



Rainforest Action Group

SOLGOLD IN ECUADOR

SOLGOLD'S WOES CONTINUE



**REPORT
MARCH
2021**

POBLADORES DE CAHUASQUÍ

RECHAZAN MINERÍA

Y EXPULSAN A LA EMPRESA SOLGOLD

15-11-2020

Image credit: APAK TV



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FINANCIAL REVIEW

SolGold is an Australian exploration company registered in the UK and Canada. A subsidiary of DGR Global, the company was originally called Solomon Gold Limited. Their exploration activities are focused in Ecuador, the Solomon Islands and Queensland, Australia. In Ecuador their interest is primarily in copper and gold.

Biggest shareholders: BHP (13.6%); Newcrest (13.5%); DGR Global (9.8%) Cornerstone Capital Resources (8.16%); Tenstar Trading Ltd (5.73%)

SolGold have got themselves into a world of pain in their quest to stay independent while developing their Alpala mine (Cascabel concession) in the north of Ecuador.

Alpala, one of the world's major untapped copper deposits, is estimated to cost almost \$3 billion to construct, with first production estimated to begin in 2025. Alpala is forecast to produce an average of 150,000 tons of copper, 245,000 ounces of gold and 913,000 ounces of silver in concentrate per year for 55 years. The Cascabel concession is 100% owned by Ecuadorian-based company ENSA. SolGold own 85% of ENSA, with 15% owned by Canadian company Cornerstone Capital Resources.

SolGold has been doing a merry dance to extricate the Cascabel concession from the clutches of Cornerstone Capital Resources while avoiding takeover itself from shareholders BHP and Newcrest.

SOLGOLD'S GOALS:

- **Disentangle themselves from Cornerstone Capital Resources**
- **Keep control of the company despite looming takeover concerns from BHP and Newcrest**
- **Find alternative funding strategies to ensure they retain control of the Alpala development process**



Until 2020, almost all fundraising for development of the Cascabel project and other SolGold exploration activities in Ecuador was done through share placements, over a quarter of which were snapped up by BHP and Newcrest Mining.

This strategy came with risks, as it could allow these large multinationals more control of SolGold, the more shares that were offered. The end plan for this strategy would be that Newcrest and BHP swallow at least 50.1% of SolGold.

SolGold ex-CEO Nick Mather has said that his team at SolGold was building a company "as important to Ecuador's development as BHP was to Australia".

This single-minded goal (or some could say, delusional goal) of becoming an equivalent Ecuadorian BHP has come crashing down to reality, based largely on an inability to raise the billions of dollars required.

In July 2019, SolGold employed Ingo Hofmaier (ex-investment banker and Rio Tinto executive) to develop financing solutions for costs associated with ENSA developing the Cascabel project.

In November 2019, SolGold allowed BHP to only subscribe to an additional \$22 million worth of new shares. However, this amount would only guarantee SolGold to be funded for three months, based on the amount of money that SolGold had been spending to that time. In short, SolGold had limited cash reserves available to them. They had to hustle for other cash streams.

One strategy was to lure in investors with reports of lucrative and exciting new exploration activities such as the Blanca Project in November 2019 and Porvenir project in late 2020.

The three month cash stream problem certainly was not news for Newcrest CEO Sandeep Biswas who in February 2020 [was reported as urging](#): "SolGold to avoid short-term fixes in favour of long-term funding solutions". Which would of course allow Newcrest more control.

By March 2020, SolGold was in desperate negotiations with several investors, trying to secure the \$2.85 billion for the construction of Alpala.

COVID-19 then hit Ecuador, with the Emergency Operations Committee (COE) of Ecuador announcing a "stay at home" policy. SolGold staff were reduced to essential personal only. COVID-19 would have also meant that potential international investors would have found it extremely difficult to conduct due diligence including site visits to Ecuador.

With SolGold now having to deal with severe cash flow problems and a pandemic, SolGold, like many other junior mining companies was vulnerable to a takeover by much larger rivals.

SolGold also had no sustainable revenue. To strengthen its defences against potential takeover, SolGold appointed Citibank for advice, fundraising and as a defence advisor.

May 2020 marked the deal that sunk SolGold's ambition to become Ecuador's BHP. The deal was [reported as SolGold snubbing](#) their two biggest shareholders, leaving both "concerned" and "disappointed".

BHP and Newcrest wanted the share placements to continue and money to be raised through equity (ownership of assets). Instead SolGold arranged a financing package with Franco Nevada for \$150 million and also a \$15 million 8 month bridge loan (at an interest rate of 12% to be paid by September 2020). Franco-Nevada provides natural resource companies with cash in exchange for future production. The Franco Nevada deal would also pay for the Pre-feasibility study (PFS) on Alpala.

SolGold's "enemy" Cornerstone also disliked the Franco Nevada deal, arguing that it would significantly destroy shareholder value. The deal would also give up a portion of future profits. The deal did however, allow SolGold to complete the feasibility study of the Alpala project without needing to distribute more equity to BHP and Newcrest.

By June 2020, a desperate SolGold launched a \$20 million fundraising initiative for "Alpala exploration" offering up 75 million shares. The \$20 million would be used for a definitive feasibility study to be released in the second quarter of 2021. Neither BHP or Newcrest participated in this initiative due to [concerns over SolGold's "chaotic" approach](#) to financing.

In late June, [Newcrest retaliated by removing block mining expert](#), Craig Jones from the SolGold board. Newcrest's major reason for this was SolGold "management's approach to funding the company... The royalty transaction coupled with an expensive bridge loan could lead to a transfer of significant risk to existing SolGold shareholders".

In July 2020, [Mather was quoted as saying](#) that the decision to remove Jones from the SolGold board was a "dog in a manger act" and that he would resist efforts to remove him as CEO. Cornerstone retaliated by demanding the entire SolGold board be removed, with their Chair saying, "the current SolGold board is incapable of managing the affairs of SolGold for the benefit of all shareholders in a prudent and transparent manner".

SolGold then announced a C\$140 million (£102 million) hostile takeover bid for Cornerstone. This was the second (disclosed) time that SolGold had tried to take over Cornerstone. It previously tried in 2017 and 2018, and in 2019 SolGold's first disclosed attempt occurred. SolGold was also concerned about being taken over itself and had brought Citi in in April (for \$20 million) to guard and advise against a hostile takeover.

Pressure continued to mount when Newcrest hired investment bank RBC Capital Markets to explore options for its 13.57% stake in SolGold.

In August 2020, more COVID-19 restrictions were ordered against Australian companies Hanrine and SolGold by The Plenary of the San Miguel de Urcuqui Cantonal Emergency Operations Committee.

In September 2020, SolGold rubbed more salt into their Cornerstone/Newcrest/BHP wound when they received another \$100 million loan from Franco-Nevada in exchange for a perpetual 1% net smelter return.

[Critics of such deals say](#) these deals are expensive in the long term. There is validity in this argument as Franco-Nevada themselves wrote in the 2019 Annual Report that NSR's offer "the highest margins and most downside protection" when compared to all other financial instruments it sells.

CEO NICK MATHER STEPS DOWN



Ex-CEO Nicholas Mather (L) and Acquisitions Solicitor Brian Moller (R) at the International Mining Conference, 2018

SolGold's takeover bid of Cornerstone expired in October 2020 and BHP's standstill restrictions on buying more SolGold shares ended.

In November 2020, reports suggested that Cornerstone had been lobbying to sell off Alpala, but SolGold had dug their heels in wanting to develop the mine themselves. Cornerstone was also cashstrapped, having to find \$400m to fund its share of Alpala development costs. Alpala feasibility costs were also eating into Cornerstone's bottom line. The SolGold debacle continued in December, with 44.7% of SolGold's shareholders voting against Nicholas Mather's reappointment to the Board.

It is likely that BHP, Newcrest and Cornerstone, who owned 35.26% of SolGold, were the main instigators of Mather's removal. Delays in mine planning due to COVID-19 had also riled shareholders, with the company announcing on September 30 2020 that it would have to redesign parts of its planned Alpala mine, with delays increasing costs further.

Another opportunity for SolGold to borrow another \$50 million from Franco-Nevada was available from 11 January 2021, which would increase Franco-Nevada's royalty rate to 1.5% over the life of Cascabel.

In a concession to BHP and Newcrest who were still upset and disenfranchised over what had occurred in 2020, SolGold added to their board former BHP mining engineer Kevin O'Kane, former Rio Tinto mining engineer Keith Marshall and former BP social performance executive Elodie Grant Goodey.

Later in January 2021, SolGold announced that Nick Mather would retire as CEO after 13 years in the role. He will step down on March 3. Mather would still own 4.35% of the company and remains CEO of DGR Global who own 9.8% of SolGold.

MISLEADING STATEMENTS

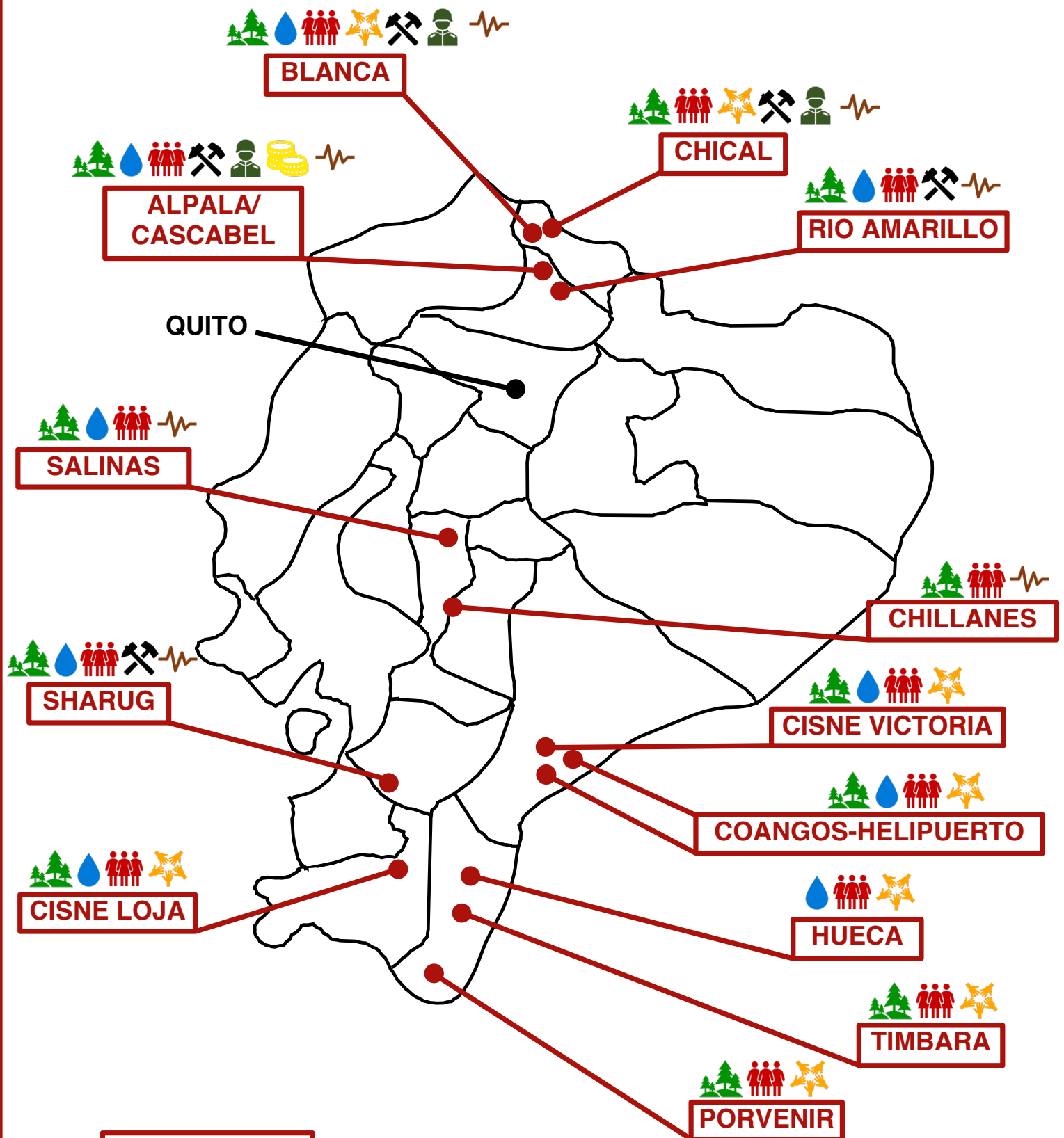
In late January 2021, SolGold had to clarify potentially misleading statements relating to Article 38 of the Ecuadorean Mining Law (the "Mining Law") on annual exploration reports and investment plans. SolGold's shareprice had slumped by 25% in January 2021 and [an article published by Crux](#) raised alarm bells about Alpala and SolGold's Ecuador operations.

The Crux article raised some important points regarding SolGold's exploration commitments over the next couple of years, pointing out that SolGold might have to fork out \$340 million in exploration commitments over the next couple of years. Are SolGold spread too thin? Most damning though is Crux's calculations regarding Alpala:

"It is worth saying again, using benchmark (CRUX Investor) assumptions and spot metal prices on 26 October 2020 of US\$3.08/lb Cu, US\$1,902/oz Au and US\$24.20/oz Ag, the (Net Present Value) NPV7.5 value turns negative compared to US\$3.5 billion in the (Preliminary Economic Assessment) PEA at initial capital expenditure of US\$2.8 billion. Ouch. This is a huge Red Flag for a Company with a market capitalisation of almost US\$1 billion."

SolGold responded by stating: "SolGold has met all annual investment plan commitments to date. For instance, SolGold's annual investment commitment for 2020 was US\$13,603,450 for all 76 concessions (including Cascabel). Upon the conclusion of the year, this amount was significantly exceeded for an aggregate amount in excess of \$US50,000,000."

PRIORITY PROJECTS AT A GLANCE



KEY TO MAP



Environmental issues



Water pollution concerns



Earthquake risk



Community resistance



Indigenous resistance



Illegal mining



Security issues



Financial issues

PRIORITY PROJECTS AT A GLANCE

ALPALA/CASCABEL (IMBABURA PROVINCE)

Environmental: Part of the Mira River basin, within mature primary and secondary forests that house endangered species, and protect pristine microbasins. High level of endemism in species.

Water: In Mira River catchment. The Mira River marks border between Colombia and Ecuador.

Community: Afro-descendant, peasant and mestizo communities inhabit area, along with more than five indigenous nationalities. Opposition to mining in Imbabura for 30+ years.

Illegal mining: Ten km from Buenos Aires, where 10,000 illegal miners set up camps in 2019. Ongoing illegal mining issues with increased military and police presence as result.

Security: Increased activity of organized crime and illegal armed groups linked to cultivation, processing and transport of illegal drugs, and illegal mining.

Financial: SolGold needs to raise \$3 billion to make developing Cascabel viable.

RIO AMARILLO (IMBABURA PROVINCE)

Environmental: Borders on Cotacachi Cayapas Ecological Reserve (139 mammal species, 689 bird species, 111 reptiles, 124 amphibians, and numerous endangered species).

Water: In Mira River catchment and concession borders Mira River.

Community: Afro-descendant, peasant and mestizo communities inhabit area, along with more than five indigenous nationalities. Opposition to mining in Imbabura for 30+ years.

Illegal mining: Fifteen km from Buenos Aires, where 10,000 illegal miners set up camps in 2019. Ongoing illegal mining issues with increased military and police presence in area.

BLANCA (CARCHI PROVINCE)

Environmental: Part of the Mira River basin, within mature primary and secondary forests that house endangered species, and protect pristine microbasins. High level of endemism in species.

Water: Borders and overlaps Rio Mira. Concession within floodplains. Toxic waste/pollution risk.

Community: Mining concessions cover 52% of the province. Strong opposition.

Indigenous: Borders Awa territory. Awa have repeatedly voted mining companies out.

Illegal mining: Proliferating, increased military and police presence.

Security: Close to Colombian border. Armed militia and FARC-dissidents presence in area. Within Ecuador's "cocaine super highway".

CHICAL (CARCHI PROVINCE)

Environmental: Borders on Cerro Golondrias Protected Forest and the Dracula Reserve. Endangered frog species and critically endangered brown-headed spider monkey threatened by mining exploration.

Community: Strongly opposed to mining with access bridges often blocked. Mining concessions cover 52% of the province. Communities do not want mining near Cerro Golondrias.

Indigenous: Chical 1, 2 & 3 overlap Awa territory. Awa voted mining companies out 4 times in 4 years.

Illegal mining: Proliferating, increased military and police presence as result.

Security: Chical 1 on border with Colombia. Armed militia and FARC-dissidents presence in area. Within Ecuador's "cocaine super highway".

CHILLANES (CHIMBORAZO PROVINCE)

Environmental: High earthquake and slip risk. Fragile geographic area with poor quality rock and soil dominated by two major faultlines (Pallatanga Puna Fault System). From 1541-1999 there were 37 magnitude 8 earthquakes and 96 magnitude 6 earthquakes.

Community: Communities say SolGold came in arbitrarily, without consent. Mining equipment burnt at a Chinese mine in 2019. Pallatanga council declared the canton a mining-free zone in April 2018.

SALINAS (BOLIVAR PROVINCE)

Environmental: High in Andes. Delicate paramo ecosystem with cloud forest and small-scale agriculture at lower altitude.

Water: Located in water source area for Matiavas and Mulidianhuan rivers.

Community: Says SolGold has done no socialisation, they have not been consulted and will refuse entry and exploration. Archaeological sites within concessions. Important agricultural area for export dairy and cheese.

SHARUG (AZUAY PROVINCE)

Environmental: Concessions cover 52 km² in Pucará canton which is wholly within the Macizo del Cajas biosphere reserve, 2400m above sea level, across cloud forest.

Water: Concession covers important water catchment areas. Pollution would impact the reserve and affect agricultural and aquaculture activities on the coast.

Community: Azuay province generally strongly opposed to large-scale mining. 80% voted in Cuenca in February 2021 to ban mining in water sources of 5 rivers. Girón voted against mining 80-20 in popular consultation in 2020.

Illegal mining: Five camps destroyed in the San Rafael de Sharug parish in May 2020.

CISNE LOJA (LOJA PROVINCE)

Environmental: Approximately 90 per cent of one concession is within a Protected Forest, while about 15 per cent of the other is within Protected Forest. Around 737 species of plants are found in the páramos, of which 67 are endemic to Ecuador.

Water: The concession is in the Fierro Urco páramo, which supplies the entire province with water for agriculture and human consumption.

Community: Loja province strongly opposed to mining, with ongoing resistance at Fierro Urco. Communities say SolGold is violating the Constitution by not consulting them.

Indigenous: Saraguros Indigenous People (FIIS) have been fighting for natural resources and water at Fierro Urco. They believe the area is sacred, and therefore refuse SolGold entry.

CELEN (LOJA) (*Within Cisne Loja, see above*)

TIMBARA (ZAMORA CHINCHIPE PROVINCE)

Environmental: Megadiverse zone with high level of endemic species because is a meeting point between four ecological systems: Northern Andes, Southern Andes, Amazonian, and Pacific. Thick elfin and lower montane forest. Timbara 4 overlaps northern end of Parc Nacional Podocarpus (National Park) and Timbara 1 overlaps Alto Nangaritza Protected Forest. On high eastern slopes of Andes. Any pollution/toxic runoff will run down into Alto Nangaritza Protected Forest and Peru's Zona Reservada Santiago-Comaina (National Park)

Community: Strongly opposed to large-scale mining. Displacement at EcuaCorriente mine site has resulted in poor conditions for affected communities and anger against mining companies.

Amazonian Community of the Cóndor Mirador Mountain Range (Cascomi) unites indigenous Shuar, Kichwa and peasant families.

Indigenous: Timbara 1 overlaps Shuar territory. Confeniae demanded mining concessions reversed. Forced evictions of Indigenous families at Tundayme for Mirador mine with no relocation plan has fed resentment. In 2018, 1500 indigenous protesters marched to Quito to protest mining.

PORVENIR (ZAMORA CHINCHIPE PROVINCE)

Environmental: Megadiverse zone with high level of endemic species because is a meeting point between four ecological systems: Northern Andes, Southern Andes, Amazonian, and Pacific.

Porvenir 1, 2 & 3 overlaps southern end of Parc Nacional Podocarpus (National Park), and is on western border of Alto Nangaritza Protected Forest. On high eastern slopes of Andes. Any pollution/toxic runoff will run down into Alto Nangaritza Protected Forest and Peru's Zona Reservada Santiago-Comaina (National Park)

Community: Strongly opposed to large-scale mining. Displacement at EcuaCorriente mine site has resulted in poor conditions for affected communities and anger against mining companies.

Amazonian Community of the Cóndor Mirador Mountain Range (Cascomi) unites indigenous Shuar, Kichwa and peasant families.

Indigenous: Forced evictions of Indigenous families at Tundayme for Mirador mine with no relocation plan has fed resentment. In 2018, 1500 indigenous protesters marched to Quito to protest mining.

HUECA (ZAMORA CHINCHIPE PROVINCE)

Environmental: In area of many protected forests bordering on Cordillera del Condor.

Water: Borders Rio Zamora with many waterfalls and cascades within concession. Toxic waste/pollution would run into river. Many communities along river.

PRIORITY PROJECTS

Community: Displacement at Ecuacorriente mine site has resulted in poor conditions for affected communities and anger against mining companies. Amazonian Community of the Cóndor Mirador Mountain Range (Cascomi) unites indigenous Shuar, Kichwa and peasant families.

Indigenous: Concession entirely within Shuar territory. Confeniae demanded mining concessions reversed. Forced evictions of Indigenous families at Tundayme for Mirador mine with no relocation plan has fed resentment. In 2018, 1500 indigenous protesters marched to Quito to protest mining.

CISNE VICTORIA (MORONA SANTIAGO PROVINCE)

Environmental: Evergreen humid montane Amazon forest, close to the south border of the Kutukú-Shaimi Protection Forest.

Water: Rio Santiago runs through concession. Toxic waste/pollution could spill into river

Community: Strong opposition to mining with Chinese mine burnt in March 2020.

Indigenous: Concession entirely within Shuar territory. Confeniae demanded mining concessions reversed.

COANGOS-HELIPUERTO (MORONA SANTIAGO PROVINCE)

Environmental: High level of biodiversity, rare and endangered species. High point of Cordillera del Condor. Uphill of Peru's Parque Nacional Cordillera del Condor. Pollution/toxic waste would run eastward into Peru's Cordillera del Condor National Park and Zona Reservada Santiago-Comaina.

Water: Headwaters of the Santiago river which runs into the Marañón, one of the Amazon's tributaries.

Community: Strong opposition to mining with Chinese mine burnt in March 2020.

Indigenous: Concessions entirely within Shuar territory. Confeniae demanded mining concessions reversed.

NEW PROJECTS

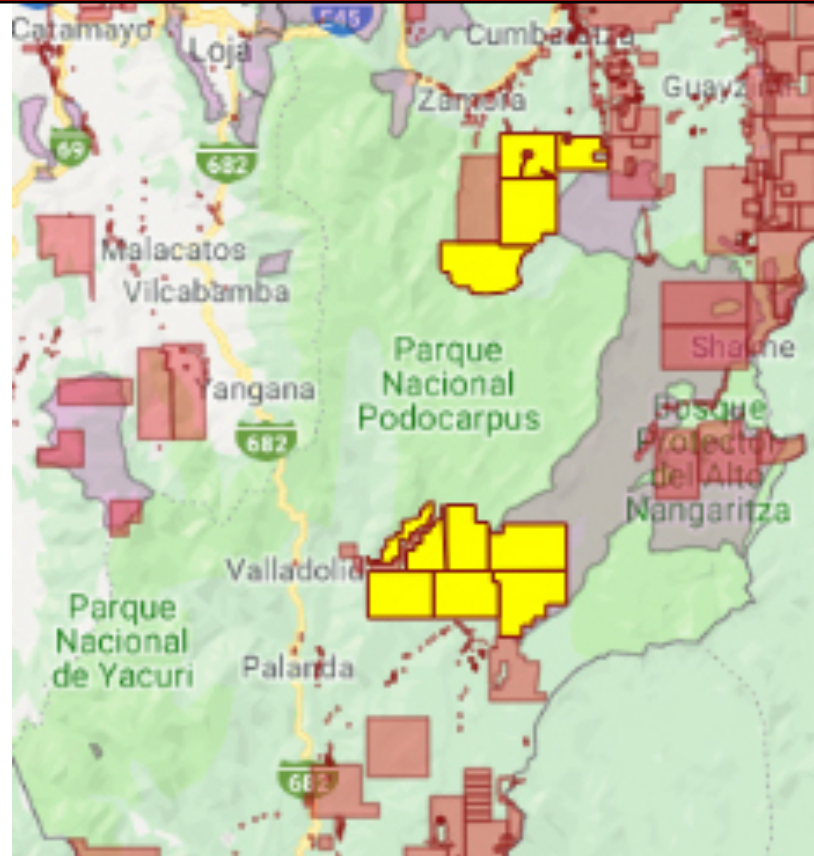
In September 2020, SolGold announced that drilling had begun in their Porvenir copper gold project, 100km north of the Peruvian border in the Zamora Chinchipe Province.

This announcement was met with a flurry of increase in share price, which would have handed SolGold some relief for their cash-starved coffers. Porvenir however is dogged by controversy with a significant portion of the concession inside the Parque Nacional Podocarpus.

In October that year, SolGold announced that they had found Visible Porphyry Mineralisation at Porvenir and that drilling had commenced in the Blanca concession at Cerro Quiroz, located 8km north east of Alpala.

The Porvenir announcement was met with a boost in investor confidence and \$255m was added to the market capitalisation of SolGold. The share price surged.

Significant issues with Porvenir in terms of environmental impact and community resistance. See page 9.



Porvenir 1,2,3,4 (in yellow, bottom) overlapping Parque Nacional Podocarpus. Map: Rainforest Action Group and Forest Network

ALPALA (CASCABEL)



Image credit: Mining Journal

Cascabel is 100% owned by ENSA (85% owned by SolGold, 15% by Cornerstone Capital Resources)

Despite significant obstacles to construction, SolGold has used its proposed Alcala mine at Cascabel to leverage funds from investors and raise its profile on the international stage.

The Cascabel concession ranges from an altitude of 1700m down to 900m where it borders onto the Mira River which runs into Colombia. Currently limited infrastructure in the area, including suitable transportation access. SolGold needs to raise \$3 billion to make developing Cascabel viable. This includes deciding on and building, safe transportation of ore to port for shipping. Significant security issues and logistics problems involved with this, as with storage of tailings. Funding issues and how SolGold's capital-raising strategy has angered investors is covered more fully on page 4.

Landscape is a mix of mature primary and secondary forests and small-scale agriculture. High number of endangered and endemic species in the area. Contaminants in the river would affect the thousands of users who live downstream of the mine, including communities in Colombia.

There is a high level of earthquake risk with several strands of one of the most active and continuous fault systems in Colombia and northern Ecuador (the Cauca-Pujili Fault System, also known as the Peltetec Fault System) passing near or through the Cascabel Project. Even a small earthquake could cause liquefaction of tailings in tailings dams, risking dam collapse as happened in Samarco, Brazil, 2015. Three small earthquakes with a magnitude between 1.4 and 2.6 [were recorded 1.5 hours before the dam collapsed](#).

Based on Solgold's stated ore extraction amounts, [MRAG estimates](#) the toxic waste (tailings) generated by this mine would amount to at least 1km³. Dams storing these tailings must be maintained for hundreds of years to ensure their toxicity is safely contained. Any pollution at Cascabel will run downhill into Rio Mira river.

There has been significant community opposition to mining in Imbabura for 30+ years, this has increased since concessions were handed out in 2017. [SolGold was rejected](#) and mining representatives expelled in Cahuasquí, Ibarra on 16 November 2020 for "failing to comply with Constitutional mandates".

Investment in mining has increased criminal interest in gold mining as an easy source of revenue. Cascabel is 10 km from Buenos Aires, where 10,000 illegal miners set up camps in 2019. There have been intermittent problems with illegal miners on or near Cascabel. Illegal miners increasingly organised by militia groups. Military and police presence in the area has increased as a result. These issues are antagonising local inhabitants. Ministry of Energy representative [Mauricio Almeida, told PRIMICIAS](#) that illegal mining activity has increased since December 2020, with illegal miners unsuccessfully attempting to gain access to Cascabel. There have also been new attempts to access Buenos Aires by force against Police and Armed Forces.

We have reasonable concerns that infrastructure could come under attack or sabotage, as could the mine itself. (Covered more fully on page 16)

\$3 billion
To construct

2025
First production

2.4 billion tons
Ore extracted (est)

1,000,000 m³
Toxic tailings (est)

Production forecast
(concentrate per year for 55 years)

150,000 tons
Copper
245,000 ounces
Gold
913,000 ounces
Silver



50 days of community resistance in Pacto against mining

Despite company statements to the contrary, resistance to SolGold operations has been escalating. Communities throughout Ecuador say concessions were handed out without their knowledge or approval, and demand that mining operations cease. Numerous local parishes and cantons across the country have been conducting consultations and votes on mining.

In Cuenca on February 7 2021, a popular consultation promoted by the Cantonal Council showed 80% of the population support prohibiting large and medium-scale mining activities in the water recharge zones of five rivers in Cuenca: Tomebamba, Yanuncay, Tarqui, Machángara and Norcay. Cuenca is the third largest city in Ecuador.

The consultation is expected to form the basis of a major legal challenge at the Constitutional Court level and could halt the development of mining projects in the region. SolGold project El Cisne 1A is in the Cuenca province.

In the Ibarra canton on 16 November 2020, [SolGold was rejected](#) and mining representatives and expelled by the people of Cahuasquí for “failing to comply with Constitutional mandates”. SolGold flagship Cascabel and priority project Río Amarillo are in the Ibarra canton. The Río Amarillo mining project, held by SolGold subsidiary Carnegie Ridge Resources SA, covers 123 square kilometers across the Cahuasquí, Chillanes and Pugarán communities.

The community demanded that SolGold stop all mining activities to protect water recharge sources, ecosystems, sustainable farming activities and responsible tourism in the Cahuasquí Parish.

In the La Carolina parish in Ibarra on 29 November 2020, [an event on mining](#) was convened by the Imbabura and Carchi Network of Cauchers in conjunction with the Gad of La Carolina to discuss mining in the region. 83% of the parish is concessioned to SolGold and Hanrine Ecuadorian Exploration and Mining SA (Gina Rinehart’s Ecuador subsidiary). Despite mining being prohibited in populated centres, SolGold’s concessions cover almost the entire capital of the parish. [Locals say](#) agriculture is being affected by the amount of water taken by SolGold for its mining operations.

Representatives from SolGold and Hanrine failed to attend, despite being invited to offer their views on their mining projects in the parish.

In January 2021, the Pacto parish declared [50 days of peaceful resistance against mining](#), arguing that mining activity threatens the biodiversity and water sources of the Chocó Andino reserve, home to endangered Andean Bear. UNESCO added the reserve to its list of Biosphere Reserves in 2018. SolGold subsidiary Valle Rico Resources holds four San Miguel concessions in the area.



Indigenous leaders say mining concessions are illegal.

The Confederation of Indigenous Nationalities of the Amazon of Ecuador (Confeniae) [demanded on 9 December 2020](#) that Lenín Moreno reverse mining concessions in the territory of the Shuar ethnic group, on the basis that they were granted illegally.

According to leaders, 56 % of the territory has been

delivered to 10 extractive companies. SolGold has 36 concessions in Morona Santiago and Zamora Chinchipe across nearly 200,000Ha, many of which are on Pueblo Shuar land.

On August 28 2020, the Caminantes (a national coalition comprising dozens of indigenous, environmental and community groups) put out a statement supporting “the actions taken by residents of Buenos Aires and Cahuasquí, Urcuquí canton, province of Imbabura, defending their territory and the right to live in peace, demanding the departure of illegal miners as well as Australian capital companies [#SOLGOLD](#) and [#HANRINE](#)”.

In Carchi where there are 19 mining concessions covering 52% of the province, illegal mining has proliferated, with increased military and police presence attempting to halt the activities. SolGold holds the most concessions in Carchi while Australian Newcrest has four. [Locals are concerned](#), particularly in regards to the Cerro Golondrinas Protected Forest which forms the headwaters of five rivers. Ninety percent of the Forest is covered by mining concessions (held jointly by Canadian Cornerstone Capital Resources and state company ENAMI). [A bridge was blockaded](#) in January 2020 near Solgold’s Chical concessions in one of a series of measures to stop SolGold and ENAMI conducting explorations in the region.

These are only some recent examples of community action against mining. Others include communities in the Bolivar province who want SolGold subsidiary Valle Rico mining out of the region, and [the Awá who announced](#) the total rejection of mining in their territory on 25 July 2019. This was the fourth time they had passed a mandate to ban mining in their territory. SolGold holds 3 concessions that overlap Awá territory, while one is held by Hanrine.

There is near unanimous opposition to mining in the regions of Azuay, Loja and Zamora Chinchipe where SolGold has numerous concessions. On August 27 2019, the Loja council approved a resolution declaring the Loja canton free of metal mining. Voters in the Girón canton in Azuay [voted](#) overwhelmingly to ban mining on March 24 2019, with 86.79 per cent of the canton’s 15,000 voters rejecting mining in the area. SolGold has two priority projects in Azuay: 'Cisne Loja' and 'Sharug'. Sharug entirely covers a Protected Forest, while Cisne Loja – comprised of two concessions – has approximately 90 per cent of one concession within a Protected Forest, while about 15 per cent of the other is within Protected Forest.

Another Protected Forest – the Dracula Reserve – has more than 400 species of orchids, many of which are endemic. [The Reserve is threatened](#) by at least ten adjacent mining concessions, seven of which are held by SolGold (Blanca, Nieves, Cascabel, Río Mira, and Chical 1, 2 and 3) across more than 28,000 Ha. Locals say contamination of rivers is already present, but ability to document this is limited as guards patrol area.

[This flyover](#) created by Rainforest Action Group and Forest Network in 2019 shows areas of conflict overlaid with Protected Forests, Indigenous land and mining concessions held by SolGold and other Australian mining companies.



Los Cedros Biological Reserve

Mining in Ecuador is increasingly threatened by requests for popular consultation and concerns over legality. The country has a unique Constitution which recognises the Rights of Nature and gives Indigenous territories added protections to protect them from mineral and oil extraction. These articles in the Constitution are forming the basis for several court cases.

[Primicias stated](#) on November 25: “Ecuador has only two large-scale mines in production... Mirador, for copper and Fruta del Norte for gold, and has another 24 mining projects that are in full development. But, at least 12 mining projects are at risk of being paralyzed for various reasons, including legal issues and citizen rejection.”

The internationally celebrated Los Cedros Biological Reserve has mounted a case to the Constitutional Court [which is expected to set a precedent for mining](#) in Protected Forests across the whole of Ecuador. Australian mining companies have 67 concessions covering, in whole or part, Indigenous territories or Protected Forests. However, SolGold would be most impacted by a positive ruling on the case, with 19 concessions covering Protected Forests and 18 covering Indigenous territories. The judges were due to make a decision on December 21, but a result is now expected some stage after the Ecuador federal election.

The latest popular consultation at Cuenca is also expected to end up in the Constitutional Court, which would be a significant challenge for the government to overcome in order to establish mining in the region.

Ecuador election results on February 6 [rocked investors](#), with several local government areas hosting large mining projects electing candidates with anti-mining platforms. The result indicates future conflict between local and central governments. Anti-mining Indigenous candidate Yaku Perez narrowly missed out on the run-off for Presidency in April amid charges of ballot corruption. Candidates Andres Arauz and Guillermo Lasso both have strong pro-mining platforms, but [they may have to seek a deal](#) with Perez to win over his supporters. Critics are also concerned Andres Arauz will pardon the Correa government and officials, several of whom are in prison on corruption charges.

The final hearing for a Constitutional Injunction at Llurimagua is to be heard on March 13 based on the rights of endemic species. It is expected the judge will rule in favour of endemic species [after the judge ruled on October 22 2020](#) that the Ministry of the Environment did not adequately protect species in danger of extinction, and that the judicial protection was also violated. The Ministry of the Environment was given 90 days to solve omissions and irregularities detailed by the Nation's Comptroller General in its March 2019 report, but reports indicate it would be technically impossible to remedy these concerns in the time provided.

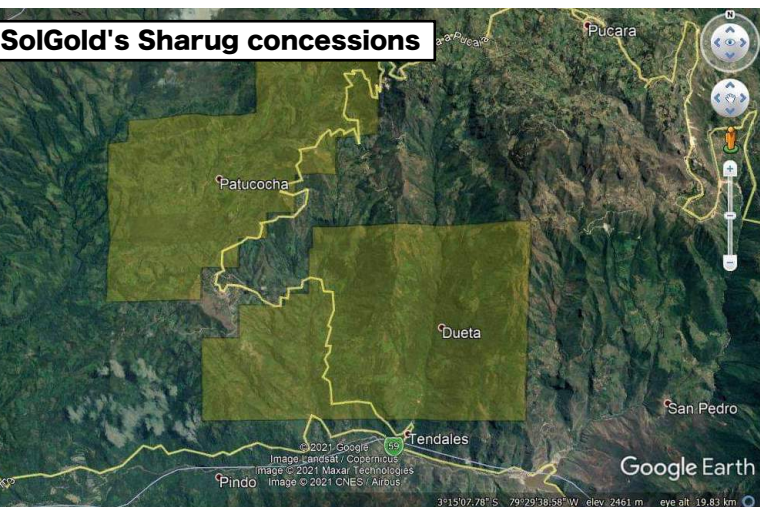
The Injunction could provide precedent to halt mining activities in all areas where endemic species are found. Given Ecuador's high rate of endemism, this could apply to most of the country.



Pollution of water sources by mining is the main environmental concern by Ecuadoreans, especially given the bulk of mining concessions granted are at high elevations or close to water sources. The slogan “Water is worth more than gold” is used all over the country in protests against mining.

The Fierro Urco páramo, one of the most important aquifers in the province of Loja, is supplied by water sources high in the Andean mountains, and itself supplies the entire province with water for agriculture and human consumption through underground corridors and three major rivers. SolGold and Cornerstone Capital Resources hold six of the nine concessions in the water sources of the Fierro Urco.

The area has been a [significant area of resistance since 2015](#), with communities, organisations, and provincial authorities concerned that mining concessions in the high areas of the páramos will pollute their water supply. Four cities and 15 parishes depend on water from the Fierro Urco reserve. Solgold concessions are El Cisne 2A 2B and 2 C, while Australian company Newcrest has a joint venture with Cornerstone on its Caña Brava concession.



SolGold's Sharug priority project in the Pucará canton in Azuay is another concern. The entire Pucará canton is within the [Macizo del Cajas biosphere reserve](#), and includes a large number of ecosystems ranging from high mountains down to coastal and marine areas. SolGold's Sharug concessions cover 52 km² at 2400m above sea level, across cloud forest and water catchment areas. Pollution from mining would impact the reserve and large and medium-scale agricultural and aquaculture activities on the coast, such as shrimp farming which is an important export item for the national economy.

It is not just the short to medium-term impacts of a mine that are concerning. Ecuador is a [known earthquake hotspot](#), putting any infrastructure storing toxic waste at great risk of collapse, (as happened at the BHP/Vale dam collapse at Bento Rodrigues in 2015). For the proposed Cascabel mine, SolGold itself says that it will extract 2.4 billion tonnes of ore from the mine. Based on this, [MRAG estimates](#) the toxic waste (tailings) generated by this mine would amount to at least 1km³. Dams storing these tailings must be maintained for **hundreds of years** to ensure their toxicity is safely contained. Pollution at Cascabel will impact on the Rio Mira river which stretches through Ecuador and into Colombia.

Along with these impacts are the impacts on wildlife. Ecuador is one of the world's biological hotspots. With 19 concessions covering Protected Forests in whole or part, and many more of its concessions in areas which are home to a vast amount of rare and endemic species, SolGold's mining projects will considerably impact the future of such animals as the Andean Spectacled bear, jaguar, and hundreds of species of rare and endemic amphibians, birds and insects.

SECURITY, COCAINE AND COLOMBIA



Security issues at SolGold's Cascabel concession located around 20km south of the Colombian border make it an investor's nightmare. The most likely route to transport mining material, as suggested by SolGold, is via pipeline near the railway that runs from Ibarra to San Lorenzo port, then 100km south-west to the port of Esmeraldas. This puts it in the thick of Ecuador's "Cocaine superhighway".

San Lorenzo's position close to the Colombian border has made it the focus of various Revolutionary Armed Forces of Colombia (FARC) dissident groups, like the Oliver Sinisterra Front, which sends cocaine by sea from San Lorenzo and southern Colombia to other countries via semi-submersibles and speedboats. [Nearly one-third of Colombia's cocaine](#) now goes through Ecuador to the US, Europe and more recently, [via Pacific routes to Australia](#).

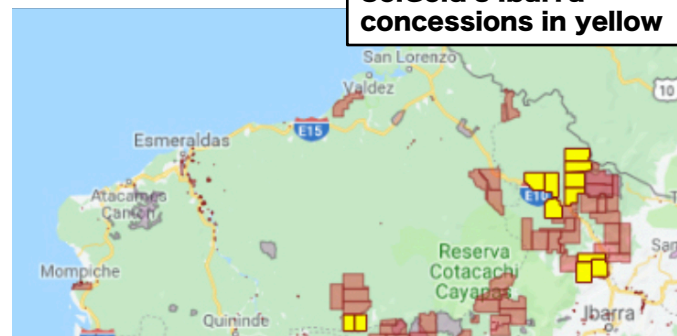
The Oliver Sinisterra Front carried out three kidnappings, nine murders and bombed a police station between January and May 2018. On August 17 2020, men claiming to belong to the Oliver Sinisterra Front [kidnapped a woman](#). The armed group is vying for control with two other militia in the area, Los Contadores and Las Guerrillas Unidas del Pacífico.

On the other side of Cascabel to the east, three main armed groups have a presence, including the First Front (a dissident faction of FARC), La Mafia (a paramilitary narco structure made up of dissidents), and a third group, Border Command, which emerged during the COVID-19 pandemic, and appears to be a rebranding of Los GAO-R E48, a FARC dissident group. Another group, La Construcción, controls the trafficking of coca leaves and cocaine hydrochloride in the region and works directly with the Sinaloa Cartel (Mexico) and the Los Soles Cartel (Venezuela) in drug trafficking throughout the region.

These groups are involved with the production and trafficking of coca in Ecuador and Colombia, and are increasingly moving into illegal gold mining. Gold mining is now seen as being as lucrative as coca growing by organised crime syndicates in Colombia. Indigenous territories along the border are being deforested for oil drilling, mining, logging and the clearing of land for coca and processing. Forest is cleared to create mobile drug labs, with a different part of the forest cleared whenever it is moved. These illegal industries are also polluting water sources.

Indigenous groups living along the Putumayo river live in fear. [Mongabay reports](#) that armed groups told them in April 2020 that anyone who became infected with COVID-19 would be executed.

SolGold's Ibarra concessions in yellow



SECURITY, COCAINE AND COLOMBIA

In late August 2020, [three military operations were carried out](#) in the border province Sucumbíos, and a large number of illegal weapons, explosives and military supplies were seized, including [grenade launchers, rifles, pistols, grenades and thousands of ammunition](#), along with combat backpacks and fuel for cocaine production.

In 2019, [a Colombian security forces alerted Ecuador](#) to reports that the ELN (National Liberation Army) was targeting border areas inside Ecuador including “facilities and units in the municipalities of Mira in the province of Carchi and San Lorenzo in Esmeraldas”.

Both the FARC and ELN have targeted energy infrastructure inside Colombia over the years, with around 20 attacks on Colombian pipelines in 2019.

It is the opinion of MRAG that not only would a mine at Cascabel and other concessions on the border be within a politically unstable and dangerous region, but infrastructure could come under attack or sabotage, as could the mine itself.

SUMMARY

The Rainforest Action Group has identified significant hurdles that would make mining in Ecuador impractical, costly, dangerous and even potentially calamitous in the case of contamination of waterways through natural disaster or tailings dam collapse.

Besides the substantial environmental considerations and concerns regarding the security and practicalities of installing infrastructure at Cascabel, among other projects, it is clear that protracted legal cases and community opposition will impact mining operations in Ecuador for some time.

These legal challenges in various courts of Ecuador could halt mining in Protected Forests, areas of water catchment, or call into question the legality of the concessions due to the lack of community consultation. The results of the 2021 Ecuador Federal election will also impact investors should an anti-mining regime come into power.

We believe these factors make running mining operations in Ecuador by SolGold or other mining companies too significant to be feasible.

SolGold has propped itself up for the past four years on increasingly shaky ground, inflating share prices and making optimistic claims about the potential of their targets in Ecuador.

Share prices have nose-dived in past few months as shareholders desert the flailing company. It is unlikely to survive the year in its current form and is ripe for a takeover.

