



Eric Coffin's Exclusive Interview with Michael Hopley, President & CEO of Sunridge Gold Corp. (SGC: TSX-V)

I don't need to tell you how rough the last two or three years have been for companies in the mining space. Only a handful managed to significantly advance their projects during that period. One such company is Sunridge Gold, which has brought its marquee Asmara Project to full Bankable Feasibility status. Sunridge recently negotiated the sale of a contributing 30% interest in Asmara to the Eritrean state mining company ENAMCO. I take this agreement as the "starting gun" in the race by potential suitors and financiers who want a piece of this long-life base metal asset with a precious metal kicker.

Sunridge management recognized that in a difficult financing environment, Asmara had to be re-engineered to maximize near term cash flows and minimize the peak capital outlays to put the project into full production. They found a solution; stage the project so that very high grade copper ore and heap leachable gold ore can be accessed early and at modest costs. The cash flow from those early operations is leveraged to help finance the larger, long-life mining operation. Application of this new model to Asmara yields a project with a Net Present Value of US \$692 million and an Internal Rate of Return of 34%, using a 10% discount rate. That places Asmara at the high end of potential returns for new mining projects. It looks very financeable and it also makes an attractive acquisition target for a large mining company. Keep in mind that Sunridge's market value is about \$50 million and the company is debt-free. This leaves plenty of room for a potential bidder to offer a good return to current shareholders and leave plenty on the table for itself. That combination is the reason HRA initiated coverage when the deal with ENAMCO was announced.

Mining companies often see their lowest values at this point in the development curve. As permits for construction and mining are received and financing is arranged, the market comes to accept a mine will get built and the company's market value starts to increase to reflect the "in production" value of the mine. This is also often the period where larger mining companies decide it's time to acquire the project, the heavy lifting to prove feasibility and permit the operation having been done. I think either in-house development or a takeover offer could generate a good gain for Sunridge shareholders in coming months. I'm partial to the takeover idea myself and that is something that could come at any time.





Eric Coffin: I'm here with **Mike Hopley**, President and CEO of Sunridge Gold, and we are going to talk about Eritrea and the Asmara Project and where it's going from here. Mike, as long as I've followed Sunridge Gold, either as an observer or an analyst, you've always been in Eritrea. Was it Eritrea from day one pretty much?

Mike Hopley: Yes, that's where we've been focused for about 10 years now. Since 2004, we have completed a tremendous amount of exploration work – in fact we have drilled over 300,000 meters on the Asmara Project and have successfully defined 6 deposits. We completed a full Feasibility Study on 4 of the deposits last May which demonstrated very strong economics and showed that the Asmara Project will produce significant amounts of copper, zinc, gold, and silver. We now have the Government of Eritrea as a partner on the project and we are in the permitting stage. We also have 2 "pipeline deposits" which we plan to eventually incorporate into the mining plan.

Although we have focused on following in Nevsun's footsteps over the last couple of years by moving our established deposits towards production, there are still numerous high priority VMS targets to be tested. The property has shown to be prolific.

Eric Coffin: Now, was Sunridge a spinout from Nevsun?

Mike Hopley: No, but some of the Nevsun people were initially involved and owned shares of the company. Nevsun was offered the Asmara property in 2003, but at that time they had a lot on their plate, so it went to another company that was held by some of the principles of Nevsun, but it's never been a Nevsun company or a Nevsun project.

Eric Coffin: When I went through the backgrounds of the management and board I noticed many had some past experience at Nevsun's Bisha project. It seemed like there was a lot of interconnection there but I suppose there is a fairly small talent pool that has real direct experience in Eritrea?

Mike Hopley: Largely that's true. Craig Angus is our Chairman and he was President and Chairman of Nevsun for a while. That's the only sort of common connection now with Nevsun, but it is true a lot of our senior management have worked in Eritrea with Nevsun and have migrated to Sunridge and frankly, we've been picking some good staff from Nevsun's ranks. These are people with Eritrean experience who want to keep working there because they like working in the country and the people and they feel comfortable there, so they wanted to keep working there. That goes for Scott Ansell, David Daoud and Greg Davis, all of whom were part of the exploration team that discovered Bisha.

Eric Coffin: Right, now let's move on a little bit and talk about Eritrea itself. Can you kind of give me a thumbnail sketch of the country?

Mike Hopley: Yes, Eritrea is a place that not many people know about. It was part of Ethiopia from 1961 to 1991, but it has been an independent country now for more than 20 years. It's a surprising place, it's not what most people expect - it's on the Red Sea and has close to 2,000 kilometers of coastline. Our project is all around the capital city of Asmara, which is reputed to be the most beautiful and safest capital city in Africa and I can verify this! It's an old Italian colonial city with some beautiful old Italian architecture. The country is ruled by the senior



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military people who gained independence from Ethiopia in the war. It is easy to get along well with the government there and all business is done in English, which is big surprise for many people. Another surprise to a lot of people is that the levels of education and health care in the country are high.

However, Eritrea is one of the poorest countries in the world; depending on what measure you use it's the second or third or fifth poorest country in the world. The mining business is providing a very significant bump in the economy of the country and Nevsun's Bisha mine has been in production for three years now; first in gold and more recently in copper, which has shown the government and the country to be mining friendly. I would say that the Bisha Mine is one of the most successful modern mines anywhere. It was brought into production on-time, under budget and – tellingly – with full government support. Full government support means in this case that the government has opted to take their full interest in the project, so they have a 40% interest in the Bisha project and they are responsible for one-third of all capital and operating costs. Now in our case, they have opted to do exactly the same thing and we've recently been negotiating the price that they will pay for their additional interest.

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But going back to the country, it's a very beautiful place to work. Fortunately for us, our projects are all around the capital city of Asmara. So, I jokingly say, although it's true, you can stay in a first-world type hotel, the old Intercontinental hotel in Asmara, you can roll out of bed in the morning, have the best coffee you've probably ever had then you can get a taxi and get to any part of our properties in about 20 minutes. It's actually that good. So, it's a very easy place to operate in. Eritreans are very friendly and easy to get along with. Again, another surprise to the first time visitor to the country is that there is no bribery, corruption or petty theft. It's really remarkable. So, we like being there a lot and I think the country has a very interesting future in the mining business. Sunridge would like to be the third mine put into production in the country. First there was Bisha, now there is a second mine called the "Zara Mine", which is in construction phase now and then there would be the Asmara Mine.

Eric Coffin: Do you have any concerns about Asmara – the project that is – being too close for comfort to the capital city region? I mean, obviously, your situation is great in terms of infrastructure since it's relatively close to the city of Asmara. Are the locals ok with you being on the outskirts, or are there people freaking out where you might be digging a big hole?

Mike Hopley: That is a good question. It is true that there are a lot of inhabitants within a few kilometers from the operation but surprisingly, the actual number of people disturbed by our proposed mining operation is quite small. The operation will be four separate mines and one centralized operating facility mill and despite this, it is really minimal disruption to people. We



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are not moving graveyards and dozens of houses; there is probably something in the order of 15 houses that would be impacted down in the south in one operation, but really it's pretty minimal. Also, there is an interesting philosophy in the country that is sort of unusual to American or Canadian thinking. The people of Eritrea are very supportive of their government. That means what the government is supporting – and they are obviously supporting our operation – is assumed to be good for the country and so therefore, there is very minimal opposition to our project. There will always be some opposition to any large industrial operation but, generally speaking, 99% of the people are supporting our operation.

Of course, as a Canadian company, we've done everything to first world standards in terms of environmental work and social interaction. We've got social programs going on as we speak, talking to locals and so on and informing them of what we are doing. We need to do that, if we're going to successfully complete debt financing through the normal process of debt financing with European and South African banks. We have to follow the letter of the law and use best practices for environmental and social work. So, we had concerns about local opposition as any miner does but really they are pretty minimal and the government is fully supportive of us. I don't think the government would be supportive of the Asmara project, much less be buying into it, if they thought this was going to be too disruptive for too many local people.

Eric Coffin: Right. Now, being that close to the city there are obvious advantages in terms of existing road networks, housing and social infrastructure. One area that is an issue in most parts of the world is power. What's the power situation and how will the operation be powered?

Mike Hopley: Well, we have grid-power at the moment for current operations, but for the full-sized mining operation and mill, the power that they have in Eritrea is not reliable enough. There is just one power plant for the whole country that is undergoing maintenance at the moment, so the power is off a lot right now – therefore we have to source reliable power ourselves. One of the most expensive exercises in the operation is running a power plant. So, for construction and what we are doing now the power situation is fine but we plan on building our own power facility for the mining operation.

Eric Coffin: Ok. Can you walk us through the history of the discoveries and the project?

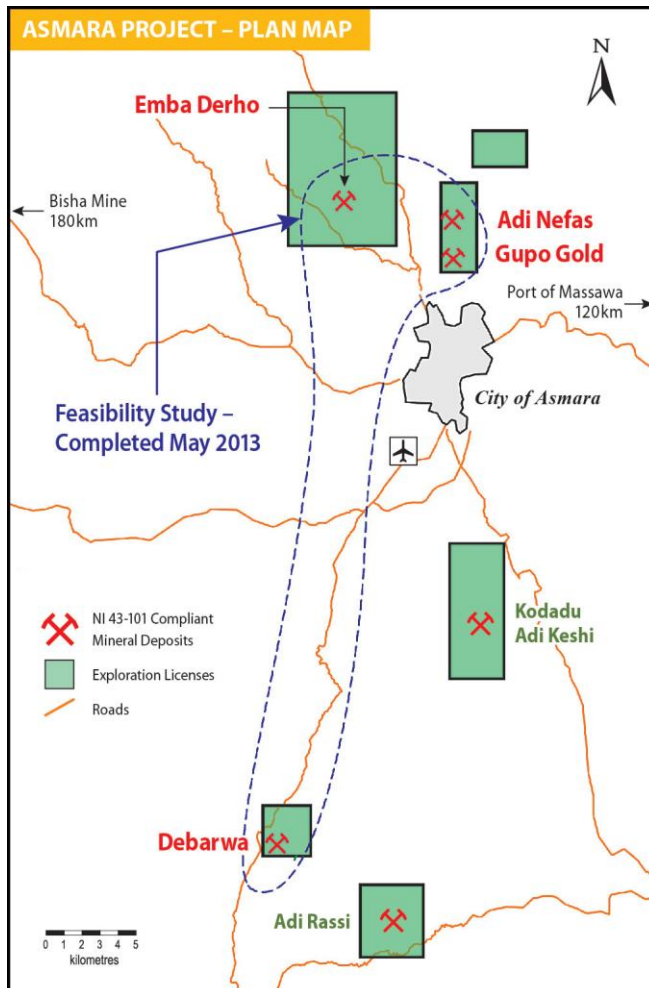
Mike Hopley: Sure, I'd be glad to. We first got involved in 2003 when we signed an agreement with a company called Sub-Sahara. Sub-Sahara was an Australian company that had been in Eritrea since about 2000 and at that time there was some rattling of sabers going on between Eritrea and its neighbor Ethiopia, and so it was difficult to raise money, but Sub-Sahara did a good job of being in the right place at the right time and accumulated and maintained a wonderful land situation. We were able to acquire this very large land position, probably about 1,500 square kilometers in 2003, surrounding the capital city of Asmara.

There were only two deposits there that were well known at that time, which was Debarwa and what we now call Gupo Gold. But Sub-Sahara knew that they had a tiger by the tail and needed to raise and spend significant amounts of money on this project in order to move it forward. Like a lot of Australian companies, they had 300-400 million shares outstanding trading at \$0.02 or \$0.03. They could only raise a few hundred thousand dollars at that time

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without huge dilution to the company so they looked for a partner. Long story short is that we were the partner and we signed the deal with them whereby we could earn an initial 40% of the project by spending \$2.5 million dollars and then we had the option for a year of buying the whole project from them for Sunridge shares – and that's the option that we took.

So, in 2005 I believe it was, we gave them about 20 million shares for 100% ownership of the project – so since about 2005 we've owned 100% of the project and funded it since 2003. To date, we have spent at this point close to \$90 million on the ground. Some very intense exploration, we've always been aggressive with the drill-rig there. We felt all along and still feel that we have a Volcanogenic Massive Sulphide (VMS) district all to ourselves here. And VMS style deposits, as you probably know Eric, come in clusters, so you don't just find one by itself, you find one and half a dozen others. This is what we are finding at Asmara. We've been very successful at discovering new VMS zones and we think there are still more to be found.



So, at the moment, we actually have six deposits. Our big discovery up in the north is called "Emba Derho" – this is a large classic VMS deposit of about 70 million tonnes that contains a lot of copper, zinc, gold and silver. I should say in the project as a whole the ore – despite our name being Sunridge Gold – the order of value of minerals is something like 50% copper, 35% zinc and the rest precious metals. Emba Derho is about that ratio as well. So, we were very successful in discovering these six deposits now through the belt.

Over the last few years our focus has shifted from exploration to the development phase and although the junior mining markets have been tough, we have been able to advance the project greatly. Since 2012, we have completed resource estimates on all six of the deposits and in 2012 we completed a Pre-Feasibility study on four of the six deposits.

In May 2013, we completed a full Feasibility Study on the four lead deposits collectively, namely Emba Derho and the satellite deposits of Adi Nefas, Gupo Gold and the Debarwa deposit, which is 30-40 kilometers to the south. The Feasibility Study demonstrated very strong economics with a pre-tax NPV with a 10% discount rate of \$692 million and an IRR of 34%. The mining plan showed that over a mine life of 15 years, 841



million pounds of copper, 1.9 billion pounds of zinc, 436,000 ounces of gold, and 11 million ounces of silver would be produced.

The other two deposits, Kodado and Adi Rassi, are what we call pipeline deposits. They are not part of the feasibility study as they are one or two steps behind in terms of the amount of exploration done but we believe that, ultimately, they will be mined as part of the overall Asmara project.

So, that's the history of the projects. We've applied for the mining license and we've done all our environmental work, so the ball's in the government's court in terms of getting our mining license and our big push now is for debt financing for the project.

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Eric Coffin: Now, between the pre-feasibility and feasibility study, as I noted in my review of the company in the *HRA Journal* there were quite a few significant improvements in the project economics. You guys changed things up some, I think mainly in terms of how you staged the development of the mine.

Mike Hopley: Indeed we did Eric. The rationale was that we are a small company – and this is a big project and the pre-feasibility study had, I believe, over \$600 million of capital cost. So, in this difficult market for high capital cost projects, we decided we had to retool. The downside of Asmara is that it's complicated as there are four different projects but that is also the upside because it means you can actually stage them. We took the Debarwa deposit which has this zone of really high grade copper, 16% copper ore actually, that is very close to the surface. Now, in stage one, we plan to mine that copper by open-pit methods, crush it, ship it to market and sell it. There is \$120-\$130 million worth of that high grade copper ore there. As you are mining that near surface you also have to remove a lot of the gold enriched oxide cap material from above it. So the other part of stage one of our operation is that while you are mining that direct shipping copper ore, we'll also mine the gold ore on top and create an inexpensive gold heap-leaching operation.

So, stage one is a gold heap-leaching and direct shipping copper ore operation. Stage two is developing a plant that just takes the high grade supergene copper ore or the enriched copper ore that's running about 2.5% copper and running that through the plant at about 2 million tons a year, which is about half the amount of the full scale operations. And stage three is then going to double that capacity to 4 million tons a year. So, the notion is that stage one pays for at least part of stage two. Stage two pays for at least part of stage three, which minimizes our capital outlay. And in this market we found that to be a very compelling scenario and now that



we are getting into financing negotiation, the staged start-up scenario is resonating with the financial institutions.

Eric Coffin: So, where things stand now: you've got your feasibility study and you've done the agreement with ENAMCO, the government mining company. What are the next moves? For the rest of 2014, how would you envision things going forward?

Mike Hopley: Well, we've got lot of work to do and the Sunridge team is very busy at the moment. I said we've submitted all our environmental documents to the government to acquire the mine license and that's true, but there are some other documents that the government needs and we are working on those. We are in the process of selecting eligible EPCM groups for the Engineering, Procurement and Construction Management for the operation. There are a number of engineering companies that will be bidding on that and that's a process we need to go through over the next several months to establish who is going to manage the mine construction. There are some very good candidates that have worked in Eritrea for many years and have a very good track record there. We also have some ongoing exploration we would like to start in March or April as well. We've got drilling planned for the earlier stage projects – Kodado and Adi Rassi. We would like to upgrade those resources and increase the size of them, so we have plans to start drilling those in April.

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Eric Coffin: Okay. Now there is one thing I was curious about the area in general; I know you started out with a much larger concession and returned parts of it to the government as time has gone on. Now that Asmara is moving towards development, can you go back to the government and say, "We would like to peg a few more things in the area," as I'm assuming there are other targets you are still interested in. I am not sure how that works in Eritrea?

Mike Hopley: Yes and actually we are doing that, but remember this is a bit of a negotiation with the government and it doesn't work the way does here in Canada where first in line gets it. It's all done by negotiation. Also, we have been very focused on moving our established deposits forward over the last few years and have not been drilling new targets – the government too would like to see us bring the Asmara Project into production as soon as possible. Having said that, the ground we dropped over the last few years hasn't been passed on to anyone else and we do intend on re-acquiring some of the ground with high priority targets on it. There is no guarantee, but I believe we have priority over the original area of our concession and we will get these areas back in time.

Eric Coffin: Okay, they are going to want to see you sort of on the development track before they give you back more land.

Mike Hopley: Right, that's what they have been saying. The government does indeed want to see the current deposits move towards production before we add to our current land position. But again, they haven't given exploration ground around the Asmara Project to anybody else. We understand the geology and the government knows that Sunridge has been very good on the exploration front. What's important from their point of view is "who is going to be most



successful at exploring that ground and maximizing the value for the country?" and they know it would be Sunridge.

Eric Coffin: Assuming that you get a couple hundred more square kilometers of exploration ground back then, are you are comfortable there are more good things hiding under the sand, if you will?

Mike Hopley: Definitely. Yes, I am very comfortable in that. Sunridge comes from an exploration background; I could go over the maps and show you some very appealing drill targets that we haven't had the opportunity to drill. As we said before these kinds of VMS deposits occur like large strings of pearls found along the favorable rock units. We expect to find more. *(I met with Greg Davis and David Daoud, VPs of Corporate Development and Exploration Manager respectively, after my interview with **Mike Hopley**. They did roll out the maps and in addition to the areas being drilled starting next month, showed me several good looking targets they plan to explore once they have some new concessions granted)*

Eric Coffin: You are going to be doing more work soon on your two pipeline projects, Adi Rassi and Kodado. Do you think those have a reasonable amount of room to get bigger if drilling is successful?

Mike Hopley: Absolutely yes, in both of them, but particularly Adi Rassi, the one further to the south. It's a little bit unusual compared to the other projects as it's not a VMS style deposit. Adi Rassi is unique geologically and we believe it's a zone of gold and copper that has been remobilized from perhaps as yet undiscovered VMS style source into a structural zone. It's still open to the north and south and at depth. We think it will get larger with more drilling and we plan to start that drilling in April. We also think it's interesting at Adi Rassi that the gold and silver came from a buried VMS occurrence that we haven't drilled into yet. But if you look at the gravity maps (we use gravity surveys as a very useful tool for exploration on this project) you can see this compelling coincidental gravity and geochemical anomaly and we want to drill there, looking for the source of the gold and the copper.

Eric Coffin: Okay and the timing on that is partially dependent on getting the first payment or two out of ENAMCO and that in turn, I think, is dependent on completing a shareholder agreement, right?

Mike Hopley: Absolutely right. That's why I said April, because I am thinking while you never can really predict how quickly or slowly the other side will move, it seems not unreasonable to expect that we finish that shareholder agreement sometime in March. ENAMCO has agreed to pay an additional \$4 million on signing to cover its share of costs since we started negotiations. So we would be off to the races with a number of things including exploration drilling in April – that is the plan at the moment.



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Eric Coffin: Okay. Now you've applied for a mining permit and I know that the timeline that I got and everybody has estimates permit approval in late 2014. I don't want put words in your mouth here, but having come to the agreement with ENAMCO, my read on things would be that that sort of speeds things up. I mean the fact you've just gotten the government backing, would it be safe to assume that ENAMCO coming to an agreement now should help speed up other parts of the government?

Mike Hopley: Yes, I think that's absolutely true. You know even now in the last few weeks, since signing the term sheet with ENAMCO I have been saying "could you help us with this, could you help us with that?" Up to now, while we were negotiating they were sort of on the other side of the table. Now with agreement in hand we are working together and that's a really nice feeling to have. It's not to say that we don't have to use best practices or that we would get a pass on any regulations but it certainly helps to have ENAMCO as a partner and helping us deal with other government departments.

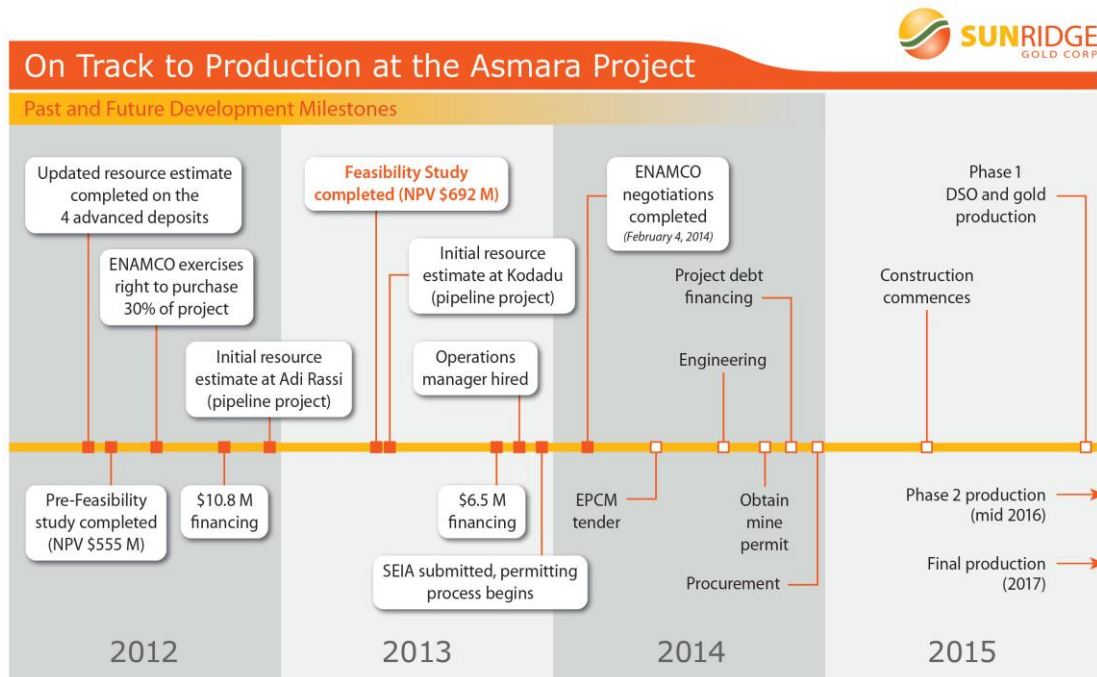
Eric Coffin: Sunridge management has now brought the Asmara project to the point where you only need a couple of permits to start mine construction. Normally a company in your position goes one of two ways; you get started on building the mine or you sell the project or the whole company to a larger player that will do it. Does the management group of Sunridge have a preference in terms of which way you would rather go?

Mike Hopley: Well, that's a good question which simply doesn't have an easy yes or no answer. It all depends on how the project goes really. We are moving ahead as if we are going to do this ourselves and that's what we will continue to do unless we get what we feel is a decent offer. But as you know we're working in a country in Africa that the Chinese are very comfortable with; they do quite a bit of business there. With the large amount of copper, zinc and precious metals that we have defined to date on the Asmara project it's a fairly obvious thing to say that Asian companies, but particularly Chinese companies, have shown a lot of interest. That is particularly true since we came to the agreement with ENAMCO. Obviously, we'd like to sell out at a huge premium. I mean that's always the best exit strategy for a junior company, but in this market it's hard to know whether that prize will ever come to fruition, so we have to see. We don't have a preference at this point. I have to say though that we do spend and have spent a lot of time with Chinese companies in particular that have been doing due diligence work on the project. They are not the only ones looking at the data though. We have a very sophisticated data room and we know there are a lot of people looking at data in there. It involves a lot of questions and negotiations. It's taking up a significant amount of management time.



Eric Coffin: So, what's the timeline now going forward for 2014?

Mike Hopley: Yes, I am looking at a timeline we have in our presentation if you are interested – see below.



In 2014, the key milestones are signing the deal with ENAMCO, which was completed in early February. The next major milestone will be completing the Shareholder's Agreement between Sunridge and ENAMCO, which we expect to have done in April. This will be a very important step because ENAMCO will then begin paying 1/3 of all project cost on the Asmara Project going forward, as well as will provide us with roughly a little over \$4 million for retro project costs going back to 2012. The completion of the Shareholder's Agreement will also initiate the schedule of ENAMCO's payment of the \$18.33 million purchase price for their share in the project, with the first payment of \$5 million scheduled for within 3 months of signing the agreement.

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Other milestones include deciding on an engineering contractor and starting the engineering later on this year. Also, obtaining the mine permit late this year, obtaining the debt financing later this year, and equipment procurement for the operation in late 2014, with the idea that phase one production could still start in late 2015 and that would be direct shipping copper ore and gold production from the surface deposits.

Also, we are looking forward to continuing exploration work on the project once the Shareholder's Agreement is complete.



Eric Coffin: Do you get any sense there might be some acceleration on the outside too with the guys doing debt packages and do you have any kind of feel yet for what the total project finance package will look like? I mean what I am really asking here is, do we get any sense of what sort of equity component you are going to be dealing with and can you deal with some of that with things like off-takes and smelter or streaming agreements and that sort of thing?

Mike Hopley: It is difficult to answer that question with too many specifics at this point, Eric. We are looking at a lot of options at the moment. The Indaba conference in Cape Town just happened recently and we had some very good meetings there with South African banks, as well as European banks. I have to say one of the perhaps surprising things is the European bank consortium, which was ready to do the Bisha financing for Nevsun four years ago, are still at the table and very keen to be involved with our project. They ultimately didn't do the debt financing at Bisha but they feel that they missed out somehow and they are at the table now. Now that we have an agreement with ENAMCO the government is now responsible for one-third of all the capital costs, which is a big deal for us. So, total capital costs are in the order of \$450 million and the government is responsible for \$150 million of those. Our portion is roughly speaking \$300 million of which, yes we are talking to banks and off-take groups.

You know, some interesting things came out while we were investigating Debarwa, I mean financing phase one, as a standalone entity. It looks like we have the possibility of selling the direct shipping copper ore upfront and in return that would finance much of phase one. So, there are those kinds of potential project financing alternatives that might be available. It's rather too early for me to be specific, but everything is on the table at the moment and there seem to be plenty of good options. The direct shipping copper ore for instance turns out to be a very marketable product. It's not that every smelter can take it, it's the particular coarseness, about five-eighths of an inch I believe, but those that can take it really want it and are willing to pay good money for that as well as give us full credit for the gold. So, there are all kinds of ways we are approaching this at the moment and as you know the mining finance field has got very creative in last few years; off-takes in particular and so we are looking at our options at the moment.

Eric Coffin: Okay, so basically for the rest of this year it's pushing forward on getting the financing and getting the permitting done, plus you are going to be drilling again in a couple of months and hopefully in the middle of all that, some guy shows up and whispers a big buyout number in your ear and we're done.

Mike Hopley: Who knows? I think that's a serious consideration for us and we've hired a brokerage firm to be our advisor that has a very good network on the ground in China, in particular. I think a lot of junior companies have stumbled when dealing with the Chinese and that is not an easy thing. So, we think we now have good advice on where to spend our time and energy and where not to. So yes, I would say that that is a strong possibility for this year.

Eric Coffin: Is there any interest from any of the western mining companies?

Mike Hopley: Actually there are two that I can't name obviously, who are particularly interested at the moment. We will see, but it's not exclusively Chinese companies, it's just that if I look at



this project and fast forward five or seven years, I see a Chinese company operating the Asmara Mine but how we get from here to there is not determined just yet.

Eric Coffin: You've done the heavy spending until actual construction starts and you will have funds coming in from ENAMCO soon. Will that be enough to carry things forward or do you anticipate doing another financing in the near term?

Mike Hopley: No, we are not planned to go back to the market, that's not the plan at all. We think that we have enough money coming in from ENAMCO to not do that. We'd like to think that the next financing we do is the project financing to build Asmara.

Eric Coffin: I think that's everything Mike. Thanks for your time today.

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