Emerging Europe

As the eastern European countries of Bulgaria, Romania and Albania continue to grow out of the 2008 global recession, a modern mining sector is beginning to take shape in the region.

Albania: Rising up

By Sokol Mati

There remains significant mineral potential in Albania, and the country’s mining sector has been growing in recent years as a result of the combined effect of large investment in the sector, structural reforms to the country’s mining industry and rising metal prices. As a result, mining contributed 7.7% to Albania’s GDP last year.

The sector has historically been dominated by four minerals (chromium, copper, iron-nickel and coal) that accounted for more than 90% of mineral production, and since the industry’s crash in the 1990s, production of these minerals has been steadily rising again.

Mined production has been increasing at a rate of roughly 10% year-on-year, although this year copper production is anticipated to triple following significant investment in the sector.

The sector is now characterised by the growing presence of junior mining companies, exploring, in particular, for copper and chromium.

Mineral Policy

Albania is a country rich in mineral resources and with a great deal of possibilities for both exploration and profitable exploitation.

During the past 30 years there has been a considerable growth in geological exploration and research. As the sector has become privatised, so the government has been working to improve the business climate.

Reforms undertaken by the government include registration of businesses through the establishment and operation of a National Registration Centre, the introduction of a National Licensing Centre and operation of a National Registration Centre, the introduction of a National Licensing Centre and reducing administrative barriers by improving the regulatory framework, as well as inspection reform, fiscal reforms and electronic government.

The mining industry is being given top priority for the country’s economic development.

The mining policy is intend to:

■ Create an investment environment in which appropriate international investors can start the production and bring the sector to its economic potential;
■ Stimulate the transfer of technologies and knowledge;
■ Promote and sustain the value added policy for the mining sector on treatment of minerals and increase the value of minerals, profit and employment in the country;
■ Promote the development of modern infrastructure and generate valuable foreign exchange earnings;
■ Make the mining sector a core industry able to stimulate sustainable economic development; and,
■ Help creation of jobs, reduce poverty, and become a major contributor to the macro-economy, local-community development.

Albania’s mining law was enacted in 1994 with the primary aim of attracting foreign investment to the country.

The law applies equally to both foreign and domestic investors and is administered by the Ministry of Economy, Trade and Energy.

The law grants up to 100% foreign ownership of mineral concessions, with a NSR royalty of 2% (although tax holidays may be negotiated for new mines) and some duty-free concession on imports of goods and equipment.

Latent Potential

Mines have recently been developed for chromium in the northeast of the country (Tropoja Kukes massif), while exploration is also taking place for copper in the Mirdita-Puka area and for nickel in the Kukes area.

There is significant potential for the nickel industry, which has been under pressure in regional market owing to a lack of plant capacity in Albania (the country has a monopoly for nickel within the Balkan region).

The future direction of Albania’s mining sector is being guided by the European Commission’s strategy for minerals, mining and sustainability. However, the sector continues to face a number of challenges, which include price and trade fluctuations, but its development could be a significant economic boost for Albania.

The Balkans can supply more than 50% of Europe’s production of bauxite and nickel, as well as more than 30% of its chromium and 20% of its copper, making the region a significant resource base for the European Union.

Recent Activity

Albania has an active domestic exploration sector, particularly for chromium, but is also attracting investment from international junior mining companies exploring for copper, gold, chromium, nickel, iron-nickel and rare earth minerals.

Recent exploration activity has outlined resources that include a potential 2.7Mt of copper, 2Mt of chromium and 130Mt of iron-nickel.
Bulgaria: Undergoing reform

The overall index of producer prices in industry (in both the domestic and the international market) showed a 12.1% annual increase in January 2011, with the largest increase being registered in metal prices. In the domestic market, producer prices rose by 1.1% in January 2011, compared with January 2010. The extractive industry reported a 15% price increase, while NSI reported a 25% price growth in metallurgy. Bulgaria’s mining industry provides direct employment to approximately 30,000 people, as well as indirect employment opportunities for satellite industries to approximately 120,000 people. In 2010, the total output of extractive industries is estimated at Lv3.3 billion, 11.5% more than 2009. In 2010, Bulgaria’s Economy Ministry collected Lsv7.5 million in revenues from mining concession fees, according to the annual report of concession committees, as the total number of mining concession administered by the Ministry of Economy and Energy rose to 133 by the end of the year. The figure is Lsv5.6 million higher than the amount secured in 2009. More than Lsv11 million of the proceeds were transferred to local municipalities.

Earlier this month, Moody’s Investors Service upgraded Bulgaria’s government debt ratings to Baa2 with a stable outlook from Baa3, as part of a long-term strategy to reduce its debt burden.

July 29, 2011 Mining Journal 15
NEW MINING LAW

At the end of 2010 the National Assembly voted in significant changes to the law on mineral resources. The new law, which constitutes a single authority for the management of mineral resources, has led to significant streamlining of the procedures for prospecting, exploration and control of mineral resource concessions.

In June 2010, the government also began the development of a national policy and strategy for mineral resources. Further changes to the law are expected at the end of 2011, following the implementation of the national strategy, which is set to include improvements in the methodology for calculating concession fees; simplification of land expropriation procedures and elimination of illegal mining.

Ivan Andreev is executive director of the Bulgarian Chamber of Mining and Geology

ENERGY STRATEGY

Bulgaria’s energy production is dominated by lignite coal reserves, with around 90% of deposits displaying the right characteristics for open-pit mining. According to the BP Statistical Review of World Energy (2011), Bulgaria has coal reserves estimated at 2,360Mt. The country produced 4.8Mt of coal in 2010, a 5.8% increase on 2009, according to BP, but it also consumed 6.6Mt (a 4.8% increase) the statistics show. Around 97% of Bulgaria’s coal production is used for domestic power and heat production.

Electricity production in the country has been dominated by large thermal-power plants using coal (55% in 2009) since the closure of the Kozloduy nuclear power plant in 2007.

The main domestic resource is lignite coal from the Maritsa East coal basin.

State-owned Maritsa Etozk Mines operates three producing mines (Troyanovon 1, Troyanovon North and Troyanovon 3) in this East Maritsa basin, supplying coal to three domestic thermal-power plants for electricity production and a factory for briquette production. In 2010, the firm produced 27Mt of lignite, and estimates that it has reserves for 50 years more of production.

In addition, Enemona JSC was last year permitted by the Bulgarian cabinet to explore mineral resources in the Momin Brod area, where the Lom lignite deposit is located.

Uranium has also historically been mined in Bulgaria, and the country was an established uranium producer until around 1995. It is estimated that more than 70% of the country’s known uranium deposits are suitable for mining.

In June last year the Ministry of Economy, Energy and Tourism announced Bulgaria’s energy strategy to 2020, which is designed to align the country with Europe’s wider 2020 energy and resources strategy.

As part of the strategy, the government aims to reduce greenhouse gas emissions as well as the reliance on gas and coal by increasing the use of nuclear and renewable energy sources to 16% of the total energy mix.

METALS AND MINERALS

Historical exploration has identified mineable resources of around 245 mineral deposits for a range of metal commodities including iron ore, chromite, tungsten, molybdenum, zinc, copper, gold, silver and uranium.

The total output of extracted metal ores for 2010 is estimated at 1.2 billion, including copper ores and concentrates, lead, zinc and tin ores and concentrates. The sector is also showing a small amount producer around 6.250 people, an increase of 2% on the previous year.

Currently there are three companies that produce copper concentrate in Bulgaria. These are the local companies Assarel-Medet JSC and Elatsite Med AD (which operate open-pit mines in the country), while Canada-based Dundee Precious Metals Inc operates the Chelopech underground mine.

Assarel-Medet is the largest copper producer in Bulgaria, providing over 50% of the national production of copper.

Earlier this year the first 130t of copper cathode with a purity level of 99.99% was produced from the trial operation of the company’s new solvent-extraction and electro-winning facility, which was officially opened at the end of May by the Bulgarian prime minister.

The plant has a production capacity of 1,500t/y of copper cathode and its construction also included the reconstruction and upgrade of the existing installation for microbiological-levaching. The upgrade has also served to improve the economics and environmental efficiency of the operation.

Elatsite Med is a private joint-stock company engaged in mining and processing of copper and gold-containing ores. The company’s Elatsite mine is the largest open-pit mine in Bulgaria and is scheduled to continue operating until 2021.

Meanwhile, Dundee Precious Metals’ Chelopech mine is one of the largest copper-gold deposits in Europe. It is located west of Chelopech village, on the southern slope of the Balkan Mountains in the Zlatitsa Valley.

Last year the mine produced 27.4Mt of copper and 65,512oz of gold, although the company is currently pathway through an expansion plan to increase mining capacity from 1Mt/y to 2Mt/y and output to 45.7Mt/y of copper and 128,850oz/y of gold from 2012.

In June, Dundee’s subsidiary Chelopech Mining EAD officially opened the upgraded and reconstructed process plant as part of the upgrade programme. The total cost of the project is estimated at US$150 million, with the company having spent around US$95 million to date, including US$23 million for the process plant upgrade and US$11 million in the construction of a paste-fill plant.

Earlier this year the company also completed a US$14.5 million long-term loan agreement with Raiffeisenbank (Bulgaria) EAD to be used towards the expansion project.

The loan agreement with Raiffeisenbank concludes US$81.25 million in long-term debt financing arrangements for the Chelopech expansion, which commenced with the US$66.75 million financing with the European Bank for Reconstruction and Development and Unicredit Bulbank that was put in place in December 2010.

Company profile

CARPATHIAN GOLD

Carpathian Gold Inc (TSX:CPN) is an exploration and development company whose primary business interest is developing near-term gold production on its 100%-owned Riacho dos Machados gold project in Brazil and focusing on activities surrounding permitting and construction, along with progressing its exploration and development plans, on its 100%-owned Novoiva Valley Au-Cu project located in Romania.

The firm currently hosts NI 43-101 resources of 4.0Moz of gold in the measured and indicated categories and 4.5Moz of gold in the inferred category, as well as

Company profile

759.1Mlb of copper in the measured and indicated category and 663.1Mlb of copper in the inferred category.

The company recently announced an agreement with Barrick Gold Corp for a US$20 million private placement. The proceeds from this transaction will be used towards expanding the current 2011 drill program at the Ciresata Au-Cu porphyry deposit by an additional 15,000m (from 35,000m to 50,000m), test surrounding targets, release an updated NI 43-101 resource estimate and the on-going pre-feasibility study. Carpathian is spearheaded by a focused and experienced management and exploration team with years of various disciplines in the mining sector.

Ivan Andreev is executive director of the Bulgarian Chamber of Mining and Geology

16 Mining Journal July 29, 2011
Romania: Awaiting a mining revival

FAST FACTS

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<tr>
<th>Capital:</th>
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In the first and second world wars, Romania’s economy flourished and the country managed to overcome the 1930s recession due to its wealth of mineral resources. Since then, however, the minerals sector has been in decline.

Prior to 1990, the communist regime had imposed an industrial policy focused exclusively on internal resources, leading to the creation of huge production capacities that were no longer related directly to internal demand.

However, decades of under investment has prevented Romania realising the full value of its mineral resources. These policies, and the dominance of state-ownership in the mining sector, continued in Romania until the end of the 1990s.

As a result, the recent global recession caught the Eastern European country at a time when the once-strong mining sector has reached a state of collapse.

STORY OF DECLINE

Romania’s largest gold mine, Rosia Montana, was closed in 2006 as the aging technology meant the operation was no longer competitive.

The closure represented the culmination of decades of decline in Romania’s mining sector. Prior to the 1990s, more than 350,000 people were directly employed by the mining sector (65,000 of these people working in non-energy mines). Today, total mine employment is closer to just 45,000.

Only 69 mining operations out of an original 600 were still functioning in 2008, after the government cut subsidies to the non-energy sector and closed many of the country’s existing mines.

The governments restructuring of the mining sector continues, with the authorities recently concluding that the country’s large coal mining companies are still operating with losses. As a result a further 10,000 employees of state-owned mining companies could be about to lose their jobs.

In the end, completion of the restructuring process could cost Romania as much as €1 billion (US$1.4 billion), funds that the government can only obtain by turning to the major international funders, with the disadvantage of increasing Romania’s external debt.

However, the National Agency for Mineral Resources continues, with the authorities recently concluding that the new energy strategy is focused on its coal resources.

“Decades of under investment has prevented Romania realising the full value of its mineral resources”

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July 29, 2011 Mining Journal 17
INVESTOR APPETITE FOR GOLD

Despite the recent decline, the country’s resource sector is attracting investors. At present these investors are only showing an interest in precious metals. Two companies have been granted mining permits: Gabriel Resources Ltd through its subsidiary Rosia Montana Gold Corp (RMGC), and European Goldfields Ltd through its subsidiary Deva Gold SA.

Gabriel Resources’ Rosia Montana project is likely to be the first new gold mine to begin production in Romania. The operation could produce an average 500,000oz/y over the life of the mine, and 626,000oz/y in the first five years once it becomes operational, but 500,000oz/y over the life of the mine, and 626,000oz/y in the first five years once it becomes operational, but developments have been slow since the original Environmental Impact Assessment was suspended in 2007. The company has been working for more than a decade to develop the mine, which would create over 3,000 jobs locally, boosting the local economy and helping to lift the region out of very poor economic, social and environmental conditions.

The project is based on estimated resources of more than 10Moz of gold and 47Moz of silver and, at the proposed production rate, could reinstall Romania as Europe’s largest gold producer.

This would boost the financial independency of the Romanian government, enabling it to at least complete its mining-sector modernisation programme.