approval durations need to be managed to reasonable levels, as early award of key packages is required so as to facilitate timely receipt of vendor/

supplier data. This is critical to completion of detailed design allowing issuing of design drawings for fabrication packages and construction contracts to support the project schedule. Cost, recovery and revenue assumptions used in the optimization are also detailed in the BFS Report.

### Framework for bankable feasibility study

The following summary provides an outline of the framework for the Bankable Feasibility Study (BFS)


The proposed Project comprises the type of mining of a Mineral Reserve i.e it can either be OP(Open Pit) or UG(Underground). Pit optimization and mine design are developed using both Measured and Indicated ore classes for the BFS. This also includes ore processing/crushability and the annual production.

Environmental assessment of the property also takes place. A number of social and environmental issues shall need to be addressed as part of the design of the project. It is assumed that a risk mitigation and management system may also be implemented. Additional feasibility studies on mining procedure, geology, infrastructure development, engineering, process plant construction, procurement (supplier and vendor estimates), water and waste management are also included. A mine closure plan or exit strategy and land reclamation are of paramount importance in full ESIA (Environmental and Social Impact Assessment) report.

In conclusion, a full scope of work for the completion of the BFS includes:

- Overall project management
- Securing a Mining Agreement with government for the Project
- All other required liaison and negotiation with the Government
- Provision of infrastructure for work in the fieldwork including metallurgical sampling, pit optimization and sterilization drilling
- Auditing and verifying the geological model
- Auditing and verifying the ore resource and reserve estimates
- Mine plan and production schedule
- Metallurgical testwork
- Flowsheet development
- General Arrangement Drawings
- Mass and material balances
- Infrastructure and services
- Waste disposal
- Environmental study and EMP audit
- Operating costs estimate
- Capital cost estimate
- Financial model
- Marketing
- Project funding

In a Malawian context, when the BFS (Bankable Feasibility Study) is finalised, it incorporates the Development Agreement fiscal regime. Then the final signed BFS, together with the ESIA (Environmental and Social Impact Assessment) is now submitted to the Commissioner for Mines for the granting of a Mining Licence paving the way for the miner to commence development and construction of the Project with a planned commissioning ramp up■



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# TECHNICAL FILE

by Grain Wyson Phillip Malunga FIMMM

Minerals, Geology, Environment & Corporate Affairs Consultant

## Fiscal Regime and The Mining Sector Raw Deal

### ABSTRACT

Fiscal regimes need to be designed in such a way as to create smart partnership between government and the resource companies. While governments try to maximise revenue from the minerals industry, they also need to let companies realise return on their investments. Building trust between the two partners increases investor confidence.

The paper explores how fiscal components and tax justice can affect government revenue.

### INTRODUCTION

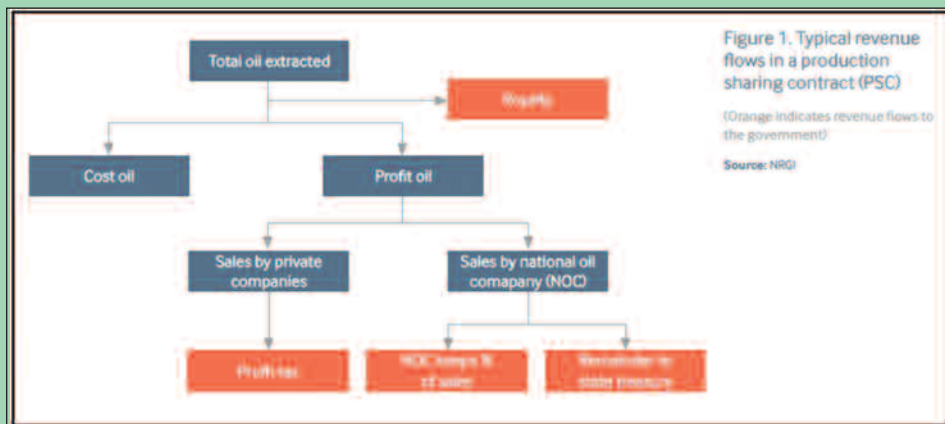
It is universally accepted that natural resources are a nation's inheritance and belong to its people. Mining companies come into the country to exploit these resources with full understanding that there will be benefit sharing between government and the company. This benefit sharing is guided by the fiscal regime of the host nation. Governments try to use fiscal regime tools to maximise their revenue while mining companies look for loop holes to maximise revenue for its shareholders. An effective fiscal regime maximises government revenue while maintaining a good return on investment for resource companies.

The paper tries to enlighten policy makers and "watch dogs" on how the fiscal regime of natural resources projects can be designed to realise a fair share of the profits for government and resource companies.

### FISCAL COMPONENTS

Governments collect the following from resource companies:

1. **Annual ground rent per hectare** – Other countries allow payments to local administrative authorities. In Malawi, Exploration Licences pay MK1,000 per hectare while Mining Licences pay MK10,000 per hectare.
2. **Royalties** – These are a percentage of the value of minerals produced without taking into account production costs. Royalties vary normally between 5 and 10%.
3. **Corporate Income Tax** – This is a percentage of net profit (after deducting operation costs). Corporate Tax may range from 30 to 35%.
4. **Withholding Tax** – This is a percentage of payments made to third parties. This can be in form of payment for services and dividends. In Malawi it is 10%-20%.
5. **State equity participation** – This offers a share of profits to government as long as no operational risks are attached.
6. **Production sharing** - This is mainly practiced in oil and gas projects. Companies collect an agreed share of produced oil to offset exploration and development costs. The rest is shared between government and the resource company. The initial oil produced is subject a royalty charge. *Figure 1* shows a standard agreement between a resource company and government.



The design of a fiscal regime depends on how government wants to balance between attracting Foreign Direct Investment and maximising Effective Tax Rate (or its fair share of proceeds). Average Effective Tax rate for oil and gas varies between 50% and 80% while that of solid minerals varies from 40% to 70%.

### RAW DEAL

Raw deals emerge when government designs regressive tools that offer lesser shares of the proceeds as profits increase. Some investment incentives are self-defeating in areas where companies take advantages of governments' investment incentives. For example, Double Taxation Agreements encourage Transfer Pricing and Treaty Shopping. Lack of

project ring fencing erodes government revenue collection as taxes are assessed together as one project in two projects with one that is highly profitable and the other loss making. Thin capitalisation reduces project revenue thereby prolonging non-payment of profit based taxes due to high and long loan servicing. Taxes that are affected in this situation include Corporate Tax and Resource Rent.

Policy makers need to monitor effectiveness of their fiscal regime. Fiscal regimes should maximise government revenue within shortest time possible.

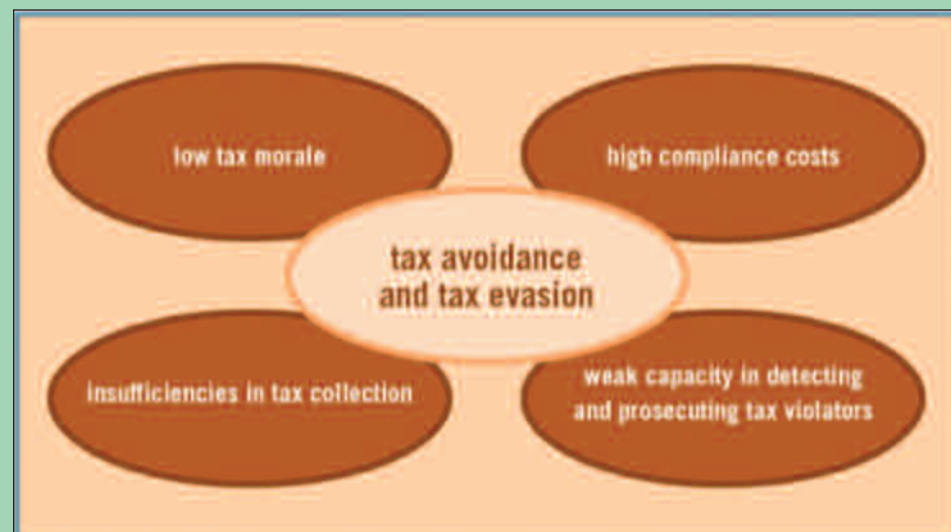
Most governments rush to take state equity without proper mechanisms for monitoring their investment and putting up mechanisms for effective participation in the operations of the resource company. Lack of participation in working with the resource company leads to unethical activities such as transfer pricing on managing of procurement of goods and services

Raw deals emanate from tax avoidance and tax evasion. Tax avoidance is the ability to reduce one's tax burden while complying with tax law. Tax evasion corresponds with not reporting all of one's income. Treaty shopping leads to tax avoidance and this is not illegal. Tax evasion is illegal as it is tantamount to cheating.

This happens due to some of the following reasons:

1. Low ability of tax administration and fiscal courts to enforce tax liabilities
2. Unwilling to pay due attitude of tax collectors
3. High costs to prepare revenue accounts in order to comply with tax laws
4. Bartering of goods

Any business ventures need to be properly monitored in terms of how they manage procurement of goods and services. Government needs to have a highly trained and sophisticated unit to maximise revenue from business entities without creating enmity with companies. *Figure 2* summarises some of the reasons GIZ attributed to tax avoidance and tax evasion in developing countries.



### CONCLUSION

Fiscal regime design and management should bring investor confidence while maximising government revenue. Tax avoidance and evasion can be minimised in an environment of trust and respect for business operations. Insufficiencies in tax collection can be reduced through building capacity for tax collectors, motivating them and reducing compliance costs for resource companies.

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# Mkango mobilises for huge drilling exercise at Songwe

By Deborah Manda

Canadian listed, Mkango Resources, says it is mobilizing for the largest diamond drilling programme to date at its Songwe Hill rare earth prospecting site in Phalombe.

Mkango Resources CEO William Dawes says the drilling, which will be financed using proceeds of £6 million investment by its partner Talaxis Limited forms part of the initial phases of the feasibility study for rare earth mining at Songwe, and will commence this June once all roads and pads are completed.

“The programme is for a minimum of 5,000metres and will be focused on in fill, step-out and geotechnical drilling, the latter for the purpose of mine design and the drill plan is based on a refined geological model developed in-house by Mkango’s technical team in consultation with the MSA Group and Bara Consulting, who have been

appointed resource and mining consultants respectively,” said Dawes.

He says Cartwright Drilling has been appointed as drilling contractor with a combined Canadian and Malawian drilling team to operate two diamond drill rigs both running 24 hours.

“Over 50 drill pads are being constructed for the drill programme a well as an enlarged camp to accommodate the larger team versus previous drill programme,” says Dawes.

Mkango, which is targeting completion of an updated Mineral Resource Estimate by the end of 2018, previously conducted two successful drill programmes at Songwe in 2011 and 2012 culminating in a maiden Mineral Resource Estimate, and also engaged Cartwright Drilling, the MSA Group and Bara Consulting.

Dawes says other aspect of the feasibility study, metallurgical optimization, is underway at laboratories in



CEO Dawes: Mkango mobilizing for largest drilling

Australia and Canada and the work programme has been scaled up following the receipt of the Talaxis funding and is focused on floatation, hydrometallurgy and acid regeneration.

“The Environmental, Social and Health Impact Assessment is underway and being completed in accordance with World Bank and Equator Principles,” he says.

Mkango’s primary business is the exploration of rare earth elements and associated minerals in Malawi.

The company holds interests in three exclusive prospecting licences; the Phalombe licence, Thambani licence in Mwanza and Chimimbe hill licence in Mchinji.

The main exploration target in the Phalombe licence is the Songwe Hill rare earth deposits which features carbonitite hosted rare earth mineralization and was subject to previous exploration in the late 1980’s.

Mkango, which is listed on TSX Venture Exchange, completed an updated pre-feasibility study for the project in November 2015 ■



Mkango’s initial drill at Songwe Hill in Phalombe

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