



Client Alert

Changes to Egypt's mineral resources regime and current opportunities

April 2020

Egypt has a wealth of mineral resources. In addition to orogenic gold, Egypt has promising reserves in tantalum, phosphate, iron, tin, aluminium, sand and limestone. However, for years, Egypt's mining sector contribution to national GDP was limited. The sector was struggling to attract new meaningful investments. The mineral resources regime was simply not investor friendly and presented several significant economic and regulatory challenges.

In July 2019, the Egyptian Parliament approved key changes to the Mineral Resources Law no.198/2014

(the "Law") and a new executive regulation followed in January 2020 (the "ER").

Egypt is now looking to garner some USD 700MM of new investment into the sector and increase its contribution to Egypt's GDP to reach USD 7BN by 2030.

On 15 March 2020, Egypt unveiled the international bid round (1)/2020 for gold exploration licenses under the new regime. On offer is a total of nine exploration sectors in the Eastern Desert, as set out in the table below totaling an area of 170 km² (see table below). An investor can choose to apply for multiple exploration sectors.

This round will remain open until Wednesday 17th of July 2020 at 12:00 PM Cairo Local Time. Egypt announced it will be launching new bid rounds on a quarterly basis. The regulator, the Egyptian Mineral Resources Authority ("EMRA") has yet to publish the form of the exploration license.

Note that there may be some delays given current international circumstances surrounding the COVID19 pandemic.

The changes to the regulatory regime were positively received by investors. Several international investors expressed interest in the current opportunity.

1. Why was the regime problematic from an investor's perspective?

- the oil & gas cost recovery- production sharing style concession model adopted for mineral resources, was unsuitable for exploration and exploitation of minerals,
- an investor was obliged to form a joint venture company with EMRA, upon commercial discovery in order to carry out development and exploitation activities,
- the lack of an up to date database showing the location of potential mineral wealth, which could inform investor's decisions,
- the regime's high level of bureaucracy and plethora of competent authorities, and
- informal miners carrying small-scale unlicensed operations across mineral rich areas, making exploration efforts by mining companies more challenging.

2. What makes this regulatory change significant for mining investors?

The recent changes to the regime were introduced following various informal consultations between the government and investors. They are intended to take into account industry concerns and are designed to offer sector and investment friendly terms and conditions. These developments received positive reactions in industry and investor circles alike.

Exploration licenses to be granted under the new bid round will be governed by this updated regime.

The form of new concession agreement granting exploitation rights is yet to be revealed. It would seem that EMRA is not planning a consultation with interested parties on the form of this new concession model. We anticipate that exploitation licenses will be based on the tax, rent & royalty scheme.

1. Investor's financial obligations

The new regime is based on an investor friendly royalty, rent and tax system.

- **Royalties:** capped at 20%. The ER royalty schedule sets out a gold royalty of 5% of annual ore production. It must be paid in local currency quarterly, either in cash, by cheque or e-payment.
- **Social responsibility contribution:** a licensee will pay a social responsibility contribution of 1% of the royalty to the Governorate in which the mine is located. It is not clear how these funds will be directed.
- **Minimum exploration Expenditure:** licensee will commit to minimum exploration expenditure equivalent to four times the annual rent value.
- **Rent:** the ER sets out the annual rental value per km. For mines these range from EGP 5,000/ km² for the 1st exploration period to EGP 20,000/ km² for the 4th exploration period and EGP 25,000/ km² for mines in exploitation phase. The rental value will be paid annually, in

advance and in local currency. The value of the rent will be reviewed every three years.

- **Financial security:** required as guarantee for exploitation operations and site restoration obligations, at a value equivalent to the rent value. A bank letter of guarantee may be presented in satisfaction.

2. Regulatory entities and licensing aspects

- The changes confirm that the competent regulatory entity for gold mining is EMRA. EMRA is given relative freedom in launching new tenders and in determining contracting terms, in a manner that is less restrictive than that of public tenders.
- The changes facilitate granting exploration licenses for precious metals and stones exceeding 1 km² (such as gold) by giving the Ministry of Petroleum ("MOP") competency to issue such licenses. Prior to the changes, exploration of precious metals and stones required the issuance of a special law from Parliament.
- The changes present the possibility of a third

exploration period (subject to technical justifications), instead of just two periods prior to the changes.

- An exploitation license for precious metals and stones needs to be issued by a special law. The license can be granted for up to a combined total of 15 years.
- EMRA can reoffer a mining area with proven economic reserves to a third-party investor, in case the original licensee refuses to exploit it. However, the mechanics for such re-offering need to be clarified.

3. Investment law incentives

- An investor can choose to setup its license-holding company within the investment areas established by the Investment Law no. 72 of 2017, thus, benefiting from financial and logistical incentives under the Investment Law.
- The Investment Law grants various types of incentives depending on the area where the project will be located (to know more about these incentives, see our short video on the [New Investment Law in Egypt](#))

One of these investment areas is the Golden Triangle located between Qena, Safaga and Al Qusair considered to have high minerals potential, including gold.

4. Exception to single ore license

Originally the scope of a mining exploration license covered only one ore. Under the ER, it is possible to adjust the exploration license to an expanded scope with prior approval by EMRA. This will apply in cases where there is another ore mixed with the ore covered by the license but only in the event that it is impossible to extract the ore covered by the license without extracting the other.

5. Assignability of licenses

- An exploration/exploitation license is assignable. The ER provides necessary clarification and introduces new rules in this regard, akin to those found in the oil and gas E&P agreements.
- Direct (full or partial) assignment will require the pre-approval of the MOP and while not expressly mentioned, it is likely to require EMRA's too. Approval will be conditional on the assignor fulfilling all

its obligations under the license and payment of an amount equal to twice the annual rental value (the "Exploitation License Security"). This appears to effectively be an assignment bonus in all but name.

The assignee must show to EMRA/MOP's satisfaction that it is technically capable and financially sound, that it is listed in the pre-qualified investors registry and it must pay a security amount determined by EMRA and MOP (the "Assignee Security"). So, for a direct assignment of an exploitation license the security instruments required as per the ER will be the Exploitation License Security and the Assignee Security.

- Now, indirect assignments must be notified to EMRA/MOP. No change of control threshold is implemented. Practically, the wording appears broad enough to catch any transaction leading to change of control of the shares of the licensee.



Key considerations for investors

- Get registered on EMRA's pre-qualified investors register.
- Clarify with EMRA the following:
 - a. Number of exploration license extensions. The ER grants three while the call for tender mentions one extension only.
 - b. Think of what potentially lies ahead, clarify points about the exploitation phase, such as the terms of the new exploitation concession model. The announcement of the bid mentions a free carry interest, but it is not clear what that will entail. Confirm that there will be no obligation to set up a joint operating company with EMRA. It is important to clarify such points in advance with EMRA.
 - c. The ER provides that EMRA/MOP may require the contractor to perform restoration of the licensed area in line with the requirements of the Egyptian Environmental Law or to bear such costs if EMRA was to perform the restoration itself. It is important to clarify with EMRA and MOP restoration obligations a contractor should expect, to inform the investment decision.
 - d. Check if EMRA will assist with other approvals from public bodies e.g. Environmental and Defence Ministries.
- Obtain and complete Form-2 for exploration licensing. Last time we checked this form was not published on EMRA's site yet.
- Seek to build a strong relationship with EMRA and the MOP at an early stage. Consider requesting an introductory meeting with EMRA's chairman and the MOP, to introduce your business and discuss investment interest and potential concerns with them.
- Familiarise yourself with the regulatory landscape early in the process. Learn about which investment areas may be available for you to establish your entity in Egypt and how you can receive the benefits of such areas under the Investment Law.

Areas on offer for international gold mining bid round (1)/2020

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#	Area	Space in km ²	Price in USD	Location
A	Wadi Aurf	6161	3000	North eastern desert, about 350 km from Southeast of Cairo
B	Fatiri and Samna	5048	3000	North of the Eastern Desert Fatiri lies North Safaga-Qena Road while Samna lies south of Safaga-Qena Road
C	Wadi Kareem	9685	4000	The center of the Eastern desert, 35 km southwest of the Red Sea and about 600 km southeast of Cairo
D	Oum Samra and Bakari	4206	5000	In the middle of the Eastern Desert, Oum Samra is 60 km northeast of Al-Baramiya Whilst Bikari is about 30 km from Edfu-Marsa Alam road
E	Oum el Rous	4208	4000	In the middle of the Eastern Desert, it is 80 km south of the short and about 8 km from the Red Sea coast
F	ElBarameya	1415	5000	North Eastern desert 105 km east of Edfu Town by the Edfu-Marsa Alam Road
G	Atoud and Oum oud/ Hanjaliya	4197	5000	55 km southwest of Marsa Alam and south of the Mount Diabetes mine, Umm Oud/Hanjaliya is 50 km southwest of Marsa Alam
H	Hamata	11672	5000	North Eastern desert, south of Marsa Alam, about 100 km west of the coastal road Marsa Alam-Bernice-Shallatin
I	Wadi Khedaa	4906	3000	North Eastern desert is about 45 km south of the Marsa Alam-Bernice-Shallatin coastal road

Our Energy & Natural Resources team welcomes your questions



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