DEEPearth

EXECUTIVE SUMMARY

So much is going across all the sectors we cover in Uganda. Cnooc, a company that prefers to stay in the shadows, is slowly positioning itself in preparation for the construction of the crude oil pipeline from Uganda to Tanzania.

Dao Marble Uganda Limited, the company that once promised to take Uganda's marble to foreign markets to compete with other first-class gems, is limping as a result of financial troubles. One bank, company staff and other service producers are hounding a top Dao Marble official over unpaid dues.

The Uganda Electricity Generation Company Limited is drawing up new rules of engagement to deal with China International Water and Electric, the Chinese contractor at Isimba dam, after a series of letters and approved engineering designs were ignored. Short of that, Uganda could launch a dam that has defects it will need repairs in its early life.

With Kenya heading for its general elections in August, East Africa's biggest economy is in a race against time to prepare for its first export of crude by June this year. Kenya Pipeline Company recently signed a three-year lease agreement to take over the facilities of Kenya Petroleum Refineries Limited at Mombasa, the last point that the crude will be received before it is exported out of the country. This report goes further to show what else Kenya Pipeline is doing and what that means for the region.

In Tanzania, Africa's richest billionaire, Aliko Dangote, has managed to get the government there to extend power to his cement company. The Dangote group was increasingly getting frustrated at the huge amounts of money it was spending to buy diesel to power its machines. An executive order from President John Pombe Magufuli has seen Tanzania Petroleum Development Corporation ensure that gas power is taken to the plant.

The first power plant to serve three East African countries was launched in Rwanda. The energy output from the 80MW Rusumo power plant will be equally shared among Rwanda, Tanzania and Burundi. The plant, to be built along River Kagera, brings renewed hope of more of such cross-border infrastructure being undertaken.

Oil players tap Equatoria Guinea's Obiang as logistics firms eye deals

Equatoria Guinea's President Teodoro Obiang Nguema Mbasogo

Some oil players are aggressively lobbying President Yoweri Museveni's handlers to have him come along with Equatoria Guinea's President Teodoro Obiang Nguema Mbasogo for a logistics expo and an oil convention slated for April 25 – 27 at Kampala Serena hotel. Although the Uganda Chamber of Mines and Petroleum has confirmed that Museveni and Obiang will be chief guests at the annual oil convention, State House continues to keep the two heads of state's programme guarded.

There are few synergies, if any, between the oil industry of Equatoria Guinea and Uganda's. However, the attendance of Obiang could open the way for companies to consider engaging in partnerships between the two countries. Equatoria Guinea is one of Africa's main oil producers.

Elly Karuhanga, the chairman of the Uganda Chamber of Mines and Petroleum, told us it is almost certain Obiang will attend one of the events. The addition of a logistics expo to the annual oil convention adds further weight to the events.

Uganda's logistics industry is slowly recovering from a difficult period of low sales and is looking to exploit the opportunities within the oil industry by holding an expo that, among other things, seeks to raise debate of the possibility of the country becoming a regional hub.

The expo, which is being organised by the Uganda Freight Forwarders Association, will be held ahead of the fourth annual oil convention, which is hosted by the Uganda Chamber of Mines and Petroleum.

The logistics industry could see its for-

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Equatoria Guinea's Obiang to speak- at oil and logistics forum

tunes revived at a time when Uganda has signed key agreements, such as those for an export crude oil pipeline, for the development stage of its oil industry. Uganda is also preparing to kick off the next stage of oil exploration, where the logistics companies will be required to move drilling equipment to the oil wells.

Possibly no sector was hurt as much as the logistics industry when Uganda's oil industry nearly ground to a halt during the protracted negotiations between the major oil firms and government over tax and some key investment decisions such as the amount of recoverable oil. Logistics companies such as ThreeWays have publicly pointed out how the low activity in the oil industry hurt them, while partnerships among some logistics firms collapsed.

French major Total takes firm hold of East Africa

French firm Total has firmly positioned itself as the main oil player in East Africa after acquiring Gulf Africa Petroleum Corporation's (Gapco's) assets in Kenya, Uganda and Tanzania.

The acquisition completes Total's ambitious footprint in East Africa's oil market chain, where it is set to tussle it out with Vivo Energy, the company running the Shell brand, in the downstream segment.

Under the deal, Total acquired two logistics terminals in Mombasa, Kenya and Dar es Salaam, Tanzania, as well as a retail network of more than a hundred service stations in all the three countries.

Total, however, remains unrivalled in the heavily capitalized upstream market where it is leading the construction of a crude oil pipeline between Uganda and Tanzania.

The Gapco deal was announced nearly a year ago but had to go through some regulatory hoops before it was rubberstamped. There is no official declaration of the value of the deal.

East Africa presents a lot of opportunities for Total. Uganda's oil industry, where less than half of the exploration areas remain untouched, and Tanzania's gas reserves, discovered at a time a time of increasing consumption of Liquefied Petroleum Gas (LPG), all present the French company's opportunities to tap into for a region, whose consumption of petroleum products averages a 10 per cent growth.

Cnooc prepares to build Uganda Tanzania crude oil pipeline

Chinese firm Cnooc is set to construct the crude export pipeline from Hoima in western Uganda to the Tanzanian port of Tanga, according to a source within Cnooc.

We have been told by different sources that a number of staff from China have already flown into the country and are working intensely to have the designs in place in preparation for the construction of the pipeline.

Also, meetings between Total E&P and Cnooc – the two main joint venture companies - are said to have intensified lately as the they race to have a pipeline in place by 2020 at the earliest.

Top managers at Cnooc were expected to fly to Tanzania in April to continue with the route survey for the crude oil export pipeline. A survey for the Tanzanian route was supposed to have been completed by December, according to a ministerial statement that Uganda's Energy Minister Irene Muloni made to Parliament late last year. It is not clear why there has been this delay. The Ugandan part, Muloni told Parliament then, was completed. The crude oil export pipeline is estimated to cost about $3.5 billion. According to what our source told us, French firm Total E&P will mainly come up with the studies and the sourcing for the financing, while Cnooc will construct the 24-inch diameter pipeline. Tullow Oil, the third partner in this joint venture partnership, will be a non-operator and will only contribute its share to the financing of the pipeline.

We asked Total E&P, the company leading the Uganda-Tanzania crude pipeline project, about these developments on the crude pipeline, and we were told there has not yet been a definite position on who will construct the pipeline.

"Following the completion of the Front End Engineering Design by Gulf Interstate Engineering (GIE), the US (Houston) based company selected to undertake the basic engineering study to provide detail and finalise the technical design of the project, several calls for tenders will be launched to select the best company for the detailed engineering, procurement and construction of the East African Crude Oil pipeline project," Total's Corporate Affairs manager Ahlem Friga Noy told us.

Uganda's crude oil, which solidifies quickly, is expected to be heated throughout the 1,445km stretch to Tanga.

Away from the pipeline, Cnooc is currently undertaking waste treatment at its Kingfisher field, which is located on the banks of Lake Albert. The Kingfisher remains one of the largest oil fields in Uganda, holding more than 500 million barrels of oil.

All Ways Environmental Services Limited, a waste treating company, is overseeing the waste treatment process at the Kingfisher field, undertaking what is technically known as a treatment of Contaminated Synthetic Based Muds.

At least two things are happening at the Kingfisher field with regards to waste treatment: All Ways is recovering waste oil. The company will also treat the waste.

The entire process of recovering the oil and treating the waste is supposed to take six months, but it will take more time because, according to our source, some of All Ways' equipment was damaged while being transported to the site.

In March, Cnooc contacted Tullow Oil and officially made its interest in buying half of the 21.57 per cent stake that the UK firm had agreed to sell in its Uganda fields to Total E&P.

The completion of the transaction, which is subject to government approval, will see Total and Cnooc have an equal shareholding of 44.08 per cent each in Uganda's oil fields. Tullow Oil will retain an 11.76 per cent non-operated interest in the oil basin.

Inside Eskom Uganda's troubles

Questions are being asked of Eskom Uganda's ability to meet its set goals of operating and maintaining two crucial hydropower dams – Nalubaale and Kiira - after a recent meeting with the regulators at the Electricity Regulatory Authority heard of a series of problems that the South African firm was facing.

The Electricity Regulatory Authority wrote to Eskom on March 23, 2017, where the regulator said Eskom was performing poorly. ERA based its assessment on the fact that Eskom exceeded the forced outage hours by more than 600 per cent, with some of these outages coming on the recently refurbished unit six.

Eskom was thereafter called to explain why it was facing such dire issues.

During a meeting on April 3, officials heard that basic equipment such as the fire systems at the Jinja offices were not working, while the speed governors at the Nalubaale dam were down for 330 hours a year, nearly for 15 days each month. Part of the reason, according to insider sources we have spoken to, is down to lack of spare parts to fix the problem.

That is not all. Plant availability at the Nalubaale and Kiira dams was estimated at 94.7 per cent, below the 96.9 per cent target, which, by industry standards, is quite low. Plant reliability is at 97.5 per cent, far below the 99.7 per cent target.

Of deeper worry, though, is that two units – number three and number 10 – that generate 18MW each are not working; infact they have not been working for the last three years.

To offer all these problems a financial value, we used the loss time and Eskom's power tariff of US cents 1.12 to come up with a figure. We estimate that Eskom is losing up to $2 million a year in unrecovered revenues as a result of these problems.

To the country, the problems at Eskom mean that the public is not receiving enough power, and that the country is spending more of taxpayers' money to build other power plants and yet Nalubaale and Kiira, which have a combined capacity of 380MW, are performing below their target.

The problems at Eskom are emerging at a time when Uganda's electricity sector is witnessing a dramatic shift. After more than a decade where Uganda has depended heavily on foreign companies such as Umeme and Eskom to commit huge amounts of capital, and run the show, in the energy sector, there appears to be a growing fatigue among Ugandan technocrats in the way foreign companies are doing business.

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Of deeper worry, though, is that two units - number three and number 10 - that generate 18MW each are not working; infact they have not been working for the last three years.

Thozama Gangi, the chief executive officer of Eskom

The Electricity Regulatory Authority, regardless of its limited capacity, now has the guts to stand up to foreign companies such as Umeme and decline to approve their investment plans. The Uganda Electricity Generation Company Limited has also built its capacity; it now has full supervisory powers and generation licenses for the Karuma and Isimba power dams, and is currently negotiating a 100 million Euros loan from Germany's Kfw, which it intends to invest at the Nalubaale and Kiira dams.

This level of confidence among Uganda technocrats appears to be exposing foreign firms such as Eskom to intense scrutiny, where some of the findings are quite embarrassing.

But how did it get to a point where Eskom appears to be neglecting its mandate of operating and maintaining the Nalubaale and Kiira dams efficiently? It helps to go back to the time Uganda decided to disband Uganda Electricity Board

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Inside Eskom Uganda's troubles

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(UEB), the state parastatal that governed the energy sector.

Facing pressure from external donors, Uganda was forced to split UEB, which was being weighed down by a pile of debts, into three separate entities: Uganda Electricity Generation Company Limited, Uganda Electricity Transmission Company Limited, and Uganda Electricity Distribution Company Limited. Uganda then scouted for foreign firms to operate and maintain its assets in the generation and distribution fronts. In 2003, government awarded Eskom a 20-year concession to manage the generation bit, at Nalubaale and Kiira, while Umeme, in 2005, was also handed a 20-year concession to be in charge of the distribution side. The transmission part was left as it was.

The foreign companies – Eskom and Umeme – then found a country that was desperate for a change of fortune. Contracts were handed to these two companies, which some people feel were unfair to Uganda. Eskom was to earn a 12 per cent return on investment, while Umeme got a 20 per cent return on investment locked into their contracts.

Eskom Uganda Limited, according to our investigations, had a $6.8 million loan from Eskom Enterprises, the finance arm of the group, from which to draw from. But in 2003, the company decided to borrow just $2.7 million of that amount, and it took years before it even considered the option of drawing down on the remainder of the money. However, Eskom said it had invested $20 million by 2014.

This behaviour of low investment, according to the different figures we have looked at, appears to have informed Eskom's business strategy – invest very little but make as much profit. The trick is simple: Eskom simply convinces the regulator to approve its capital investments, which it will recoup from the tariff, but invest less than what it promised. This assertion is supported by the fact that Eskom's net profit is almost equal to its investment, according to its 2015 financial figures, which means that Eskom is not bringing new money to the table; rather, reinvesting the profit it makes, which comes with a sweet return.

It would be too harsh to heap everything on Eskom. Uganda's energy sector is still at an infant stage, with about 15 per cent of the population connected to the grid. The low demand makes it hard for operators to make huge investments. Also, the financial problems that Eskom's parent company in South Africa is facing means the Uganda operation cannot get the support it needs.

Still, that does not relieve Eskom Uganda from dealing with basic issues such as fire engines.

UEGCL plans new ways to fix Isimba dam

The Uganda Electricity Generation Company Limited will have to employ new rules of engagement with China International Water and Electric Corporation if the defects at the Isimba power dam are to be rectified.

During a site visit to assess the progress of construction of the 183MW dam, the board was disturbed to find that China International Water and Electric (CWE) Corporation was violating some basic principles for such a large project.

For example, the absence of the contractor's project manager, a key staff who is supposed to ensure that the engineering designs are followed to the dot, was something that the board took issue with, raising worries that the dam could encounter more defects.

However, it was the complete disregard of the contractual terms that China Water and Electric signed with government – such as the agreed bill of quantities – and the many times the Chinese have failed to reply to letters from UEGCL that enraged the board. Take the cylinders for the dam's gates. Government and CWE agreed that the cylinders would be stainless steel. Instead, CWE imported the far-cheaper ceramic coated cylinders. Since the ceramic-coated cylinders will be immersed in water, engineers say they will corrode and require replacement, an additional cost to the operation and maintenance of the dam.

It is unlikely that Isimba will be able to launch before its target year of 2018. But it also appears Uganda will be left with high operation and maintenance costs because the agreed engineering designs are not being properly followed.

The conduct places UEGCL in a tight spot. UEGCL, concerned by the cracks at both the Isimba and 600MW Karuma dam, lobbied hard to take control of the full supervisory powers of the two dams.

The result finally led to the sacking of three long-serving commissioners in the ministry of Energy and Mineral Development, and a transfer of the supervisory powers to UEGCL.

Harrison Mutikanga, the chief executive officer of UEGCL, said the board would come up with decisions over how to deal with CWE. One of the decisions that have already been undertaken is the withholding of payment to CWE for some equipment such as the cylinders.

The Isimba dam is estimated to cost $568 million. Construction works were estimated at 76 per cent as at the end of February 2017. At least $225.7 million has been already paid to CWE for the works done so far.

Where is Dao Marble's Mohammed Aoun?

A manhunt for Mohammed Aoun, the chairman of Dao Marble Limited, is on.

More than a dozen service providers – including a bank, lawyers, a television station, among others – are looking for Aoun, seeking payment for services offered. Aoun's whereabouts remain unclear with all his known phone contacts off.

The episode places a stain on Uganda's mining industry, where questions are bound to rise about the credibility of some investors being attracted to the sector, and whether the country carries out strong due diligence before issuing mining licenses. We, too, tried to call Aoun but his known phone contacts were off. We also called Tharun Uday, the former managing director of Dao Marble, on his known phone number but he did not pick up our calls.

Dao Marble Limited is supposed to be the main company mining marble in Rupa in the Karamoja region in the northeastern part of the country. The company also has a processing plant at Kinawataka, Mbuya, in the outskirts of the capital Kampala. In September last year, Aoun told one of our writers of how the company would embark on a $40 million expansion plan for its processing plant, and why Uganda's marble would compete with other world-class minerals on the international market.

Instead, different stories are emerging out of Dao Marble Limited. According to one story, in 2012, the year it officially launched services, Dao Marble Limited went to Global Trust bank and got a loan. It is not clear how much money the company borrowed. However, later that year, in September, Bank of Uganda took over Global Trust bank after it failed to meet the minimum reserve capital requirements. Bank of Uganda later on handed the assets and liabilities of Global Trust bank to dfcu bank. Later on, dfcu bank also added Dao Marble more credit.

Dfcu bank has over the years held meetings with Aoun to have Dao Marble Limited pay the loan. Aoun instead made promises to pay but never came good on his word.

Other service providers demanding payment from Aoun include the television station NTV, Bukoto Heights Apartments, owned by businessman Sudhir Ruparelia, among others.

In Karamoja, according to our source there, workers of Dao Marble Limited have since quit the company and relocated to another mining company owned by the popular Pastor Samuel Kakande. The staff quit over non-payment of wages.

Dao Marble has since defaulted on its rent arrears and its offices in Kampala remain inaccessible. The operations at its processing plant at Kinawataka have also come to a standstill.

More information we have gathered so far points to shareholder disputes in the company, a problem that has impacted on the company's finances. Dao Marble faces lawsuits over unremitted dividends to shareholders, and also unpaid salaries. We could not establish the total value of these arrears.

Dao Marble was portrayed colourfully in the media. The company appeared to have the blessing of President Yoweri Museveni after making promises of transforming the mining of marble in the country.

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Mohammed Aoun, the chairman of Dao Marble Limited

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The company, however, received its first blemish in early 2014, when a Human Rights Watch report pointed out how the company was abusing the land rights of the indigenous people of Karamoja.

In a reply to the report's findings, Dao Marble Limited said "People having surface rights over our area of operation were all compensated for their land and the company entered into an agreement with the indigenous people endorsed by all the leaders and the people themselves."

Now, a dozen of lawsuits against Dao Marble Limited are piling up in the courts with the whereabouts of the key defenders still a mystery.

Dao's problems are not expected to hurt Uganda's prospects of mining marble in the Karamoja area considering how attractive the mineral is to other investors.

The government estimates that about 300 million tonnes of marble resources are located in Karamoja region.

Black Mountain borrows $750,000 for Namekara

Black Mountain Resources Limited has secured a $750,000 loan from one of its key shareholders, LB International, to finance its activities at the vermiculite mine in Namekara in the eastern Ugandan district of Mbale.

The Australian company announced that the loan, secured at an interest rate of 10 per cent per annum, will be used to ramp up production and improve operations at Namekara.

"The funds raised through the agreement will be used to meet the increasing demand for high-quality, large and medium-flake vermiculite from Black Mountain's Namekara mine and processing facility. Funds will be primarily to improve operating efficiencies and working capital at the mine which, in turn, drive increased production and improved margins," the company announced.

LB International is associated with Richmond Partners Master Limited, which is controlled by Luca Bechis, a non-executive director at Black Mountain Resources.

Black Mountain Resources said the money could not have come at a better time.

"The funding comes at a time of positive growth for Black Mountain, which recently confirmed repeat orders during January and February 2017 from a number of strategic customers in Europe that originally purchased product in November and December 2016, resulting in an increase in production."

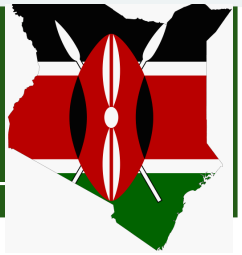
In March, Black Mountain also released an upgraded resources statement and new information about the demand for the vermiculite at Namekara.

The company said it had drilled about 10 per cent of the area, and from that it has come up with an indicated mineral resource status. According to the results of the drill, the indicated mineral resource contains 870,000 tonnes of vermiculite, with the company saying it is producing approximately 30,000 tonnes.

Black Mountain Resources added that the new mineral resource status, would enable it "to carry out mine planning and convert the area into a probable reserve." The company said: "...it can be assumed Namekara has the potential to be a long-life mining operation."

870,000 tonnes

of vermiculite, with the company saying it is producing approximately 30,000 tonnes.



Kenya hands over key refinery to state pipeline company

President Uhuru Kenyatta

Kenya's main refinery assets at the port of Mombasa, which have been largely idle ever since Indian firm Essar dropped its interest in running the facilities last year, have been handed to Kenya Pipeline Company as part of a grand plan to smoothen the country's process towards exporting crude oil by June this year.

Kenya Pipeline Company recently signed a three-year lease agreement to use the facilities of Kenya Petroleum Refineries Limited, one of the final points that will receive the crude before it is exported outside the country. The Kenya government has been managing the facilities of Kenya Petroleum Refineries Limited.

Kenya Pipeline Company will now take over Kenya Petroleum Refineries Limited's facilities in its bid to boost the oil storage capacity of East Africa's largest economy.

Under the Early Oil Pilot Project, where Kenya intends to move at least 2,000 barrels of oil per day in heated tanks stationed atop trucks from South Lokichar to the port of Mombasa, the oil will be stored at the facilities of Kenya Petroleum Refineries Limited in Mombasa.

Late last year, Kenya Petroleum Refineries Limited began refurbishing its facilities and later called tenders for civil works, part of which were to accommodate trucks that would be offloading crude oil. Kenya has discovered about 700 million barrels of oil.

So much remains unclear about Kenya's plan to export crude oil. The country lacks a solid legislative framework to govern the oil industry. With trucks moving hundreds of kilometers away from South Lokichar to Mombasa, it is not clear how the country would deal with the risks such as in the event of a spillage.

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Kenya hands over key refinery to state pipeline company

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It is not clear whether some of the crude will be refined at Mombasa, and if so, how much. At the signing ceremony for the lease, Energy Cabinet Secretary Charles Keter hinted at the prospect of some crude being refined.

He said: "The KPRL is beneficial in that it will boost Kenya's oil stock levels. Initially our stock level was three days. Now we have 12 days and we need to increase it to 30 days, since we rely heavily on oil importation. This will enable us plan ahead for the open tender system which will make oil prices cheap."

For now, Kenya Pipeline is ensuring that Zakhem International, the company constructing the new Nairobi-Mombasa pipeline for refined products is completed as soon as possible to ensure the smooth flow of oil. The old line, which has been in existence for 38 years, has been marred with all sorts of defects.

Kenya Pipeline Company said Zakhem International has begun installation works for the eight mainline pumps, with the overall construction works estimated to be 82 per cent complete. KPC said it has paid about 75 per cent of the contract sum to Zakhem and is currently reviewing the other invoices to ensure the work was done. The new line is expected to be commissioned by June this year, a few weeks ahead of what could be a heated general election season.

When commissioned, and operating at full capacity, KPC said, the new line, with one million litres per hour flow rate, "will remove an average of about 700 trucks from the road daily at maximum utilization."

About 3.5 billion litres of refined petroleum products transited through Kenya to the markets of Uganda, Rwanda, Burundi and the Democratic Republic of Congo by 2016.

Kenya has moved to tighten its grip on the regional fuel market by introducing a 30 per cent discount on all transit products in Kisumu and Eldoret depots in the western part of the country. According to the new approved rates, oil marketing companies will now pay a promotional tariff of $ 41.55 per 1,000 litres from the current $59.32 per 1,000 litres.

Demand for petroleum products in East Africa is estimated to grow at eight per cent annually.

Kenya readies for Africa's largest wind power project

Lake Turkana Wind Power says all the 365 turbines needed to produce at least 102MW of wind power are to be installed by June 2017. When installed, this would be the largest wind power project in Africa, and further improve Kenya's energy mix.

One year after the company began assembling the turbines, each with a capacity of 850kW, it said that at least "347 out of 365 turbines have already been erected, which is a clear indication that the project is on course for completion as per its original plan by June this year."

In a statement, Lake Turkana Wind Power General Manager Phylip Leferink said "the remaining twenty turbines have already been delivered on site and the technical team, from Vestas and Siemens, are working day and night to ensure that they meet the timelines as per the contractual obligations." Lake Turkana has a target of producing 310MW of wind power, which will be fed into the Kenyan national grid.

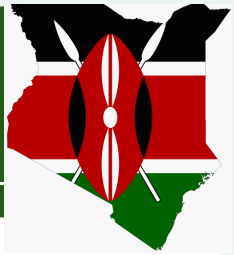
Kenya is trying to ramp up cleaner renewable energies ahead of the more expensive thermal power projects. The country is trying to develop another 100MW wind power project in Kajiado county, southwest of Nairobi.

Turkana Wind Power also announced that Kenya Electricity Transmission Company is constructing a double-circuit 400kV, 438km transmission line to evacuate the power from the 40,000-acre wind farm to the national grid.

The cost of the project is estimated at $675 million. Kenya Power and Lighting Company Ltd will buy the power from Lake Turkana Wind Power over a 20-year period.

310MW

of wind power, which will be fed into the Kenyan national grid.



Goldplat secures loan to double Kilimapesa gold

The amount of gold produced at Kenya's Kilimapesa mine is set to be doubled after Goldplat Plc, the operators, secured a $2 million one-year loan, with some proceeds expected to be channeled towards expanding the processing plant.

The loan, which will be shared throughout some of the group's operations in Ghana and Kenya, is bound to relieve the company some financial pressures it was facing considering it was financing the Kilimapesa gold project from internally generated funds.

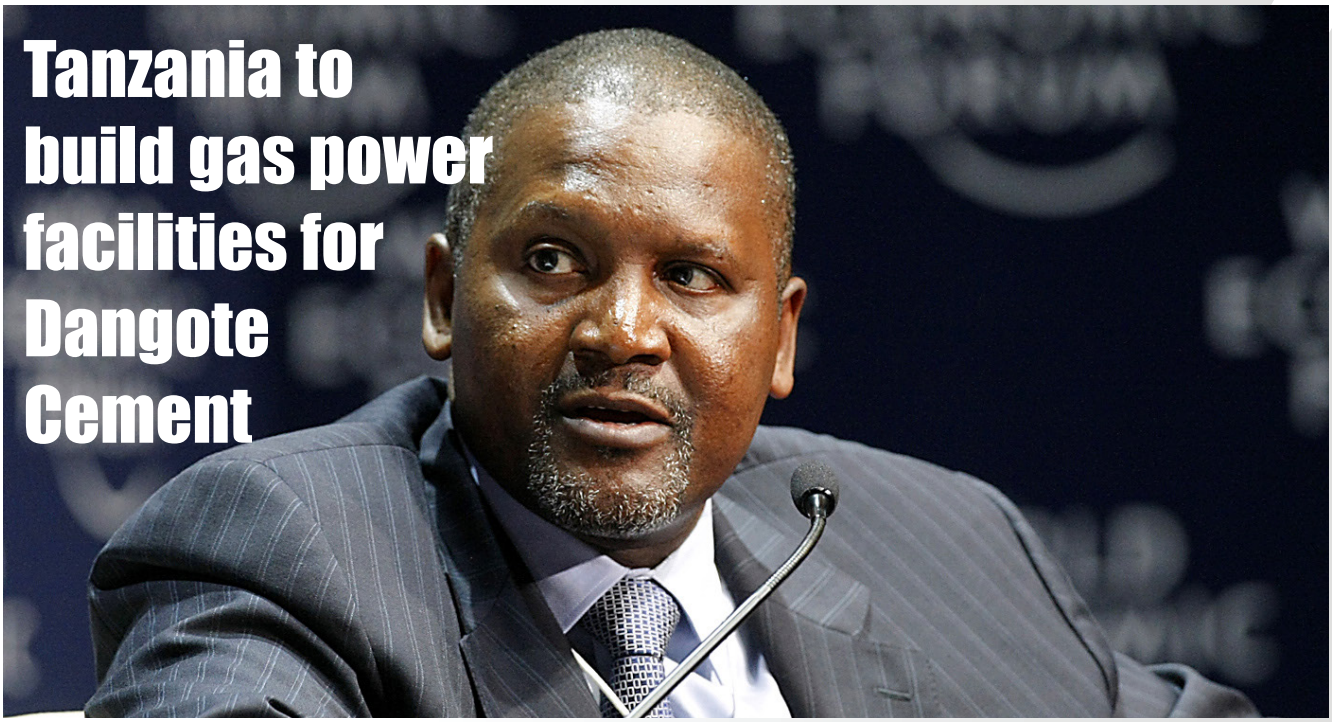
Goldplat announced it would produce 120 tonnes of gold per day from the current 60 tonnes after the expansion of the processing plant.

Goldplat received the loan facility from Scipion Active Trading Fund.

In a statement, Gerard Kisbey-Green, the CEO of Goldplat, said: "We stated in our interim results announced on 20 February 2017 that we were looking at various forms of debt capital raising with a view to restructuring the group balance sheet and I am very pleased to have agreed this loan facility with Scipion. We will use the funds initially to complete stage two of the processing plant expansion at Kilimapesa and to repay the capital made available to Kilimapesa Gold Limited from other group subsidiaries for goods and services rendered. The result will be a cleaner and more appropriate group capital structure and availability of working capital for our recovery businesses."

Goldplat recently launched a new processing plant and a tailings deposition facility. The company said the purpose of the new facilities is to "decrease operating costs, optimise overhead costs and to return Kilimapesa to profitability."

Tanzania to build gas power facilities for Dangote Cement



Aliko Dangote

Tanzania has started the process of building natural gas power facilities towards Dangote Cement's plant at Mtwara, in line with President John Pombe Magufuli's directive, a move that eases the tension that had earlier built up when Africa's richest billionaire threatened to shut down his company over weak government support.

Tanzania Petroleum Development Corporation recently agreed a number of issues with Dangote group of companies over power supply to the cement firm. One of the key issues that the two parties agreed on was the price of the natural gas that is to be supplied to the cement plant. The two parties put pen to paper on March 8 and 13, 2017. Nigeria's Aliko Dangote remains Africa's richest man.

Dangote Cement launched the cement plant in Mtwara, 400km away from Dar es Salaam, in February 2016, describing its capacity as the largest in the country. The company said it has reserves of about 500 million tonnes of limestone, enough to feed the country, which has had a per capita cement consumption of about 50kg per annum, for decades.

Dangote group said although its cement plant is farthest from the main city of Dar es Salaam, compared to its competitors, it quickly gained a 26 per cent market share by July 2016, five months after it had launched its operations, according to its annual report for 2016. This was after it had sold 600,000 tonnes of cement at a competitive price that put pressure on the other cement companies to lower their prices.

The prospect of being the main cement producer in Tanzania, however, came under threat when the company failed to attract enough incentive to carry on with the plant's operations. Of particular concern was the costs the company was running to power its cement plant. The company said the cost of running diesel gensets at its power plant hurt its margins for 2016.

With an agreement with the Tanzanian government now in place, things are looking up for the Dangote cement plant in Mtwara. The company announced it is to build a permanent coal/gas power station later this year at a cost of $100 million. The company will also ensure that the kilns will be able to run on gas as well as coal.

The company is also trying to build its distribution fleet to 600 trucks to capture a wider market this year.

There are a couple of risks for the company though. Demand for cement in Tanzania is mainly driven by growth in the real estate sector and government expenditure on new infrastructure projects, especially roads.

However, in the wake of dampened economic growth and a pick-up in the country's debt levels, government expenditure on infrastructure has been subdued. Dangote group is optimistic Tanzania's economic growth will rebound in 2017.

TANZANIA

OreCorp gets $15.5 million for Nyanzaga gold project

OreCorp Limited is to embark on the definitive feasibility study for the Nyanzaga gold project after it raised AU$20.6 million (US$15.5 million) from institutional investors through a private placement. The study will, among other things, offer the company deeper insight into the kind of drilling needed at the Nyanzaga gold project, which should inform it the different ways of cutting costs.

The placement provides OreCorp further incentive to move from being just a developer to a gold producer. Orecorp is developing the Nyanzaga gold project with Acacia Mining.

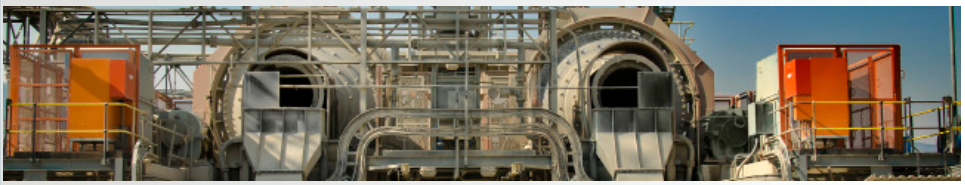
OreCorp also said the funds offer it a leeway into targeting new mining sites around the Nyanzaga gold project.

Studies that OreCorp has conducted show that the Nyanzaga project holds a lot of potential. The company estimates that the capital cost to produce gold at the site is about $50 million.

Some of the company's costs, such as those it is paying for power at the site, are estimated to reduce when the Tanzanian government commissions a 35km transmission line that it has promised to construct to the gold site.

There are no artisanal miners on the Nyanzaga gold project, greatly reducing the chances of any land dispute.

ADB offers $29.8 million loan for gas sector



The African Development Bank has loaned Tanzania $29.8 million to help the country exploit its gas resources, which are estimated to be enough to power the continent for weeks.

The ADB announced that the money would "help the country mobilize domestic resources and unlock the potential of its natural gas resources through leveraging domestic markets and local content initiatives."

The money is expected to be channeled towards Tanzania's efforts in putting up a sound regulatory regime for the gas sector, support government negotiation teams to ensure the country gets the best deals and formulate local content policies that will create jobs in the gas sector.

The ADB hopes that through this intervention, Tanzania can attract more investors, but also guarantee that more of the country's population and businesses utilize the gas resources, on top of exporting some of it throughout the region.

Wentworth Resources gets govt payments

A number of government institutions have cleared some of their arrears with Wentworth Resources Limited, about $4.9 million, offering the gas company some relief at a time when the firm was getting financially distressed over its Tanzania operations.

Wentworth, which had threatened to stop gas supplies from its Mnazi Bay plant, announced that Tanzania Petroleum Development Corporation and Tanzania Electric Supply Company Limited had made some payments to the company.

"So far in 2017, TPDC has settled in full the November 2016 and December 2016 invoices that were outstanding at the year-end, and has also settled a 2015 invoice for line fill gas volumes. In addition, we have received payment from Tanesco for five months of outstanding invoices. Combined cash receipts totalling $4.9m, net to Wentworth, have been primarily used to settle outstanding amounts that were due to the operator, Maurelet Prom," the company announced.

Wentworth is optimistic of its Tanzania prospects, saying demand for gas in the country is stabilizing, offering it an opportunity to push for more demand for its gas at Mnazi bay.

Heritage prepares to drill first oil well

Heritage Rukwa Limited, a subsidiary of Heritage Oil, is set to drill its first oil well in Tanzania in the fourth quarter of this year, the company announced. Heritage Oil, which made its first inroads in East Africa by striking a large well at Uganda's Kingfisher field in the western part of the country, is currently looking for contractors to undertake the civil works needed before drilling of the oil well.

The company announced that it will soon "embark on a tender process for a civil enabling works contract for oil exploration operations within the South Rukwa Tanzanian acreage."

Heritage said "the proposed contract will cover all civil works required to enable drilling of one firm onshore exploration well and is expected to start in the fourth quarter of 2017."

Some of the civil works that the new contractor will undertake will be the upgrade of the existing access routes, opening up a new access track, one new wellsite and associated infrastructure needed at a camp. Heritage also wants the contractor to put in place special measures to reinstate the well back to its original form in case the company abandons it after drilling.

RWANDA

Rwanda closes $350 million peat-to-power plant deal

In one of its biggest energy deals in more than a year, Rwanda has paved the way for the development of an 80MW peat-to-power plant after it closed a $350 million financial package from a group of lenders.

Africa Finance Corporation, the lead arranger for the project debt, said the power plant will increase Rwanda's installed capacity by 40 per cent. About 25 per cent of Rwanda's population of 12 million people has access to electricity.

According to the terms of the deal, Africa Finance Corporation arranged senior debt facilities of $245 million, contributing $75 million in loans and providing an underwriting commitment of $35 million.

The other participants in this deal include Finnfund, the development financing arm of the government of Finland, Eastern and Southern African Trade and Development Bank, African Export-Import Bank (Afreximbank), Export-Import Bank of India, and Rwanda Development Bank.

A consultant's report noted that Rwanda has about 155 million tonnes of dry peat, with slightly more than three quarters of these reserves found near Akanyaru and Nyabarongo rivers and the Rwabusoro plains. Combined, these reserves are thought to be enough to put up a 1,200MW power plant.

HQ Power is expected to put up the power plant. The company describes itself as the first private company to establish a peat power plant in Africa on a large scale. HQ Power is owned by a Turkish investor, HAKAN AS, and an international power company, Quantum Power, with a participation of a project development company Themis.

President Paul Kagame

Desert Gold shores up $300,000 amid talks with Rwanda investment firm

Canadian firm Desert Gold Ventures recently managed to raise $300,000 through the sale of shares for its mining operations in Rwanda and Mali as the company continues to hold discussions with a Rwandese investment firm over more money for its gold project.

Desert Gold said the $300,000 will be used for "general working capital and development purposes at the company's projects in western Mali and Rwanda."

In January this year, Rwanda granted a 10-year renewable commercial mining license to Desert Gold to explore for gold over the Byumba project as the country seeks its first commercial gold mine.

To get the gold project firmly on course, Desert Gold is holding discussions with Ngali Holdings, the Rwanda state investment firm, for a possible partnership. Desert Gold Ventures hopes that if it signs a memorandum of understanding with Ngali, the state company will be able to invest substantial capital in the Byumba gold project.

The company did not say how much money it was looking for to invest at Byumba. However, international estimates place an amount of about $5 million that junior firms such as Desert Gold Ventures need to explore and produce gold at the initial stage.

The Canadian junior firm also said it is "actively applying for other prospective gold exploration properties in the area of interest surrounding the Byumba deposit."

Desert Gold says it has long-term plans of going into large-scale commercial mining in Rwanda.

80MW Rusumo power plant finally launched

Dancers at the launch of the Rusumo power plant

Construction of the much-awaited 80MW Regional Rusumo Falls Hydro-electric project kicked off recently, in a ground-breaking ceremony that raised hopes of Rwanda further closing the energy gap it faces.

The World Bank is financing the power project, which is shared between the three countries of Rwanda, Tanzania and Burundi, to a tune of $340 million. The African Development Bank is offering a financial package of $121 million for the construction of the transmission lines between the three countries.

All three countries are expected to receive 26.6MW from the project, which could be commissioned in 2020 if the three-year construction time frame is met.

The Rusumo power plant, which will tap into River Kagera, is important as it will be the first electricity project whose output is to be shared by three East African countries. The project is expected to offer a blue-print of the possibility of undertaking similar projects around the region.

A joint venture of two Chinese companies - CGCOC Group Ltd and Jiangxi Water and Hydropower Construction Company Ltd - will undertake the civil works/supply and installation of hydro-mechanical equipment, while the consortium of Rusumo Falls Andritz Hydro GmbH (Germany) and Andritz Hydro PVT Ltd (India), will supply and install electro-mechanical equipment for the power plant. Rusumo Power Company Ltd, a special-purpose vehicle, is the contractor of the project.

$121 million

for the construction of the transmission lines between the three countries.

PEOPLE TO WATCH

Eng. Ziria Tibalwa Waako

Eng. Ziria Tibalwa Waako has been appointed the chief executive officer (CEO) of the Electricity Regulatory Authority. Ziria replaces Dr. Benon Mutambi who in December last year was appointed permanent secretary ministry of Internal Affairs.

Ziria, who until this appointment was the director of the Technical Regulation Department, holds an MSc. and BSc. Electrical Engineering, both from Makerere University and a Master of Business Administration in Leadership from Walden University, USA.

Ziria is a Registered Engineer and Member of the Uganda Institute of Professional Engineers with 23 years of work experience in the electricity sector, eight of which were at senior management positions. Ziria has vast knowledge and insights of the electricity supply industry and its challenges, having worked in the sector throughout all her working life.

Eng George Tusingwire Mutetweka

The Uganda Electricity Generation Company Limited has hired Eng George Tusingwire Mutetweka as its chief operations officer. A mechanical engineer with a postgraduate in Renewable Energy (Hydro Power specialist), George brings a wealth of over ten years' experience in the operation and maintenance of hydro power plants. He boasts of an understanding of energy utility requirements for power generation, asset life preservation and extension, aggregate production planning and outage management, among others. George previously worked with Eskom Uganda Limited where he served for over ten years, rising from a graduate trainee to maintenance manager. During this time, George initiated innovative asset life extension projects such as automation of start and stop sequence.

As chief operations officer, George is charged with preparation for the operation and maintenance of not only the two flagship hydropower plants of Karuma and Isimba but also other projects in the pipeline such as the Muzizi I.

Elison Karuhanga

Elison Karuhanga has joined his father, Elly Karuhanga, at Kampala Associated Advocates – a top law firm - as partner. Elison moves from M/S Karuhanga, Kasaijja and Company Advocates.

While Elison is publicly known for defending the Electoral Commission during last year's petition that was filed by former presidential candidate Amama Mbabazi against the electoral body over allegations of wide malpractices, he is mainly cut out for the extractives industry.

Elison is still representing Nilefos, a company associated with the rich Madhvani group, where the company is contesting the manner in which Guangzhou Dongsong, the Chinese firm putting up a $620 million phosphate plant in Tororo, got its mining license. Elison holds an LLM (oil and gas law) from the University of Aberdeen.

FINISH LINE

It is still early days to get excited about the prospects in Uganda's oil and gas industry. As we head for the annual national budget in June, we shall get more clarity in the kind of thinking and policy initiatives that the government has for the sector.

What we know so far is that the economy, at the end of the current financial year, will have grown by about 4.5 per cent, which is below the previous year's. An economy in this state does very little to attract high-risk capital. There are signs that growth will rebound in the next financial year.

At some point, the political situation in the country was a little jittery after the brutal murder of a top police officer, Andrew Felix Kaweesi. The level of panic in the security forces saw a call for a seven-day re-registration of Sim cards, whose deadline has since been extended. While we feel there are deeper issues within the security apparatus of the country, we feel the problem is not deep enough to scare away long-term capital.

Commercial banks have been publishing their financial accounts, and everything points to a positive year where profits jumped.

We are closely following events in Kenya. We have noticed that President Uhuru Kenyatta is aggressively pushing for the completion of some infrastructure projects ahead of the general elections in August. Still, we do not expect some long-term investment decisions to be made in Kenya before the outcome of the election is known.

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