

22 October 2020

## **KEFI Gold and Copper plc**

(“KEFI” or the “Company”)

### **Conditional Completion of Consortium to fund the Tulu Kapi Gold Project**

#### **KEFI expected to increase Project ownership from 45% to c.65%**

KEFI Gold and Copper plc (AIM: KEFI), the gold exploration and development company with projects in the Federal Democratic Republic of Ethiopia and the Kingdom of Saudi Arabia, is pleased to announce that it has now assembled the full consortium and set the conditional terms for the independently reviewed development funding package of c.US\$221 million for the Company’s flagship Tulu Kapi Gold Project (the “Project” or “Tulu Kapi”).

#### **Highlights**

- Non-binding term sheets signed to complete the US\$221 million consortium for Project development funding
- Experienced African investors conditionally agree to contribute a minimum of US\$40 million to the Project
- KEFI beneficial Project ownership expected to increase to c.65% from previously envisaged 45%, increasing NPV attributable to KEFI by c.33%
- First production remains on track for Q4 2022, targeting to lift average gold production from original 140,000oz p.a. to 190,000oz p.a. within 3 years of start-up
- In-house estimates indicate an anticipated Project NPV for KEFI of 11p/share (assuming 65% interest and US\$1,700/oz gold price). This excludes any other KEFI assets, notably the Hawiah copper-gold-zinc-silver and Jibal Qutman gold deposits discovered in Saudi Arabia.

#### **Financially strong African-experienced Investors have conditionally offered a minimum of US\$40 million Project funding**

The Company has entered into two non-binding term sheets for a combined minimum of US\$40 million of investment with the Ethiopian division of a global industrial company (“Local Investor”), which is listed on the London Stock Exchange with a market capitalisation exceeding £1 billion and also with one of the world’s leading commodity trading companies (“Mining Financier”). Both organisations have extensive experience in Africa. The terms sheets are complementary to, and consistent with, the plans already approved by the board of Tulu Kapi Gold Mines Share Company (“TKGM”) and the Ethiopian regulatory authorities.

The Project finance structure now comprises KEFI’s Government Partners (both the Federal Government of Ethiopia and the Regional Government of Oromia), leading African banks as Mandated Senior Project Lenders (Eastern and Southern African Trade and Development Bank and Africa Finance Corporation), strong African specialist investors into KEFI Group companies (the Local Investor and Mining Financier) and the African-experienced principal contractors.

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RAB Capital, KEFI's largest single shareholder holding approximately 12%, has also welcomed the new parties to the consortium, and the proposed appointments of new directors to the boards of the respective KEFI subsidiary companies.

This overall proposed package, further detailed below, is currently being considered by the Senior Project Lenders, before detailed documentation is assembled for approval by consortium member boards and the Ethiopian central bank, the National Bank of Ethiopia .

As KEFI has succeeded in sourcing the Mining Financier to conditionally provide offtake-linked financing, the Company and its Government Partners will be able to retain a higher beneficial ownership of the Project. For KEFI, this is now expected to be c.65%, compared with the previously envisaged 45% ownership. As outlined below, this approach is expected to materially increase the value of the Project to both the Company and its Government Partners.

Whilst the impact of COVID-19 has regularly disrupted a multitude of activities for all existing and new Project stakeholders requiring reshuffling of schedules, the Project remains on track with its key target of commissioning gold production in Q4 2022. This has been made possible by the patient and disciplined support from the community, Government, Senior Lenders and other stakeholders. TKGM directors and management are on the ground in Ethiopia liaising with and supporting wherever possible the dedicated teams of the many Government agencies involved.

### **Project Funding Structure**

Whilst KEFI has now signed agreements and non-binding terms sheets with all consortium members, it should be emphasised that all these individual agreements remain conditional on completion of due diligence, confirmation of regulatory compliance, internal approvals and the execution of full detailed documentation by each consortium member. It is currently scheduled that all these outstanding matters will be completed in the current quarter, to avoid any delay to the Project timetable to commissioning in Q4 2022.

The independently reviewed Project development and disbursement schedules show project equity funding continuing in the current quarter and over the ensuing six months ("Equity Closings"), with senior debt funds drawn down in mid-2021 ("Debt Closing").

The Project development funding requirement and expected sources now comprise the following:

Total Development Funding	US\$300M
Less, already spent	US\$79M (1)
Additional funding required as notified on 19 June 2020	US\$221M
Senior debt at up to c. 60% of additional funding required (under 50% of Total Development Funding)	US\$132M (2)
Project Equity at c. 40% of additional funding required (over 50% of Total Development Funding)	US\$168M
Less, already spent	US\$79M
Additional equity and shareholder loans required	US\$89M

which are currently intended to be provided as follows:

- Conditionally agreed minimum investments by each of the following:
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- Investment into TKGM by KEFI's Government Partners US\$20M
- Local Investor to fund KEFI's further subscription for TKGM shares US\$10M (3)
- Mining Financier to fund KEFI shareholder loans to TKGM US\$30M (4)
- Residual (based on minimum commitments indicated)
  - to be refined and allocated within consortium US\$29M (5)

Notes to the above table:

- 1) Pre-2014 spending of US\$49M has already been registered in accordance with local regulatory procedures. The total of US\$79M includes other relevant amounts incurred. These amounts are important as they form the bases for:
  - a) equity allocations inside TKGM between Government and KEFI, and
  - b) the regulatory compliance with permitted capital ratios for this foreign direct investment.
- 2) Senior Lenders signed off original term sheets in September 2019 indicating provision of up to c.60% of additional funding required pending due diligence. They will advise the final amount after completion of all due diligence;
- 3) Local Investor share subscription into wholly-owned KEFI subsidiary KEFI Minerals (Ethiopia) Limited ("KME") for an expected 6.7% interest. This approach has already been authorised by the Ethiopian regulatory authorities;
- 4) It is intended that the subordinated offtake-linked development capital of a minimum US\$30M from the Mining Financier will be structured as a shareholder loan to TKGM via a KEFI Group company. Detailed terms include the following:
  - a. The full amount borrowed from the Mining Financier will be on-lent to TKGM as KEFI shareholder loans.
  - b. The shareholder loans to TKGM will be fully subordinated to the Senior Lenders.
  - c. The loan facilities provided by the Mining Financier will comprise a term loan and a working capital facility which is a revolving credit line with a tenor to match that of the Mining Financier's offtake rights over 800,000 ounces of gold production at market-based gold pricing.
  - d. An interest rate which has already been approved by the central bank.
- 5) The partners in TKGM (the Government and KEFI) will finalise their respective Project-level equity-capital contributions and the sourcing thereof (for KEFI it is intended to be from the providers of equity or subordinated loans to KEFI subsidiary companies rather than from any parent company share issues) when the Senior Lenders have completed their due diligence and regulators confirm compliance. There are no unresolved policy matters.

### Community Programmes

Having pulled together this refined Project development funding package, TKGM has triggered low-cost but important next steps for the community resettlement programmes so as to ensure on-site construction can start in early 2021. These include starter homes for the first phase of resettled persons.

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All social and environmental programmes are planned to World Bank IFC Standards and exceed the requirements of local regulations. TKGM integrates ESG (Environmental, Social and Governance) considerations into its development and production programme.

### Expansion of Planned Project Production and of KEFI's Beneficial Ownership

Over the recent months, KEFI has successfully focused on:

- a) minimising the COVID-19 impacts on the Project schedule;
- b) responding to the higher gold price by bringing forward the planning for underground mining; and
- c) sourcing development capital at the subsidiary level, substantially increasing the beneficial ownership in the Project for both KEFI and our Government Partners.

More specifically:

- a) COVID-19 impacts have required continual refinement of operational policies, procedures, schedules and activities;
- b) because of the improved gold price outlook, we are revising the planning assumption of US\$1,098/oz gold for determination of Project Ore Reserves and also looking to bring forward the timing of underground development once open pit production has settled down. In this context, it is now reasonable to assume the addition of underground ore during the third year of mining the open pit, lifting combined production to an average of 190,000 oz pa; and
- c) the Project NPV's are presented below, highlighting the impact of increased ownership to c. 65%.

Tulu Kapi Gold Project	Assumed Long-Term Gold Price		
	US\$1,400/oz	US\$1,700/oz	US\$2,000/oz
<b>NPVs for 100% of Project reported at KEFI 2020 AGM</b>			
US\$ Millions	236	422	607
GBP Millions	189	337	485
<b>NPVs for 45% of Project reported at KEFI 2020 AGM</b>			
US\$ Millions	105	190	273
GBP Millions	85	152	218
<b>NPVs for 100% of Project updated for Funding Structure</b>			
US\$ Millions	238	406	573
GBP Millions	181	310	438
<b>NPVs for 65% of Project updated for Funding Structure</b>			
US\$ Millions	154	264	373
GBP Millions	118	201	284

*Note: The Project NPV's include production from the open pit and underground mines and are derived using an 8% discount rate. The NPVs are internally derived using independently created financial*

*models of net cash flows after tax and debt service, based on the Definitive Feasibility Study (DFS) for open pit and Preliminary Economic Assessment (PEA) for underground mining.*

The above table indicates an NPV equating to a KEFI share price of 11p at a 65% interest and a US\$1,700/oz gold price, excluding any other KEFI assets, notably the deposits discovered Saudi Arabia, the Hawiah copper-gold-zinc-silver and Jibal Qutman gold deposits.

**Commenting, Harry Anagnostaras-Adams, Executive Chairman of KEFI, said:** “I am delighted that we continue to attract strong African experienced participants in our Tulu Kapi funding structure in a manner that enables KEFI and its Government Partners to increase their beneficial ownership, for KEFI to c.65% of the Tula Kapi Project. The refined structure set out today is in accordance with the overall plan already approved by TKGM and the regulatory authorities and now includes investment from a well-capitalised and internationally prominent local investor and a global mining finance specialist.

“The pandemic has meant that the TKGM team have worked even more closely with the Government agencies at all levels and other stakeholders, enabling us to adhere to the overall Project timetable targeting production start-up in Q4 2022.

“The improved gold price outlook and our negotiations over the past few months have switched KEFI’s focus from owning 45% of a 140,000 oz p.a. operation to owning 65% of 190,000 oz p.a. operation, essentially doubling KEFI’s beneficial interest in terms of net production per annum. The Ministry has reserved for KEFI its exploration rights to over 1,000 square kilometres of the surrounding land for exploration and we are confident that in due course we will significantly boost reserves from satellite deposits and further expand the mine life beyond the term of the current economic model. We see Tulu Kapi as a mining district and not just one or two mines.

“Our progress and the Project economics are ever more compelling for KEFI and its shareholders and I look forward to reporting further progress in due course.”

### **Market Abuse Regulation (MAR) Disclosure**

Certain information contained in this announcement would have been deemed inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 until the release of this announcement.

### **Enquiries**

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