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This research has been conducted by Caroline Stern, Chloé Duasse, Alice Pascoletti, Ramzy Bamish, Joseph Hincks, Josie Perez, Andrew Mason, Katie Bromley, Alexander Corbell and Harry Thompson
Edited by Mungo Smith and Barnaby Fletcher
Graphic Design by Gonzalo Da Cunha

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Exclusive interviews with the leading industry figures in Colombia’s extractive industries, including the Minister of Energy and Mines, Petrominerales and Gran Tierra Energy Colombia.

Analysis

An in-depth look at the role Venezuelan experts have played in building Colombia’s oil industry, and opinions on how to continue this collaboration, from our weekly newsletter the GBRoundup.

Challenges

Two sections dedicated to exploring the specific issue facing investors in Colombia’s hydrocarbon and mining industries respectively, from bureaucratic processes to infrastructure concerns.

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The most relevant quantitative data presented in the most easily accessible format, allowing you to view economic and market statistics, identify trends and visualize infrastructure.

Travel

Hotel guides, places to see, where to eat, events to attend and other useful travel tips for the business travellers, taken from our on-the-ground teams own experience.
An Introduction to Colombia

A brief overview of the country and economy

The previous slogan aimed at promoting Colombia was “the only risk is wanting to stay”. There was an element of positivity to this slogan; a justifiable hope that the country’s vast biodiversity – it ranks third in the world for number of living species and first for bird species – and its vibrant culture would entrance and enthrall visitors. Yet there was also an admission of the country’s reputation. The long-running conflict between Marxist guerrilla groups – the best known of which is the Revolutionary Armed Force of Colombia (FARC) – and the government and rightwing paramilitary groups has dragged on since the 1960s, discouraging not only tourism but also investment. Indeed, some commentators have described Colombia as engaged in civil war, albeit one of low intensity rather than one of explosive destruction, a constant tragic background rather than a single defined event.

Colombia’s new tourism slogan, “Magical Realism”, makes no such attempt to address this issue. Yet this still tells us much about views and the scale of the problem: namely, that it is no longer at the forefront of tourist and investor perceptions of the country. The conflict is, unfortunately, far from over and violence and kidnappings continue (five policemen were killed by FARC guerrillas as recently as February 17th this year). At the same time, however, peace talks continue and, although not free from problems, appear to have made more progress than any previous attempt. Homicide rates have fallen to below half their 2002 level, and reported kidnappings fell from 2,122 in 2003 to just 305 in 2012. Unemployment is down, foreign direct investment is up and Colombia as a whole is unmistakably moving in the right direction.

The reasons behind investors’ renewed interest in Colombia are greater than just its increased security. After years of trailing Argentina in regional economic standings, this year Colombia claimed to have overtaken it as Latin America’s third largest economy (after Brazil and Mexico). While this is open to debate – it depends on the methodology and exchange rates used – there is little doubt that even if the announcement is premature it will soon be certain: Colombia’s economy grew by 4.2% in both 2012 and 2013 and is predicted to rise above 4.5% in 2014, according to the Economist Intelligence Unit; Argentina’s economy grew by 1.9% and 3.5% in the same period, and is forecast to contract by 0.6% in 2014.

Furthermore, Colombia can boast of inflation rates that sat at just 2.2% in 2013, unemployment rates that have seen an almost constant decline since a 1999 peak, a slight budget surplus, and foreign direct investment that has risen
from an average of $3 billion a year in the 1990s to $17 billion last year. When Spanish conquistadors first arrived in Colombia in the early 16th century, they heard stories of a fabulously wealthy king who covered himself in gold leaf and threw vast quantities of gold and precious stones into a sacred lake. They called this king El Dorado (the gilded one): a name that has since become famous in myths of hidden treasure. For a long time, Colombia squandered its legendary former wealth, its richness of natural resources, and the goodwill of its people with continued political and opportunistic violence. Today, the slogan “Magical Realism” seem apt: a new reality of relative stability, peace and economic growth may indeed seem unreal after decades of being perceived as Latin America’s troubled member. Yet there is little magic involved. Colombia is simply reclaiming its true potential.

COLOMBIA AT A GLANCE
Source: CIA World Factbook

Population: 45,745,783 (July 2013 est.)
Capital: Bogotá
Head of Government: President Juan Manuel Santos Calderón
Currency: Peso (COP)
GDP: $369.2 billion (2013 estimate)
GDP per Capita: $11,000 (2013 estimate)
Economic sector breakdown: agriculture: 6.6%, industry: 37.8%, services: 55.6% (2013 estimate)
Exports: $58.7 billion (2013): petroleum, coal, emeralds, coffee, nickel, cut flowers, bananas, apparel
Imports: $53.5 billion (2013): industrial equipment, transportation equipment, consumer goods, chemicals, paper products, fuels, electricity
Major Trade Partners: US, China, Mexico, Spain, Brazil

POPLATION AND WORKFORCE INFORMATION
Source: Various

- Unemployment Rate 2013: 9.7%
- Poverty Line 2012: 32.7%
- Labor Force 2013: 23,750,000
- Population 2013: 45,745,783
According to President Santos, mining is considered one of the five locomotives of development for Colombia. On the other hand, many leaders in the mining community believe they have received mixed messages from the Ministry of Mines and Energy and the Ministry of Environment. What is the plan to improve communication between these two ministries?

At the moment, the President has given precise instructions that mining policy should go hand in hand with environmental policy in a manner that creates a situation in which public policy with regards to mining has the participation of the Ministry of Environment. The Ministry of Mines and Energy is orientated to bring into consideration the subject of environment for developing mining in such a way that has not existed before in this country. In this moment of development for the industry, the exercise of control, monitoring and supervision of mining activity is part of the Ministry of Mines and Energy, while we are also taking into consideration the environmental component of mining.

Guerrilla groups such as the FARC and ELN are using Colombia’s informal mining sector as a way to fund their illicit activities. How much is the government worried about these activities as the Santos government attempts to negotiate with these groups?

It is necessary to separate informal mining or traditional mining, which has a long history in Colombia, from the nexus of criminality. For informal or traditional miners, the government is working towards a process of formalization for its legalization. However, for those miners that have entered into the nexus of criminality, there is no tolerance for this activity. We are treating those miners who associate with guerrilla groups differently. We have advanced in developing the mechanisms for this formalization with the cooperation of big players in the mining industry because many of these informal miners are conducting their activities in areas entitled to large companies. This has been the conflict between companies and the informal miners in these areas, but now there is an opportunity for partnership between large-scale mining and informal mining whereby large companies can contribute to the process of formalization of the small-scale mining sector.

One of our interviewees stated, “This is the moment for Colombia to take advantage of the mining sector’s great potential.” In your view, what challenges are hindering this potential and what are your main objectives before the upcoming elections?

We are in the last quarter of the recession cycle for the mining and energy industries because of adverse international circumstances; the European Union is in recession and the United States is slowly recovering. This influences emerging economies, such as Colombia, that had been realizing their growth. Demand and prices for raw materials have slowed. In these circumstances we have to redouble our efforts to continue to attract new investment and retain the investments that we already have. The country is preparing for when we enter a new boom because we recognize mining markets are cyclical. These cycles are ones of sowing and harvest, and I believe this is the moment to invest in Colombia, to sow now and harvest the rewards later. It is the hour to invest in mining because Colombia has prepared to take advantage of the situation when the new boom comes.

We will not experience in the mining and hydrocarbons industry what happened to Colombia with the coffee industry. For many years we hoped that the prices of coffee would improve, but did not attract investment [in these down times], and when the boom came we did not produce enough coffee for export. In this sense, the government is making a great effort to not only ensure investors do not go away, but also continue to attract investment. We are optimistic that Colombia is still an investment destination. This is proven by the fact that, while in the last year there has been a drop in the influx of foreign direct investment in Latin America, Colombia has maintained a similar investment level to last year. This is an encouraging sign for the future.
Maintaining the Million

Colombia’s oil and gas industry

2013 marks the 10 year anniversary of the establishment of the Agencia Nacional de Hidrocarburos (ANH), the organization credited with rejuvenating the Colombian oil and gas sector. Taking advantage of the improved security situation achieved through ‘Plan Colombia’, the US funded offensive against rebels and drug trafficking, the ANH-led restructuring of the oil and gas sector has brought the attention of the international investment community back to Colombia. “International investors started hearing very good things about Colombia from around 2007; people have noted the changes in the country, with its improved security and stable contracts,” says Cristian Ducara, general manager of Trayectoria Oil and Gas. The ANH marked an impressive decade, seeing Colombia finally reaching the long awaited one million barrels per day (boepd) milestone in December 2012. Now the focus turns to maintaining that level of production in the face of aging oil fields and socio-environmental obstacles.

From a geological perspective, Colombia may not have the huge reserves of neighboring Venezuela, but as more of the nation has been freed of conflict and properly explored, numerous smaller deposits have been found which contribute to significant production. “Discoveries of heavy oil in the Llanos have completely flipped the country’s future from importer to exporter, and this is a trend which will presumably extend into the medium-term. I think the oil boom was related to a certain extent to the improved security situation in the country – although the Caño Limón boom of the 1980s was able to occur amidst great instability. Nevertheless, it is great to be able to enjoy the strengthened conditions of today,” says Alberto Cisneros Lavaller, CEO and president of Venezuelan based firm Global Business Consultants.

After the major discoveries of the late 80s, such as Caño Limón, the Colombian government along with the national oil company, Ecopetrol, sought to strengthen its position in the growing sector. The subsequent restructuring of the sector to unduly favor Ecopetrol, coupled with the deteriorating security situation, led to Colombia being widely neglected by investors throughout the 90s. Still without a new discovery of significance, the birth of the ANH in 2003 saw the focus shift to the creation of an attractive fiscal regime encouraging smaller juniors to enter the market, and it was these pioneering explorers who established many of the biggest producing assets we see in Colombia today.

The bidding round (ronda) of 2012, through heightened qualification criteria, marked another shift in the Colombian oil and gas sector back to a focus on larger E&Ps. “If you consider the development of the United States oil industry, especially shale, you see that the big companies are not responsible for what it is today, but rather it was the entrepreneurs who went out there with money and a new idea. Colombia seems to be forgetting this and seems to only be encouraging the big players,” says Stephen Newton, CEO of Southern Cross Energy.

Despite the concern of many in the industry, the bidding round saw ExxonMobil, Shell, ConocoPhillips and Anadarko move into the Colombian market. “While Colombia did well and was successful, the sector today is not growing as it was. Interest from junior players has withered for two reasons. The first is the problem with licensing, permits and the overall challenges of doing oil business here. The second is that the government may be becoming a bit complacent. The government feels that it made the country attractive and that this perception will continue forever,” suggested Álvaro José Rodríguez, partner of natural resources at law firm Posse Herrera Ruiz.

Meanwhile, E&P firms need to find enough support on the ground along the whole value chain. Margarita Villette, executive director of Campetrol, a chamber grouping the oilfield services sector, also gave her opinion on the areas where the government must improve: “We need clarity in the regulatory framework for new activities such as non-conventionals and offshore development. We continue to need security. Environmental licensing delays are time-consuming and very costly for our members. We have a hindrance in infrastructure development, which causes higher logistical costs, and we need financial support for small and medium-sized companies so they can acquire technology and develop their R&D departments”.

The Colombian government may be hoping a shift to the bigger players with strong corporate social responsibility records will help to solve growing social and environmental problems across the country. Nevertheless, particularly in terms of production, they need only look at the main players in the market today to see what can happen when smaller firms are given the right support and backing."
Stephen Newton
CEO SOUTHERN CROSS ENERGY

Please provide a brief overview of Southern Cross Energy and the services you provide?
Southern Cross Energy is in the business of identifying prospects and subsequently looking for investors that might be interested in these prospects. We are normally approached by people who might have assets that are underfunded or distressed, meaning that they acquired these assets thinking it would be easy to raise money but have found that this is not the case at the moment. We also offer a more technical arm where we offer such services as engineering and geology consultancy.

What kind of demand have you been seeing for these underfunded and distressed assets?
With the failure of the stock markets, particularly the Canadian exchanges, to provide the funding, we have been seeing that private equity wants to come in and buy these distressed, undervalued assets. They have an exit strategy, usually with a 5-year timetable. Their objective is to take these companies up the value add curve and once they reach a plateau, sell them, or put them on the market. What we have been seeing is the classic case of the pendulum swinging too far with companies that were once worth $40 a share now being worth $6 a share and these are still very significant companies. Many companies were overvalued and now we believe they are significantly undervalued, creating a lot of opportunity.

Colombia has traditionally been a haven for smaller companies. Do you see this trend continuing, especially as we start to see the emergence of unconventional and offshore?
If you consider the development of the United States oil industry, especially shale, you see that the big companies are not responsible for what it is today, but rather it was the entrepreneurs who went out there with money and a new idea. Colombia seems to be forgetting this and seems to only be encouraging the big players. There are indeed issues with respect to fracking and unconventional, but I think the government is being far too restrictive, ignoring the fact that these smaller companies were the pioneers responsible for Colombia’s recent oil and gas boom.

What are some of the concerns that you hear from your investors?
One of the most important things that investors are looking for is people who understand the location and can identify problem areas or can highlight the risks so that investors can enter a project fully aware of the situation. Many times risk is equated to higher cost. These companies do not want to put people at risk and need to carry out operations in a certain way that sometimes increases cost. Instead of traveling by road, you might have to go by helicopter. If you contract a logistics company to move a drilling rig, there maybe a risk that the truck will get damaged because of the location and you will be charged accordingly. But it is important to realize that these risks do not apply to the whole country as there is significant regional variation.

The perception of Colombia is synonymous with issues of communities and security. Do you believe that these issues are still significant today?
Issues of communities and security are still present. Unfortunately the situation surrounding security has deteriorated recently with an increase in the number of pipeline attacks. I have to wonder with the current negotiations in Havana if FARC is exercising muscle here to put more pressure on reaching a solution there. I believe that many, though not all, of the community issues are driven by the FARC. I feel that the communities’ discontent is aggravated so as to create problems for the government in times of negotiations, pushing the government to make a deal that is less than ideal. A number of companies do a good job in socializing the projects that they are working on to the communities. They explain what is going to happen so that there no surprises; however, others do not. When this happens, dynamite is going off and people are drilling holes, the communities do not understand what is taking place. With regard to royalty distribution, the government did not think this through. The idea is that the money should benefit the country as a whole and that communities with oil and gas will still get a piece and can apply for more if they complete the paperwork; however, some are getting far less and suffering from lack of infrastructure. They will use the slightest excuse to put up obstacles to the oil and gas companies so as to attract the government’s attention to in turn improve their condition, in the form of schools, hospitals, drainage and so forth.

What is the final message that you would like to communicate about Southern Cross Energy to the international oil and gas investment community?
If there are investors that are considering Colombia, we have a very interesting portfolio of projects. We believe that the valuations are either fair or less than fair and there is still great opportunity to move into this country.
Re-strategizing Investments

Colombia’s industry adapts to the market

2012 and 2013 were not easy years for the cash-strapped junior sector and Colombia’s decline in mining investment reflects this harsh reality. Many juniors exited the market giving the remaining players a prime opportunity to fill the void. In such a difficult market environment, defying norms could favor the bold as traditional strategies have led to failure for many. With fewer players in the market, companies are finding financial success because they are able to blend strong projects, experienced management teams and attractive prices into one enticing package for investors.

According to the Colombian Chamber of Mines, 90% of the country’s territory remains underexplored, making Colombia a project developer’s dream. Exploration activity has come to a halt for many junior mining companies, with companies and prices all still at one enticing package for investors.

With a number of Colombia’s most prominent mining figures as stakeholders, including incoming chairman Ari Sussman, current CEO of Continental Gold, Paul Dias, CEO of Minatura International, and previous Cordoba CEO Simon Ridgway as directors, the project certainly has an experienced team and the market took notice. “Taking our discovery and company on the road to potential investors around the world, we raised $15 million in January 2014 and the financing was significantly oversubscribed. The investors saw the potential of this district just as we did,” said Stifano. While others have shied away from the Colombian market in recent years, Cordoba is proceeding with unabashed confidence. “Cordoba is a young company, though we are a major in the making,” said Stifano.

Another encouraging development for the Colombian mining market in the latter half of 2013 was the announcement that IAMGold had agreed to an option agreement to acquire all of the land surrounding the copper-gold porphyry district at Montiel. In November 2013, Cordoba announced drilling results of 10% copper and 0.65 g/t of gold at 101.1m depth. “This discovery puts the focus on this newly discovered porphyry district which we control 100%. It is very rare to have 100m holes with these types of grades within a district that is controlled by one company. What the drill holes and our exploration work to date have shown is that this project has the potential to be a high-grade porphyry cluster, hosting significant grades of both copper and gold. The area is unique when compared with the rest of the middle Cauca belt, where open-pit porphyry discoveries are economically challenged due to the high elevation in a mountainous region with lower grades,” said Mario Stifano, CEO of Cordoba Minerals.

With the merger of several companies to form Cordobá’s only producing copper mine, El Roble. In exercising its option after promising exploration results, Atico paid $14 million to obtain a 90% interest in the mine. Through mechanization and further exploration on the 6,679 hectare property, Atico is not only planning to significantly extend the mine’s life, but is also targeting production to increase from its current figure of 1,200 to 1,500 mt/y of copper to 6,000 to 7,000 mt/y. Additionally, Atico is planning to produce 10,000 to 12,000 oz/y of gold.

Despite the challenging market environment, Atico was oversubscribed when it raised capital to exercise the purchase option in summer 2013. “The few investors that have stayed in this market are choosing very carefully where to invest and Atico is an attractive option... Atico reduces many of the risks that exploration companies have. El Roble generates cash flow, has growth potential and we are a group with a successful track record of developing mines behind us; this is important in the face of the overblown investment budgets that have been highly disappointing for investors in the last years,” said Fernando Ganoza, CEO of Atico Mining.

For some of Colombia’s non-producers, drilling programs to prove additional reserves have taken a backseat to initiating production as soon as possible. “The problem is one of perception; from our point of view, we have hard assets with good metallurgy where a valuable project can be developed. Everything is under-valued and that is why we are going to the production side of the business and acquiring new assets that are near pro-
Fernando Jaramillo
President & CEO
ANTIOQUIA GOLD INC.

Could you provide an overview of Antioquia Gold?
Antioquia Gold started in 2007 with a group of 10 individuals all involved in some way with mining and with our own capital. In summer 2008, we went to the market with a reverse takeover. We raised some capital but the market crashed soon after that. The real turning point was when the Peruvian investors of Consorcio Minero Horizonte bought a significant share of the company. We invested that money in drilling and ended up with a good project; Cisneros.

We have a high-grade deposit and the project is favorable from an environmental point of view, as it would cause a very small footprint. We believe we can put Cisneros into production very quickly. The exploration is focused on an area below a mountain; therefore exploration is not cheap because the holes to test the veins which are close to vertical run deep.

What is your current resource, and how much more exploration do you need in order to take a production decision?
Right now we have around 300,000 oz of gold, which is enough to put the project into production. We can always do more exploration as we are producing. The problem is that the market does not understand this; it wants as many oz as possible in the resource, but drilling some holes costs as much as the amount of gold they can add to the resource. Therefore, what matters to us is the grade and the cash cost of production, which in our case would be around $500 per oz discounting development work.

What is the estimated initial cost to put Cisneros into production and how are you going about securing the necessary financing?
We estimate that $20 to $25 million will be enough to put the project into production. Consorcio Minero Horizonte is committed to the project and currently hold about 45%. We are currently exploring deals with second-tier financial institutions that are willing to be paid in gold. This is a good option because it is not dilutive; besides, it aligns you very well to what you want to do because it commits you to production. The mine, to start with, will produce around 35,000 oz/y, and eventually, with further exploration success, we would like to triple that. As soon as we have full financing and complete some studies, construction should take around 18 months.

How are you working with the artisanal miners in the area?
The community is mainly dedicated to agriculture and mining, so mining is not new for them. With the artisanal miners we have a three-pronged strategy. We will offer them a job if they want to work with us. The second option is to organize them in a cooperative to work in one of our titles. In this case we will supply technical support, financing and then we can buy the ore from them. The third approach is to help them get a mining title. Of course, we need to distinguish the true artisanal miners from the opportunistic people that just come to the area trying to get money from us.

Besides Cisneros, is there any other project in your portfolio that shows good potential?
We have two other projects that are quite exciting, but the dilemma is: do you concentrate on one project, or do you kiss a lot of frogs and hope that one is a prince? We currently do not have the resources to work on them as we would like, so we are looking for partners to sign joint ventures for those properties. Right now there are a lot of titles available, because many companies have left the country. In Cisneros alone we are working on 250 hectares but we actually have over 5,000 ha where we have identified an additional seven very interesting prospects, so we have enough there to keep us busy for the next years.

The industry complains there is not enough support to the sector. What can mining and Antioquia Gold in particular bring to Colombia?
In Antioquia Gold, if we are successful in creating a modern, green gold producer we could become operators with other companies. So far, the gold industry has little to be proud of in this country. Therefore a key motivation for me is to actually prove that gold can be produced responsibly, just as the coal and nickel industry has shown with world-class operations. In Colombia we are stuck with the idea that because natural resources are non-renewable, we should keep them to ourselves or in the ground rather than exploiting these with the support of foreign investment. This attitude is crazy. I have seen Norway, the Netherlands, the UK, Australia do wonderful things with their natural resources. I have also seen what Nigeria has done with its oil, which you can check out. It is not a good story. So, because someone else has done things poorly, it does not mean that we are going to follow the same path. Gold in Colombia will be three times as big as coffee in income for the country, and no-one will dare to criticize the coffee industry, even if it has a significantly larger and more invasive footprint than modern underground gold extraction.