PERFORMANCE OF THE MINING INDUSTRY IN 2011

After a tumultuous year in financial markets around the world, gold was one of few assets classes to deliver positive returns. Although some countries witnessed heavy production falls, the decade long bull market for gold helped boost production in 2011, as some companies began full production in the year. The global gold demand was yet again impressive in 2011 as volume grew by 0.6%.

According to the World Gold Council, true to its role as a vehicle for diversification and risk management, gold outperformed a large majority of assets, including oil, on a risk-adjusted basis during a year of marked uncertainty and increased volatility. This was underscored by a substantial increase in demand with physical bar investment maintaining a strong growth pattern, as well as official coin minting witnessing positive performance in 2011. According to the Gold Fields Mineral Survey (GFMS), the key reason for this robust net investment inflow was buoyant safe haven purchases amid market uncertainties and a higher proportion of buying by private investors in Asia in 2011.

Gold prices were pushed up due to further deterioration of Greece's financial difficulties and the probable wrinkle effect on the wider European Union (EU) member countries together with the possibility of default by the United State (US) on its government debts. Due to the weak economic recovery in the US and Europe, burdened by high and rising public debt levels, many investors saw gold as one of the few assets to preserve capital and protect against tail risks. Accordingly investors increased their participation in the market especially during the period.

The World Gold Council reported that the depth and diverse demand and supply base of gold made it possible for investors to sell on a large scale without commensurate price damage. This enabled private investors to up their purchase of gold which was helped by the ease with which consumers in both developing and developed markets could access gold products.

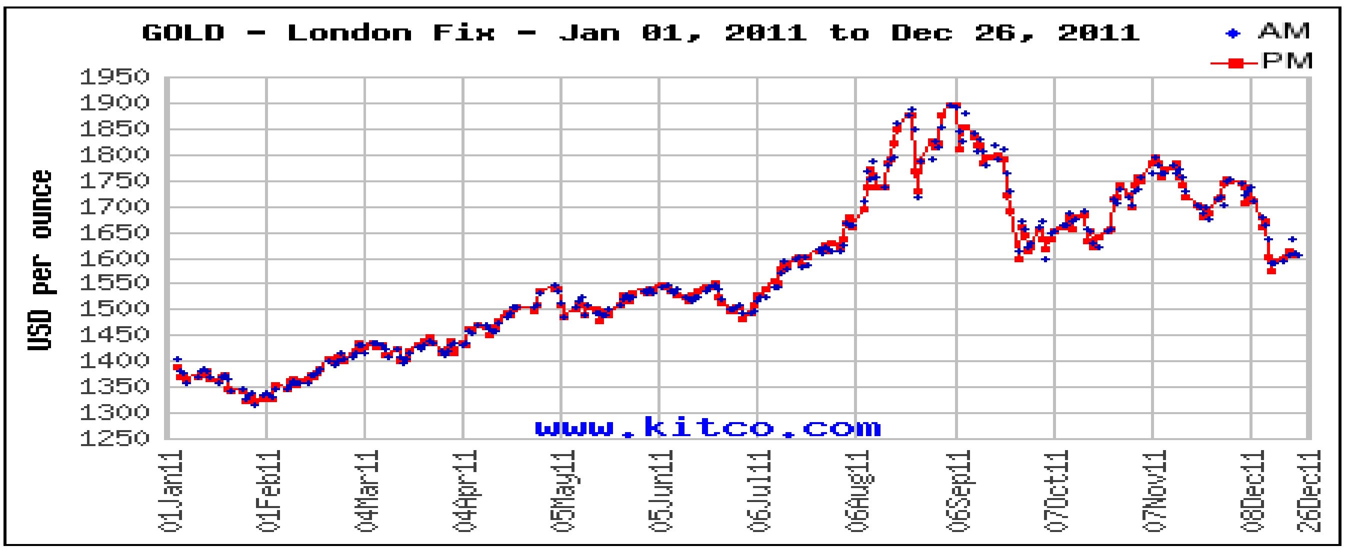
Despite this, gold's performance during 2011 was not all smooth sailing, particularly during the latter months. During the year gold bar and coins experienced an impressive growth rate whiles gold Exchange Traded Funds' (ETFs) demand slowed, owing to a large number of investors' exposure to gold through that instrument earlier than those accessing gold through bars and coins.

2011 will likely be remembered as a year in which the decade-long gold bull market was tested, as a strong rally into September with the price of the metal up around 30% for the year was followed by a substantial price decline.

Gold ETFs regained its popularity during the last quarter of the year, since gold-backed ETFs between September and December was about 75 tonnes of gold out of the 153 tonnes recorded through the full year.

THE PRICE TRENDS

Through 2011, the price of gold rose by 10.26% starting the year at US$ 1,388.50/oz and peaking at US$1,895.00/oz in September and ending the year at US$ 1,531/oz based on the London PM fix, marking the 11th consecutive year of price increases. Thus, the all-time record high price of gold which had been achieved in each of the last few years was again exceeded in 2011. The year may have been characterized by periods of price instability, but the average price in 2011 of US$ 1,571.52/oz was over 28% higher than its equivalent in 2010. According to the GFMS, gold price strength was underpinned by strong official sector purchases, a further small contraction in scrap return and a massive jump in bar hoarding, which more than offset increased mine production and a swing to net producer hedging after eleven years of producer net de-hedging.



Source: www.kitco.com

COST TREND

The annual average global cash cost of gold production increased by 15% from US$557/oz in 2010 to US$ 643/oz in 2011. The surge in cash cost was driven by declining global average mill head grades, shortage and increased cost of labour, rising cost of fuel and of other consumables.

GLOBAL OUTPUT

GOLD

According to the Gold Fields Mineral Survey, 2011 represented a third successive year of growth in mine output with global mine production of gold up by 2.8% at 2,818 tonnes as compared to 2,740.5 tonnes in 2010. Worldwide large-scale gold production continued to increase on account of increases in output from Australia, Canada, Chile, China, Mexico, Mali and Russia more than offset production losses in Indonesia, Argentina, Papua New Guinea South Africa and Ghana. South Africa's gold production fell for a 9th successive year by 2% to 198 tonnes despite being the leading gold producer on the African continent. The 2% drop in production was less severe than that of the preceding eight year average rate of decline which was in excess of 8% year- on- year.

In the meantime, China maintained its place as the largest gold producer in the world after recording 371 tonnes which represents 5.7% increase over that of 2010.

During the year under review, Indonesia's output declined sharply by 21% to 111 tonnes in 2011. This was due to labour disruptions that hampered production on its Grasberg mine and the increased processing of lower grade stockpiled ore at Batu Hijau.

In spite of producers' response to the higher gold price, the overall trend in mine production during recent years has seen a downward trend.

Continued labour challenges, coupled with local industry's structural constraints such as safety concerns and ageing mines caused several mines in South Africa to continue to produce at reduced output levels. The processing of lower ore grades accounted for increased costs and also resulted in reduced output in South Africa.

DIAMOND

According to the United States Geological Survey (USGS), in 2011, China was the world's leading producer of synthetic industrial diamond, with annual production exceeding 4 billion carats. It is estimated that the United States is likely to continue to be one of the world's leading markets for industrial diamonds into the next decade and will likely remain a significant producer and exporter of synthetic industrial diamond as well.

BAUXITE

The USGS has stated that world alumina production increased by 8% in 2011 compared with that in 2010. Increases in production from expanded, new, and reopened mines in Brazil, China, Guinea, India, Jamaica, Suriname, and Venezuela accounted for most of the 6% increase in worldwide production of bauxite in 2011 compared with that of 2010. Bauxite production in Australia declined slightly because of flooding that forced production cuts at some mines.

MANGANESE

According to USGS, steel production in the U.S. in 2011 was projected to be 18% more than that of 2010. Increases in production due to planned expansions at three manganese mines and the startup of two new manganese mines added about 4.2 million tons per year of additional manganese ore production capacity worldwide. The global manganese market showed a mixed picture with stable demand coming from China and reduced Ferro-alloys production activities in Eastern Europe, leading to suppressed pricing.

GHANA'S MINING INDUSTRY

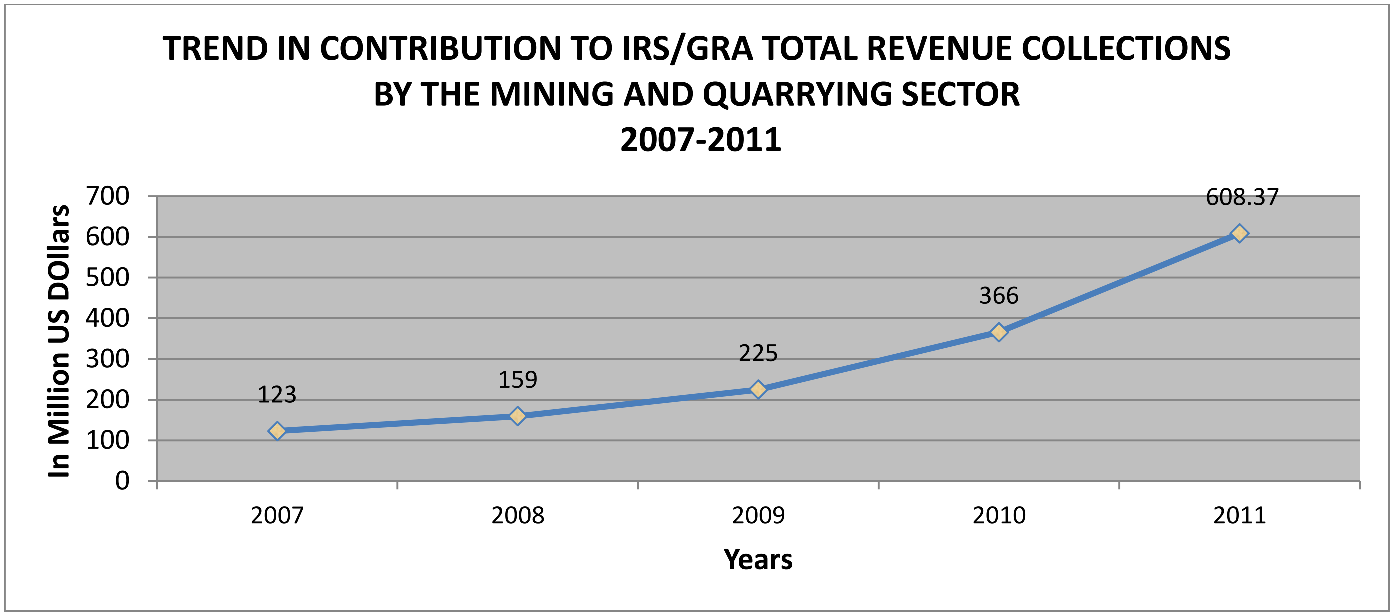
Ghana's mining industry performed quite well in 2011. The industry contributed in no small measure to the impressive 14.4% GDP growth the economy chalked in the year. According to the Gold Fields Mineral Survey, Ghana was the 9th leading producer of gold in the World and the 2nd in Africa despite the 2% decrease in production from 92 tonnes in 2010 to 91 tonnes in 2011.

According to the Bank of Ghana, the mining industry's contribution to total mechanized export was about 40% in 2011. No doubt the impact of the exports of oil for a complete year in 2011 having commenced production in December 2010 diluted the dominant influence of the mining sub-sector in the country's gross foreign exchange earnings.

According to the Ghana Statistical Service, the mining sub-sector grew remarkably by 14.3% in 2011 compared to the 8.3% it recorded 2010. By this growth, the mining industry was the third behind the Oil & Gas and Construction sub-sectors which were up by 192.2% and 20% respectively.

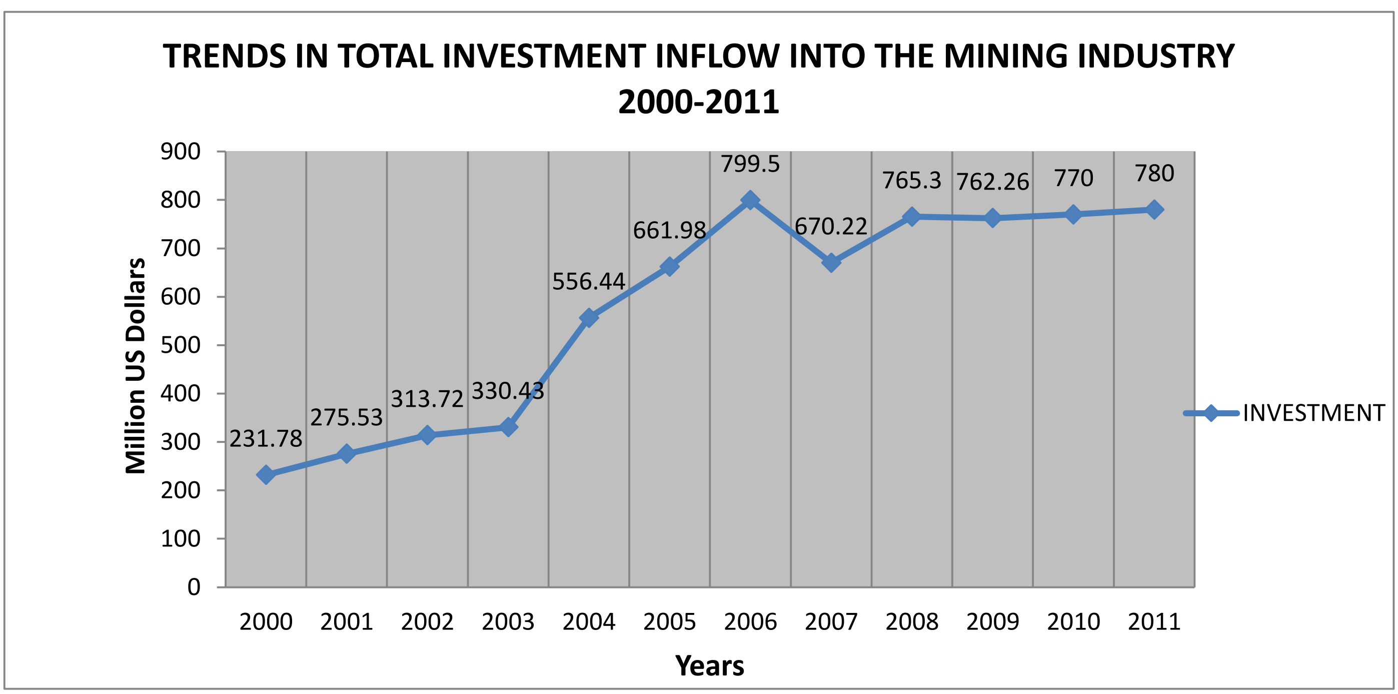
The mining sub-sector once again maintained its 2010 position as the leading contributor to the Ghana Revenue Authority's (GRA's) collections with total payments of approximately GH¢ 1billion made by mining companies to the Authority's chest. This represented 27.61% of total GRA collections in 2011. This impressive payments performance was on account of increased mineral revenue as a result of higher gold price, which translated into higher royalty payments and **also accelerated some mining companies' status into a corporate tax paying position**. Royalty payments were particularly high as the 5% rate kicked in for qualifying companies in March 2011. In addition, the industry recorded higher PAYE payments on the back of significant appreciation in remuneration of employees.

Mining companies' contribution to company tax, which covers corporate tax, withholding tax and levies was 38.27% of the total company tax that GRA collected in 2011. On this account, the sector maintained its position as the highest payer of company tax during the year.



Source: Ghana Revenue Authority; Domestic Tax Revenue Division

According to the Minerals Commission, the total investment inflow into the mining sub-sector in 2011 was US$780 million, up from the US$770 million recorded in 2010. These investments came from producing, exploration, and support service companies. Cumulatively, the investment inflow into the sub-sector from **2000-2011 amounted to a little over US$6.2 billion.**

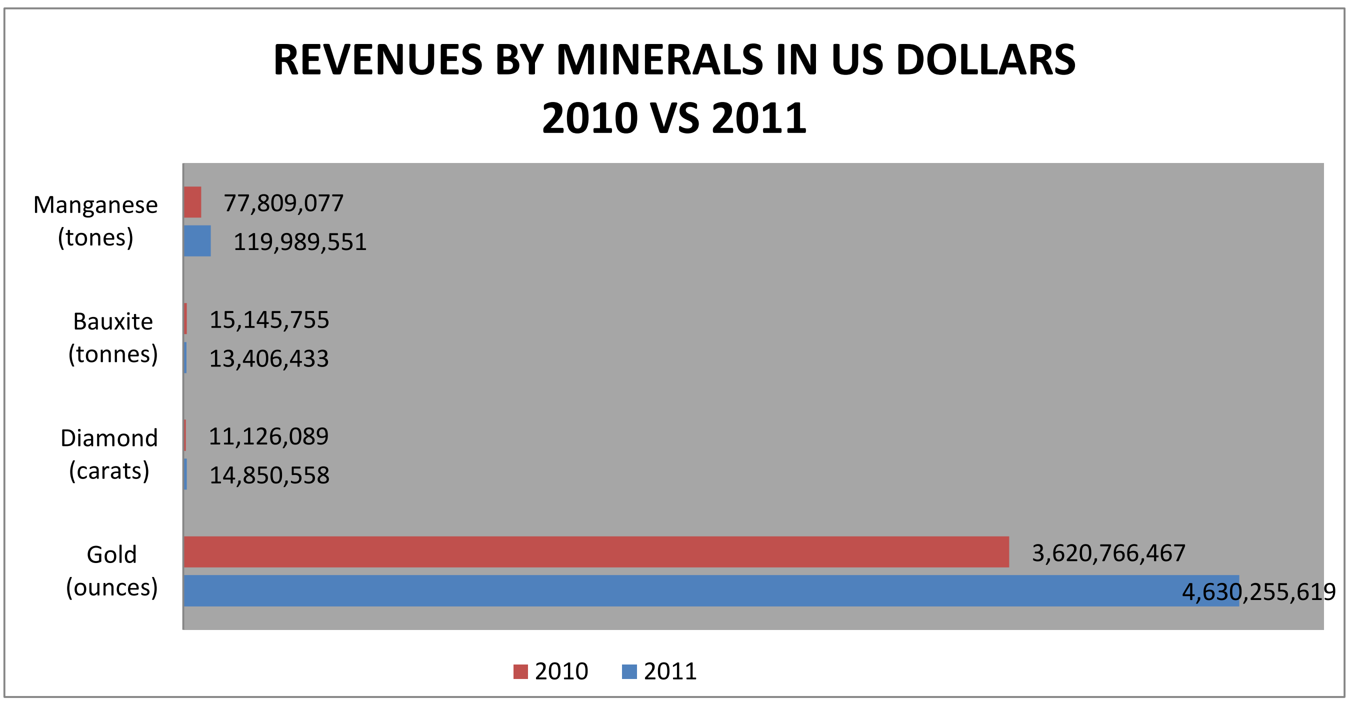


Sources: Minerals Commission

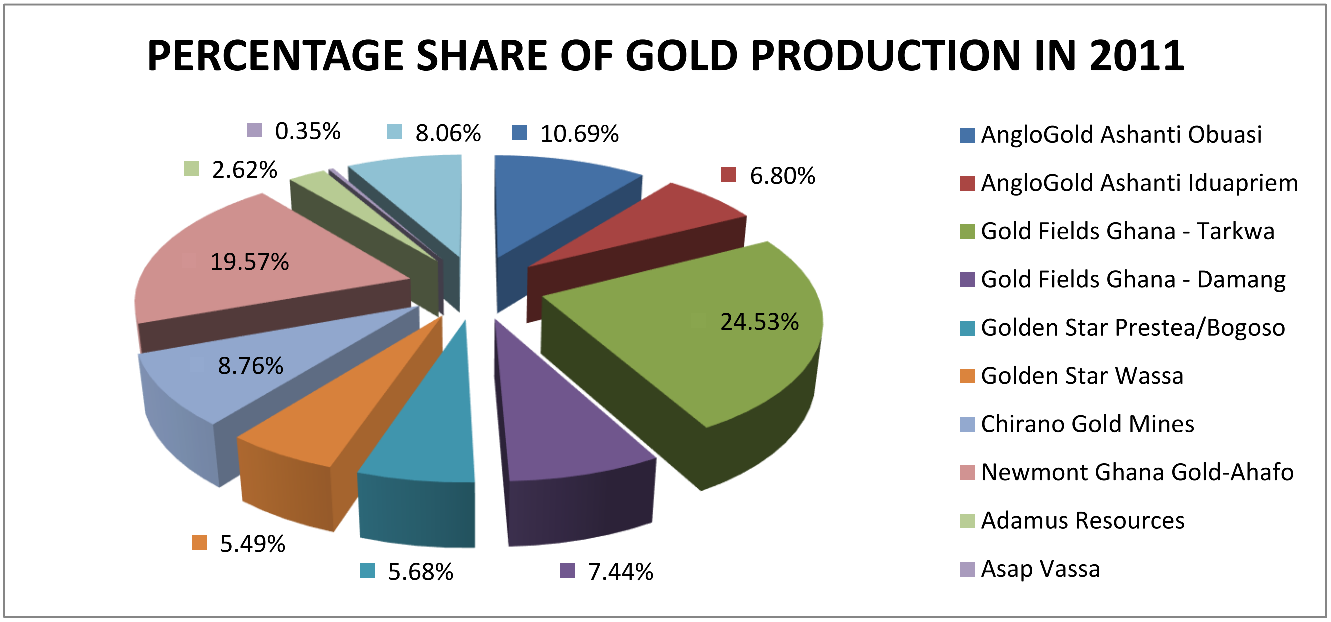
The total mineral revenue of producing member companies of the Chamber rose significantly from US$ 3,724,847,388 in 2010 to US$ 4,778,502,161 in 2011 representing an increase of 28% primarily on account of the good price of gold, although revenue from manganese also went up in the period.

Gold revenue increased by 28% from US$ 3,620,766,467 in 2010 to US$ 4,630,255,619 in 2011 due to an increase in the average realized price of gold which appreciated by 30% from US$ 1,219 per ounce in 2010 to US$ 1,583 per in 2011. Gold production however fell by 2% from 2,970,079 ounces in 2010 to 2,924,385 ounces in 2011. The increase in realized price of gold more than made up for the decline in output of the metal. The average realized price of gold marginally exceeded that of the average spot price of the London Fix P.M. of US$ 1,571.52 per ounce recorded in the period. The average aggregated cash cost was US$751 per ounce in 2011 compared with the US$ 684 recorded in 2010, an increase of 9.8%.

The average cash cost of US$751 per ounce was about 16.8% higher than the global average of US$643 per ounce, reflecting the country's position as a relatively high cost investment destination.



The increases in output at AngloGold Ashanti-Iduapriem, Chirano Gold Mines and Newmont Ahafo could not dampen the effects of the declines at AngloGold Ashanti Obuasi, Gold Fields Tarkwa, Gold Fields Damang, Golden Star Wassa and Golden Star Bogoso Prestea on total gold output As a result, cumulatively gold producing companies witnessed a marginal drop in production.



Gold Fields' Tarkwa mine maintained its position as the leading producer of gold in Ghana despite a marginal decrease in production by about 2%, from 735,034 ounces in 2010 to 717,342 ounces in 2011. This was due to a decrease in Carbon-in-Leach (CIL) throughput as a result of harder ore and interruptions to power supply.

At Gold Fields Damang, output was also down by 4% from 227,752 ounces in 2010 to 217,719 ounces in 2011. This was as a result of a harder ore blend as well as interruptions to power supply which resulted in lower mill availability. This was compounded by the security wrestle the company had with illegal miners on the Damang concessions.

As a result, the Gold Fields group produced a total of 935,061 ounces in 2011 compared with the 962,786 ounces it produced in 2010. This represents a decrease of about 2.8%.

AngloGold Ashanti Obuasi mine's output was down by 1% from 316,615 ounces in 2010 to 312, 595 ounces in 2011. However the decline in production was not as steep as the 17% it experienced between 2009 and 2010.

Production at AngloGold Ashanti's other mine at Iduapriem increased by 7% from 185,488 ounces in 2010 to 199,004 ounces in 2011.

Cumulatively, the AngloGold Ashanti group produced a total of 511,599 ounces in 2011 compared with the 502,103 ounces in 2010. This represents an increase of over 1.9% over the same period.

Production at the Golden Star Wassa mine reduced significantly by 13% from 183,930 ounces in 2010 compared to the 160,618 ounces it produced in 2011. This was largely due to the low grade ore the company mined. Output at Golden Star Resources' other mine at Bogoso Prestea also contracted by 3% from 170,930 ounces in 2010 to 166,147 ounces in 2011.

In sum, the Golden Star Resources Group's output recorded 326,765 ounces in 2011, representing a decrease of about 7% on the 354,904 ounces it produced in 2010.

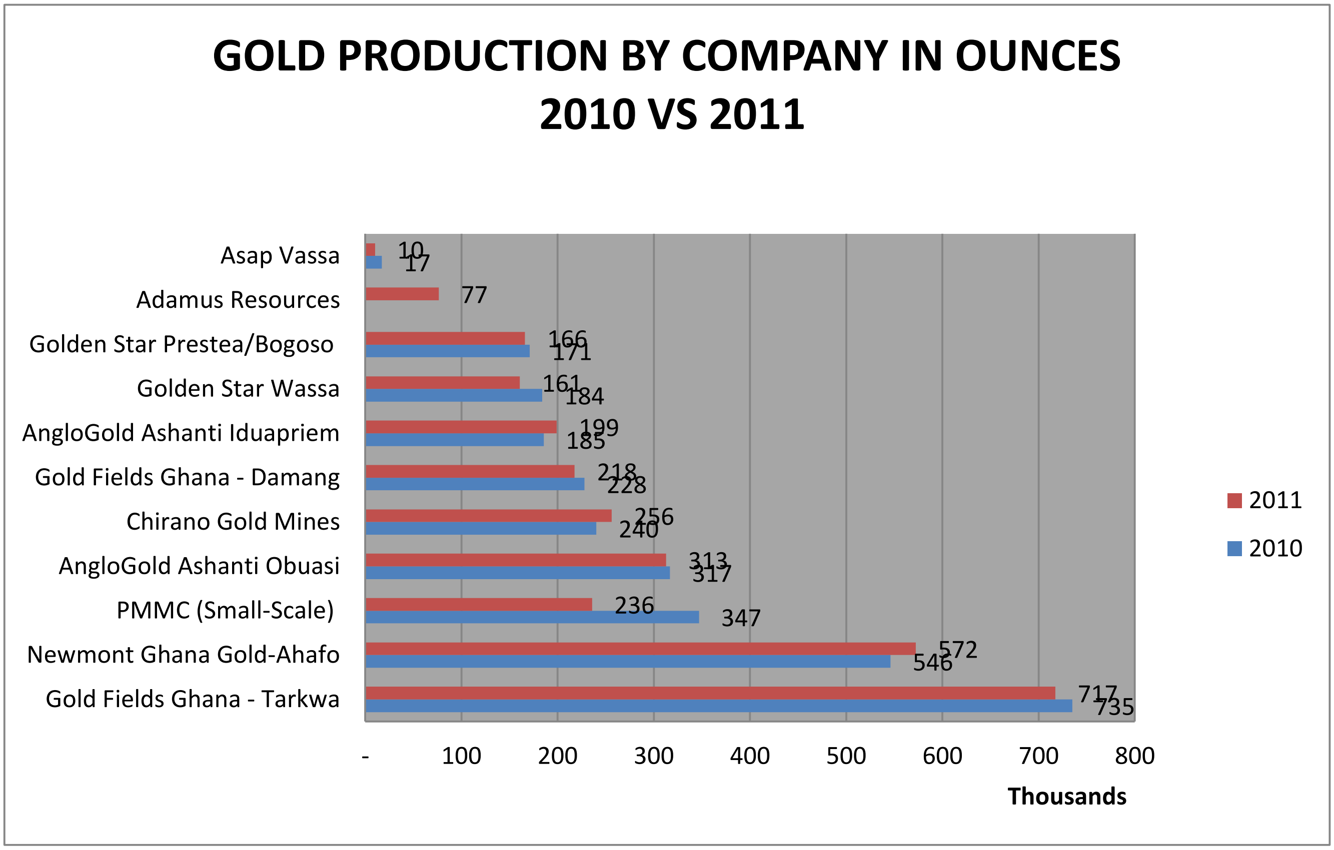
Newmont's Ahafo mine increased production by 5% from 546,000 ounces in 2010 to 572,256 ounces in 2011, mainly on account of the higher grade ore it mined.

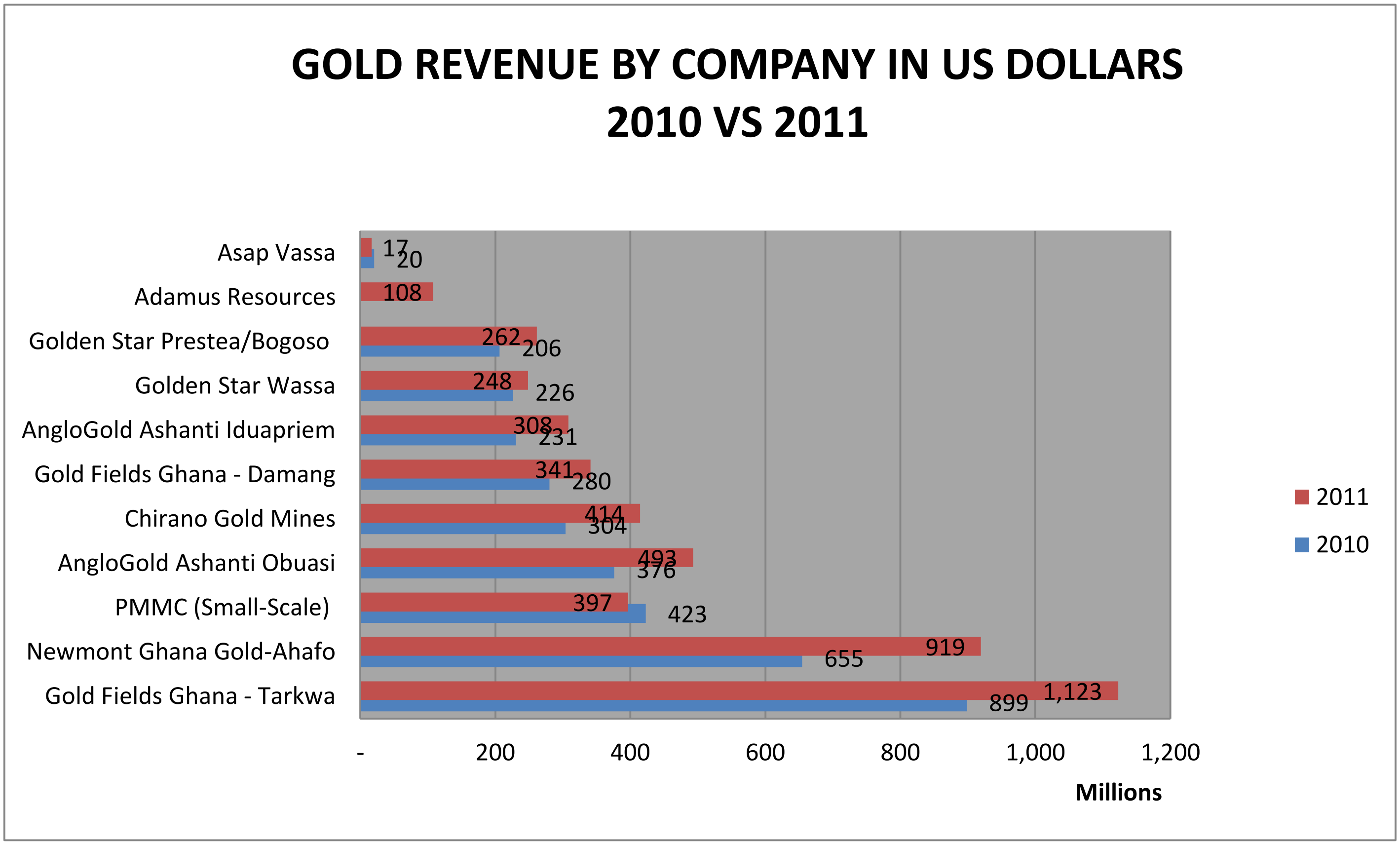
The outturn at Chirano Gold Mine was up by 7% to 256,240 ounces in 2011 compared with the 240,293 ounces of gold the company produced in 2010.

Adamus Resources Mine which commenced production in 2011 had an output of 76,504 ounces in the year.

Precious Minerals and Marketing company's (PMMC's) total purchases and export of gold from small-scale miners decreased significantly by 32% from 346,861 ounces in 2010 to 235,787 ounces in 2011. The reduction was largely due to the deregulation of the market, and the consequent competition PMMC experienced from other licensed buying companies in the country. PMMC's exports accounts for 25% of the volume exported by that segment of the market in 2011.

Asap-Vasa, which is a wholly-owned Ghanaian gold refinery exported 10,173 ounces of gold in 2011 compared with the 17, 133 ounces it shipped out in 2010. This represented a decrease of over 40% over the same period.

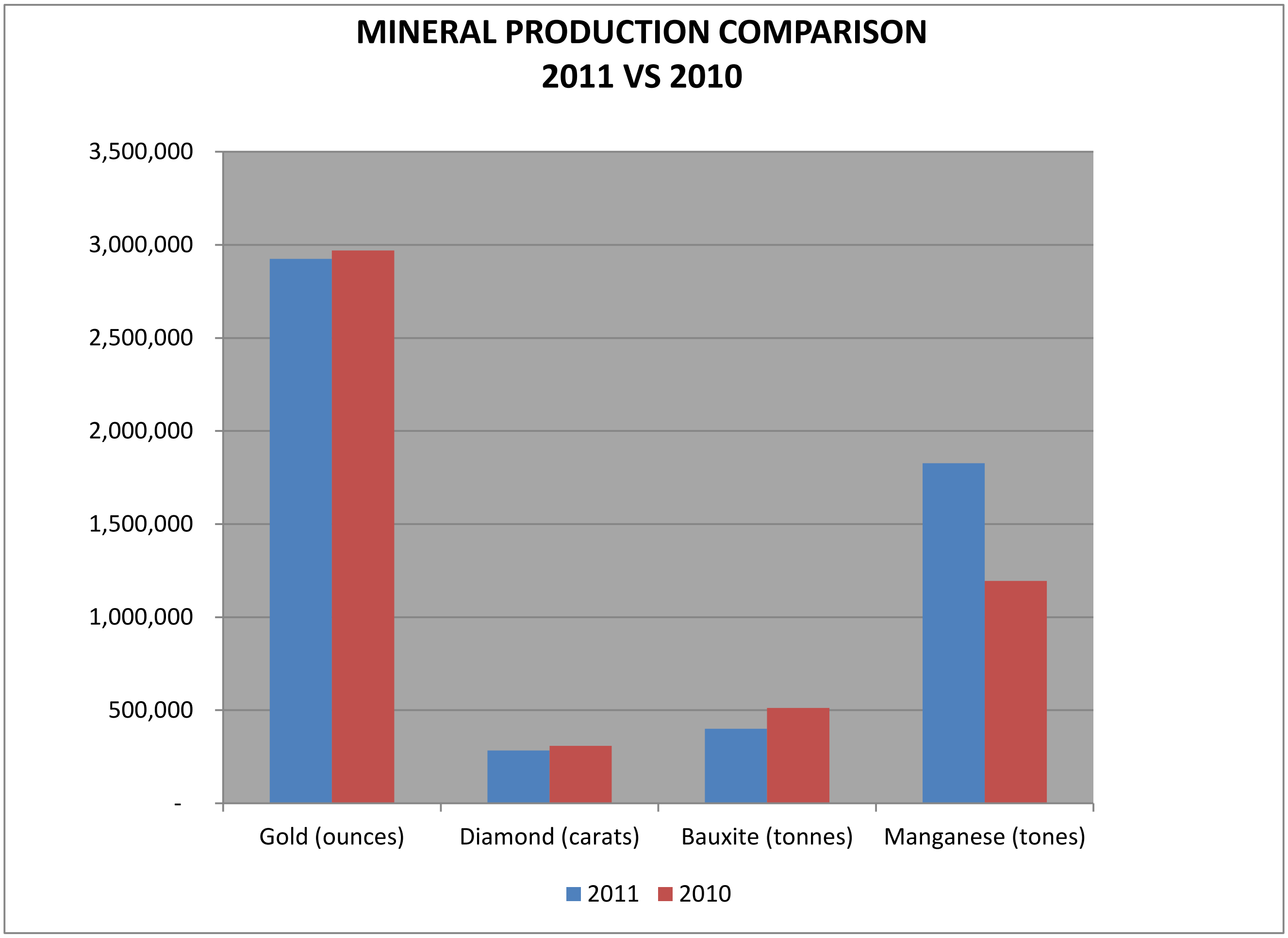

GOLD PRODUCTION BY COMPANY IN OUNCES
2010 VS 2011
Asap Vassa
Adamus Resources
Golden Star Prestea/Bogoso
Golden Star Wassa
AngloGold Ashanti Iduapriem
Gold Fields Ghana - Damang
Chirano Gold Mines
AngloGold Ashanti Obuasi
PMMC (Small-Scale)
Newmont Ghana Gold-Ahafo
Gold Fields Ghana - Tarkwa
10
17
77
166
171
161
184
199
185
218
228
256
240
313
317
236
347
572
546
717
735
- 100 200 300 400 500 600 700 800
Thousands
2011
2010



PMMC's purchases and exports of diamond from small-scale miners reduced by 8% from 308,679 carats in 2010 to 283,369 carats in 2011. This was as a result of the intense competition the company had to contend with in that segment of the market.

Ghana Manganese Company's showed a solid 2011 performance with the export of manganese increasing by 53% from 1,193,665 dry tonnes in 2010 to 1,827,692 dry tonnes in 2011. This was mainly due to long-term contracts which had been secured earlier and regional aggregate demand coming from China.

Bauxite shipments reduced significantly by 22% from 512,208 tonnes in 2010 to 400,069 tonnes in 2011. The decrease in volumes led to a corresponding decrease in export sales of the mineral from US$15, 145,755 in 2010 to US$ 13,406,433 in 2011. Due to the deplorable state of the Western Rail Lines, the Ghana Bauxite Company strategically decided to haul ore from its mine at Awaso to the Takoradi port by road. This increased the mine's haulage costs and by extension its operating costs.



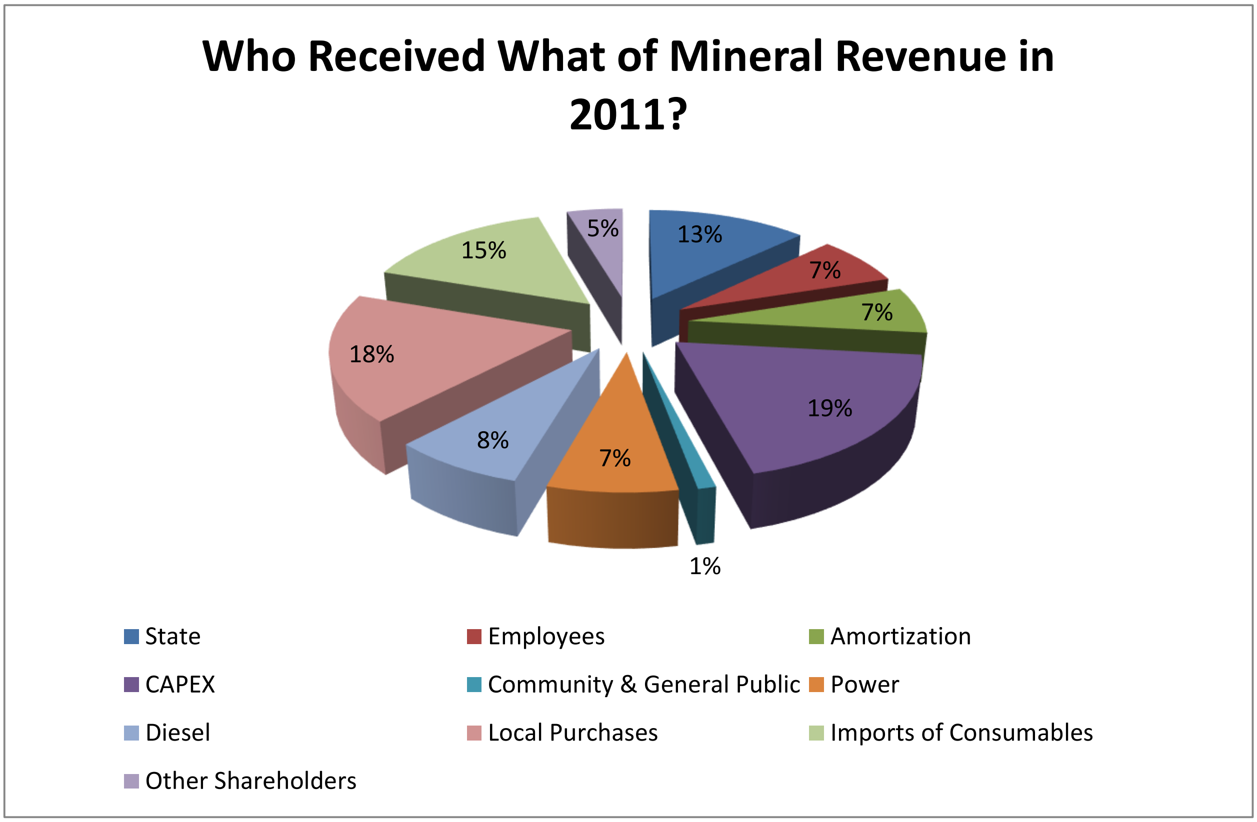
Local Impact across the Value Chain

The mining industry continued to make a favourable impact on the economy of Ghana in 2011. Besides its contribution to the overall growth of the economy and Ghana Revenue Authority's collections, it positively stimulated economic activity as the proportion of mineral revenue returned to the country increased appreciably from 68% in 2010 to 75% in 2011.

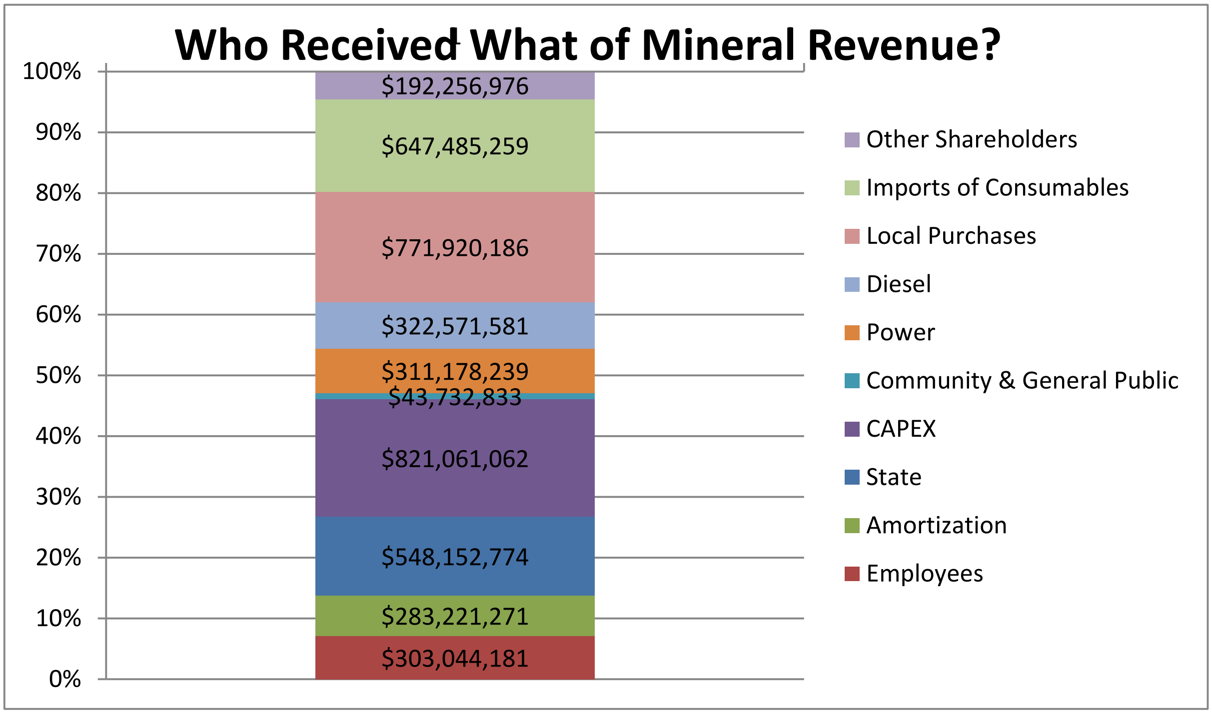
The industry returned an average of 20**%** of its revenue through the Bank of Ghana and an additional 55**%** through the commercial banks with which the companies transact business.

The mining companies used their repatriations to the country, equivalent to 75% of gross mineral revenue to the country to settle their statutory obligations in the forms of corporate taxes, mineral royalties, and payments of emoluments to employees as well as payments for the supply of local inputs for their operations.

At the end of the year producing mining companies directly employed 14,257 persons of which 235 were expatriates. This implies that only 0.83% of workforce directly engaged were expatriates.



To underscore its commitment to society, the industry voluntarily contributed an amount of about US$ 44 million to its host communities and the general public to support causes that enhance sustainable development.



The mining industry's enormous amount of payments and local spend through employee remuneration, purchase of local inputs, social & voluntary contributions as well as statutory payments amounting to a total of US$ 2.3 billion, is a veritable stimulus for the multiplication of value which contributed immensely to the expansion and growth of Ghana's economy in 2011.

Challenges

Cost of Inputs

The fact that Ghana is a high cost mining investment is not in doubt. This is reflected in the higher than average global cash cost recorded in the country's mining industry. The cost drivers include relatively high cost of electric power, labour, diesel and steep appreciation in the price of other major consumables. The industry continues to explore means to find solutions to address the high cost of inputs. Whilst companies strive to rein in costs, the inequity in bargaining power between mining companies and their suppliers has made finding mutually acceptable positions rather difficult. This is exemplified by the Ghana Mine Workers Union's Agenda 500 where it expects mining companies to pay their lowest paid staff a minimum salary of US$500 per month by 2012, without the corresponding employee productivity. To avoid unrest on the labour front, some mining companies have commenced working towards that target, thereby increasing their cost of production. Naturally some companies will outsource non-core jobs.

Fiscal Imposts

In line with the global trend towards resource nationalization, government increased the fiscal burden on mining companies in the 2012 Budget Statement and Economic policy. In the main government:

1. Increased corporate tax for the mining industry from 25% to 35%.
2. Review of Capital Allowance from 80% for the first year and 50% on reducing balance to a uniform regime of 20% over 5 years.
3. The imposition of windfall profit tax of 10% and ring fencing of resource activities.

Although government has the prerogative to introduce fiscal imposts, good governance requires that it pre-discusses these burdens with a strategic sector such as the mining industry which has been solely targeted.

As it turned out government did not engage the Chamber of Mines ahead of the presentation of the 2012 budget statement and economic policy although the industry tried repeatedly without success. It is noteworthy that government rather saw the need to meet with other stakeholders to the exclusion of the mining industry.

Whilst legislation for imposts (1) and (2) have been passed, government has arranged for the mining industry to interact with the IMF which it had engaged to develop an appropriate framework for the windfall profit tax.

It is unfortunate that although government had not clearly defined the details of the windfall profit tax, the very announcement did not only adversely affect values of mining stocks held on international bourses but also made some mining companies to hold back their investment decisions in the sector.

A useful lesson in attracting foreign direct investment is to be wary of pronouncements that increase uncertainty in the business environment.

Illegal mining and use of cyanide

The increasing activities of illegal mining operators continue to be a threat to the good standing and image of the regulated mining industry. The activities of the illegal miners have escalated due to the relatively high price of gold in 2011. Due to this menace, gold mining companies had to spend huge sums of money to protect their concessions with mixed success. Illegal mining has taken on a disturbing trend as illegal miners expand their activities onto public lands and in water bodies, polluting and destroying these natural resources extensively. Besides the resulting higher cost of treating the polluted water, the Ghana Urban Water Company had been compelled to augment its processing plant with high cost clarifiers.

Illegal mining in Ghana is generally more mechanized than artisanal. This has not only been compounded by the use of explosives and cyanide in their operations but by the presence of foreign nationals who illegally supply dredging and crushers to the illegal operators under the guise of providing services to small- scale miners.

The Chamber will persist with its advocacy for the promotion of legal small-scale mining and also engage policy makers and other interested parties on the consequences and the urgent need to arrest the menace.

Rail Haulage

The deplorable state of the western rail lines continued to be a major bane of the bulk mineral producing companies, Ghana Manganese Company and Ghana Bauxite Company, producers of manganese and bauxite ore respectively. Consequently, these bulk mineral producers have been compelled to haul the ore from their respective mines to the Takoradi port for export mainly by the more expensive road mode. The situation is so dire that the very viability of Ghana Bauxite Company, located in Awaso, about 240 km from the Takoradi port is under serious threat. Indeed the company had been racking up losses in the last few years due largely to its inability to haul the tonnes of ores it produces effectively and efficiently.

On a welcome note, the government had indicated in the 2012 budget statement its intent to reconstruct the Western line, with funding from the China Development Bank Facility. The mining industry waits with serious anticipation for the project to be initiated since its successful completion will bode well for the whole mining industry as well as other sectors of the economy. To be sure the western rail line will be the preferred mode of transporting heavy equipment as well as hazardous materials to industries along the route of the rail line and those in close proximity to the rail line.

Repositioning the mining industry

A conundrum of the mining industry is the wrongly held view that to obtain or optimize value from the mining industry, host countries should aim at maximizing their fiscal take from the mining companies. This situation has been pervasive in the past few years as some host countries attempt various levels of mine nationalization, ranging from outright acquisition to substantial increasing of taxes and royalties on the mining industry.

Whilst the industry continues to make enormous fiscal contributions to the economy, the Chamber has endeavoured to underscore the importance for the nation to consider the mining industry as a catalyst for development. Although studies have concluded that countries benefit more sustainably from their mineral wealth by positioning their mining industries as strategic means for national development, it has been challenging for governments to re-orient their perspectives on the industry. Their fixation for cash through royalties, levies and other taxes prevail. The Ghana Chamber of Mines will persevere in its efforts to provide the thought leadership required for the reorientation as it has exhibited recently in its initiatives on enhancing local content of the industry and the need for the industry to be integrated more deeply in the economy.

Outlook for 2012

Despite improvement in the global economy in the last few months, uncertainty remains. The recession in Europe, uncertain political climate in the US as well as the slow growth in gold's largest physical consumers, India and China will tend to impact the price of gold and other minerals adversely. However pundits generally expect the price for gold to be firm if not bullish in 2012.

Ghana's gold output is expected to increase marginally on the back of fresh production from Owere Gold Mines, Perseus Mining and Noble Gold Mines. However the decision of some companies to claw back on expansion projects will deem what is likely to have been a major leap in the growth of the mining industry. All told mineral revenue is expected to increase if the price of gold holds firm as expected.

2011 Top 15 Gold Producers				
Rank			Output (t)	
2011	2010		2010	2011
1	1	Barrick Gold	241.5	238.7
2	2	Newmont Mining	167.7	161.3
3	3	AngloGlod Ashanti	140.4	134.7
4	4	Gold Fields	102.4	102
5	5	Goldcorp	78.4	78.2
6	6	Newcrest Mining	72.8	76.9
7	7	Kinross Gold	68	73.1
8	8	Navoi MMC	66.5	66.5
9	11	Polyus Gold	43	46.6
10	10	Harmony Gold	41.7	40.9
11	9	Freeport McMoRan	52.9	38.7
12	12	Cia. De M. Buenaventura	34.1	32.4
13	13	Agnico-Eagles Mines	30.7	30.7
14	14	IAMGOLD	30.1	30.2
15	15	Zijin Mining	29.2	29.5
Source: Thomson Reuters GFMS				

Top 20 Gold Mining Countries				
Rank			Production (t)	
2011	2010		2010	2011
1	1	China	350.9	371.0
2	2	Australia	260.8	258.3
3	3	United States	230.0	232.8
4	4	Russia	203.4	211.9
5	5	South Africa	202.9	197.9
6	6	Peru	184.8	188.0
7	7	Indonesia	140.1	111.0
8	8	Canada	103.5	107.7
9	9	Ghana	92.4	91.0
10	10	Mexico	79.4	86.6
11	11	Uzbekistan	71.0	71.4
12	13	Brazil	68.0	67.5
13	12	Papua New Guinea	69.7	62.4
14	14	Argentina	63.5	59.3
15	16	Tanzania	44.6	49.6
16	15	Mali	44.7	45.8
17	18	Chile	38.4	44.5
18	17	Philippines	40.8	37.1
19	19	Columbia	33.5	36.9
20	20	Kazakhstan	29.9	36.7
		Rest of World	388.1	451.0
		World Total	2,740.4	2,818.4
Source: Thomson Reuters GFMS				

Top 15 Gold Mining Countries in Africa				
Rank			Production (t)	
2011	2010		2010	2011
1	1	South Africa	202.9	197.9
2	2	Ghana	92.4	91
3	3	Tanzania	44.6	49.6
4	4	Mali	44.7	45.8
5	5	Burkina Faso	25.3	34
6	6	Sudan	10.1	22.5
7	7	Dem. Rep. of Congo	17	22.5
8	8	Guinea	20.8	19.8
9	9	Zimbabwe	16.3	16.6
10	10	Cote d'Ivoire	7.3	13.3
11	11	Eritrea	0.5	12.8
12	12	Ethiopia	6.6	11.5
13	13	Mauritania	9.1	8.7
14	14	Egypt	4.7	6.3
15	15	Senegal	4.5	4.3
		Other	23.5	24.4
		Total	530.3	580.90
Source: Thomson Reuters GFMS				