

#MARKET NEWS

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Canada's First Cobalt braves political risk to pile in to Congo

Aaron Ross



KINSHASA, June 23 (Reuters) - With Western companies in Democratic Republic of Congo treading carefully in the face of political turbulence and a worsening business climate, Canada's First Cobalt Corp is an unlikely newcomer to the central African nation's mining scene.

Several of the Toronto-based firm's workers are former employees of First Quantum Minerals, whose prized Kolwezi project was expropriated in 2010 in an episode that underscored the risks of investing in Congo.

But for First Cobalt CEO Trent Mell, the logic of entering a country responsible for nearly two thirds of global cobalt output as the electric vehicle market booms is simple.

"The bottom line is: No DRC, no Tesla," he said, referring to the U.S. automaker. "You can't fill the void when you have 64 percent of production coming out of the DRC."

Demand for the metal, a key component in the lithium-ion batteries that power electric cars and mobile phones, is surging. Consultancy CRU Group say electric car and plug-in hybrid vehicle sales could quadruple to 4.4 million in 2021.

The market is so promising, Mell said, he is ditching the traditional model of treating cobalt as a by-product of metals such as copper or nickel and is basing investment decisions primarily on sites' cobalt potential.

"We apply the lens of our exploration efforts and strategy around where are we going to find cobalt," he said. "We're able to cross - whether it be cobalt-silver, cobalt-copper, maybe even cobalt-nickel."

CRU consultant Edward Spencer said there was only one active primary cobalt mine, in Morocco, and only a handful of others in development. Cobalt concentrations are typically too low compared with copper or nickel to justify prioritising them.

Last month, First Cobalt signed a letter of intent with Madini Minerals, a private Africa-focused mining firm, for a 70 percent controlling interest in seven prospective copper-cobalt properties in southeastern Congo for about \$1.6 million.

The investments are the first overseas foray by the company, formerly known as Aurgent Resource Corp, after investing this year in a silver and cobalt mine in northern Ontario.

Mell said preliminary prospecting would begin in two to three months, though production is at least five years off.

'Unfinished Work'

First Cobalt is bucking a trend of western wariness of Congo, now in one of its worst political crises in a generation.

President Joseph Kabila's refusal to step down when his mandate expired in December has fuelled rising insecurity in the perpetually unstable country, where millions died in regional conflicts from 1996-2003.

The southeastern mining zones near Zambia have been spared the fighting so far, though mining companies there have complained of harassment by revenue-starved taxmen.

Last year, Freeport McMoRan sold off its majority stake in the Tenke copper mine, one of the world's largest. It cited a desire to reduce debts, though analysts say the operating environment played an important role in the decision.

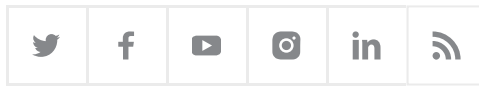
Chinese investors, including Zijin Mining and China Molybdenum have stepped into the void and now control 43 percent of global refined cobalt material, according to CRU's Spencer.

Several First Cobalt workers, including its vice-president for exploration, are intimately familiar with operating in Congo from their time with First Quantum.

In 2010, the government expropriated the company's Kolwezi project, in which it had invested \$750 million, after a protracted contract review.

Mell said that for the former First Quantum staff, their first taste of Congo had only whetted their appetite.

"I think they thought they had some unfinished work when they were forced to leave the country," he said. "This is truly incredible geology. The opportunity for a game-changing discovery in the DRC is hard to replicate elsewhere." (Reporting by Aaron Ross; Editing by Joe Bavier and Susan Thomas)



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