PERFORMANCE OF THE MINING INDUSTRY IN 2012

The average price of gold increased in 2012 as it has in the last few years since the global economic instability began in 2008. Investment in gold continued to increase, as investors continued to seek safe-haven securities. Investment therefore was the main driving force for the movement of price of the metal. Although growth rate was flat in 2012, official sector purchases became a significant mitigating factor in the movement of gold prices, thereby providing clear support during the lull in the summer.

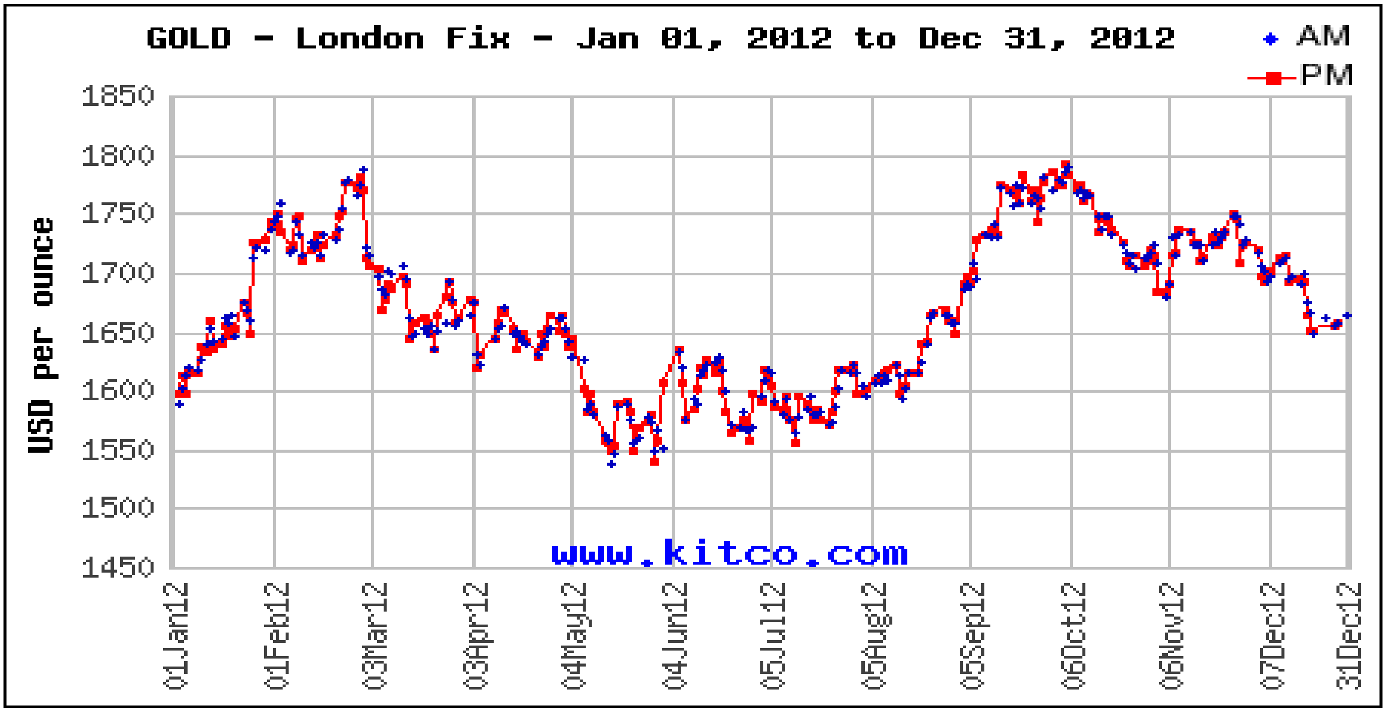
The Gold Fields Mineral Survey (GFMS) has indicated that net official sector purchases rose by 17.4% to 536 tons in 2012, a level last visited in the mid-1960s. This was due to the ongoing loose monetary policies, talks of Greece leaving the Eurozone and the elevated sovereign debt of many advanced economies, as well as the desire for emerging markets to diversify portfolios away from major currencies, resulting in increase in net buying. Notwithstanding weaker fabrication demand and poor investment demand in gold in 2012, the increased demand for the metal from Central Banks helped provide firm basis for the gold price, particularly on major dips. Demand also picked up in India and China as a result of better economic numbers together with fresh monetary injections from the governments of those countries.

The positive outlook was complemented by the growing inflationary expectation due to the monetary easing in the United States which drove investor interest in gold. According to GFMS, related to this was the persistence of negative real short-term interest rates and shaky economic growth in key economies, which also undermined confidence in conventional assets and thereby encouraged investment in gold. The apprehension about the fiscal situation in mature economies, particularly the grave concern for Europe's debt issue and continuous struggle with a huge budget deficit in the United States, helped promote investor interest in gold and the consequent increase in its price in 2012.

Despite the buoyant increase in the price of gold, it is worth noting that several factors seemed to restrain growth in investor interest in 2012. According to GFMS, critical to this were bouts of hefty investor selling across the board amid heightened market uncertainty along with periods of dollar strength. Not surprisingly, many investors waited on the sidelines as a result of lack of clear price direction of the precious metal. This contributed to a fall in physical bar investment, although demand was still elevated. The marginal increase in the price of gold could also be attributable in part to the weakened demand for the metal for industrial applications as customers found less expensive alternatives.

GOLD PRICE TRENDS

The price of gold started the year at US$ 1,598.00 per ounce and increased steadily until March, when the price fell through May. It however recovered and started increasing again until October when it started to decline again. The metal peaked at US$1,791.75 per ounce on the London PM fix, which was however some way short of the US$ 1,896.50 recorded in 2011. The annual average gold price in 2012 was about US$ 1,668.98 per ounce representing about 6.2% increase on that of the average of US$ 1,571.52 per ounce recorded in 2011. In spite of the soft price of gold during the fourth quarter of 2012, it closed the year at US$1,657.50 per ounce on the London PM fix.



Source: www.kitco.com

GLOBAL OUTPUT

GOLD

According to GMFS, global gold mine output was flat during 2012, at 2,842 tons, with notable falls at several of the large gold producing properties offsetting production gains elsewhere. Worldwide gold production was largely unchanged because increases in production from Canada, China, Ghana, Mali, Mexico, Russia, and Tanzania were offset by production losses in Argentina, Australia, Papua New

Guinea, and South Africa. The declines were due largely to delays and interruptions at some of the gold mining industry’s largest operations.

Gold production in China continued to increase, helping the country to maintain its position as the leading gold producer in the world.

Meanwhile, the leading gold producer on the African continent, South Africa, saw its production fall once again. This was primarily due to labour unrests. Burkina Faso and Eritrea also witnessed declines in gold production. As noted by GMFS, across the rest of Africa, gold production increased particularly in Ghana, Mali, Sudan and the Democratic Republic of Congo leading to the modest fall of 1% of Africa’s gold production in 2012.

DIAMOND

The United States Geological Survey (USGS) indicated that China was the world’s leading producer of synthetic industrial diamond in 2012, with annual production exceeding 4 billion carats. The USGS also stated that the United States is likely to continue to be one of the world’s leading markets for industrial diamond into the next decade and is likely to remain a significant producer and exporter of synthetic industrial diamond as well.

The USGS explains that the U.S. demand for industrial diamond is likely to continue in the construction sector as the United States continues building and repairing the Nation’s highway system. Industrial diamond coats the cutting edge of saws used to cut cement in highway construction and repair work.

BAUXITE

According to production data from the International Aluminum Institute, world alumina production increased in 2012 by 5% compared to that in 2011. The USGS indicated that Bauxite production increased slightly in 2012 compared with production in 2011. 2012 witnessed increases in bauxite production from expanded, new, and reopened mines in Australia, Brazil, China, Guinea, and India, but were mostly offset by declines in production from mines in Indonesia, which enacted strict mine export tariffs during 2012.

MANGANESE

According to USGS, U.S. steel production in 2012 was projected to be 4% more than that in 2011. In 2012, U.S. manganese apparent consumption increased by an estimated 24% to 870,000 tons. The USGS also indicated that the annual average domestic manganese ore contract price followed the decrease in the average international price for metallurgical-grade ore set between Japanese consumers and major suppliers in 2012. More than 6 million metric tons per year of additional manganese ore production capacity was planned worldwide in 2012 through mine expansions and startups, the bulk (72%) of which was in South Africa.

GHANA'S MINING INDUSTRY

The country's mining industry performed appreciably well in 2012. As expected, gold led the pack in performance by mineral type. According to the Gold Fields Mineral Survey, Ghana was the 8th leading producer of gold in the world as its output increased by 6% to 96.8 tonnes, regaining its 2010 position. This was an improvement on the 9th position it attained in 2011.

The enhanced performance of the mining industry reflected in its significant contributions to the country's economy in 2012.

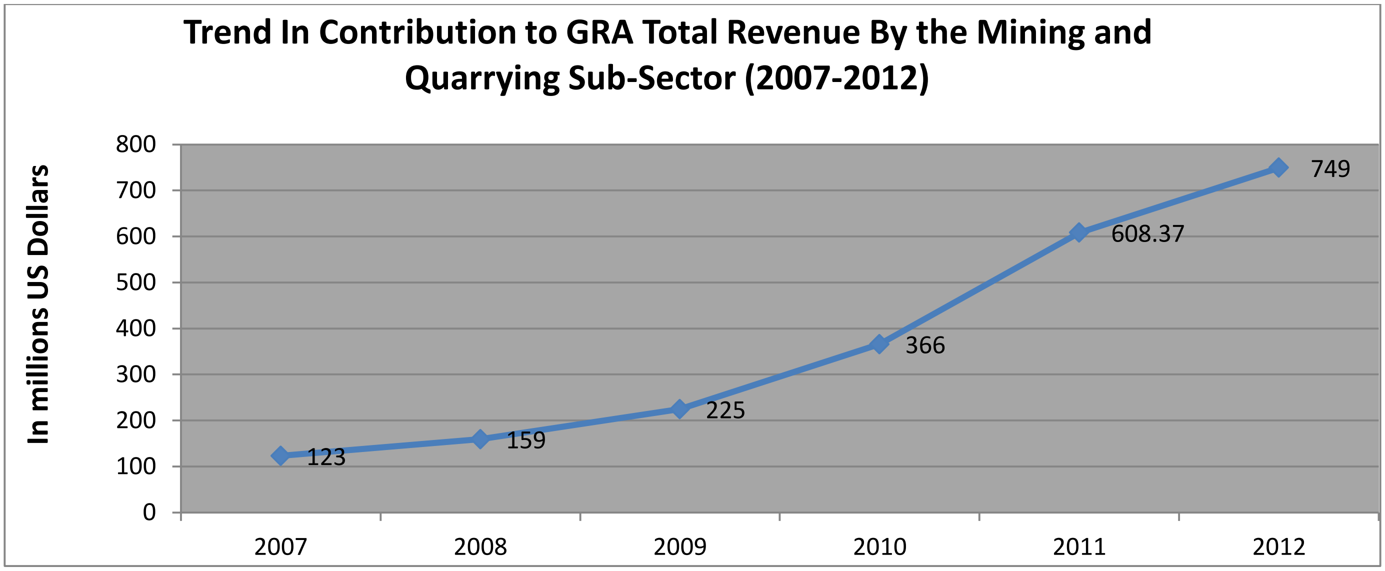
The Bank of Ghana has reported that, the mining industry's contribution to total merchandise export earnings was about 43% in 2012.

Data from the Ghana Statistical Service shows that the mining sub-sector grew by 23.5% in 2012. This compares favourably with the 18.8% it achieved in 2011.

Furthermore the Ghana Revenue Authority (GRA) has stated that, the mining sub-sector maintained its position as the leading contributor to the Authority's domestic tax collections in 2012. The total payments from the mining industry to the Authority's chest was approximately GH¢1.5 billion in 2012. This amount represents about 27.04% of GRA's total domestic collections in the year. The 2012 collection was an increase of 45% on the GH¢1.03 billion it collected from the mining industry in 2011. The hike was as a result of increased mineral revenue due to higher gold price and marginal increase in output which translated into higher mineral royalty payments and corporate tax for qualifying companies. PAYE to GRA's domestic tax collection from the mining sub-sector also increased in 2012. This was on the back of considerable appreciation in remuneration of employees.

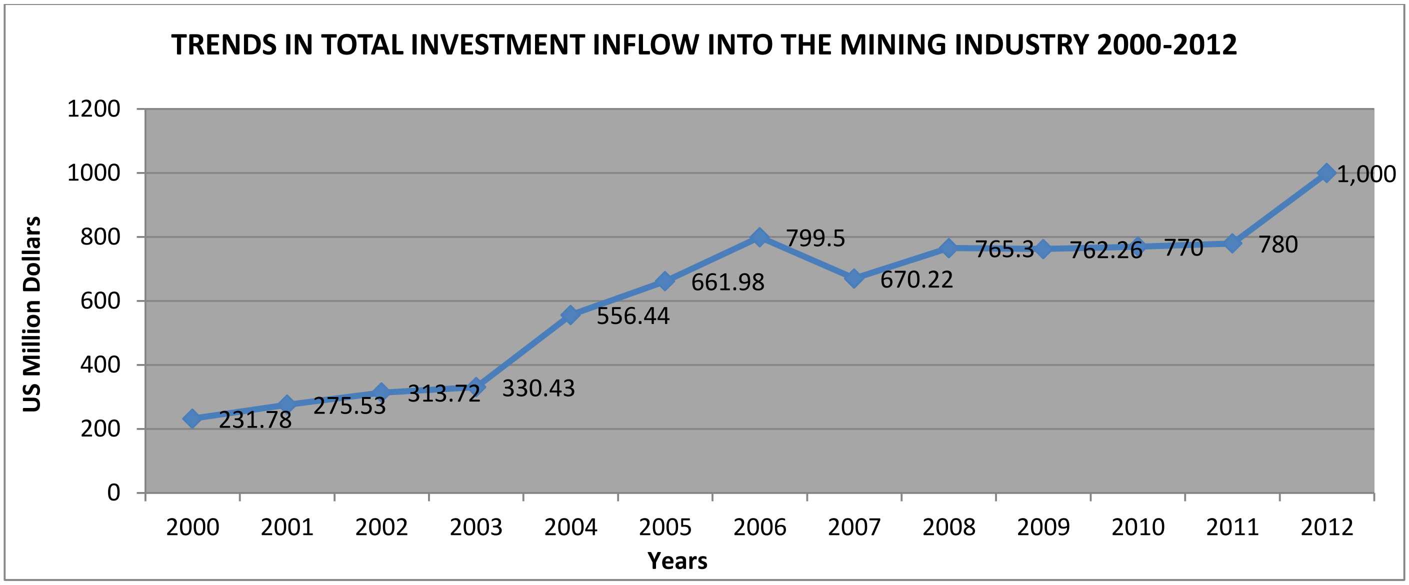
On company tax which constitutes corporate tax, withholding tax and levies, the mining and quarrying sub-sector contributed about GH¢894 million to the GRA's collections. This represented about 37% of the total company tax the GRA collected in 2012. By this performance, the mining sector maintained its position as the highest payer of company tax during 2012.

This impressive performance buttresses the point that, as the mining industry grows and matures and the companies get into a tax paying position their fiscal contributions to government become very significant.



Source: Ghana Revenue Authority, and Bank of Ghana

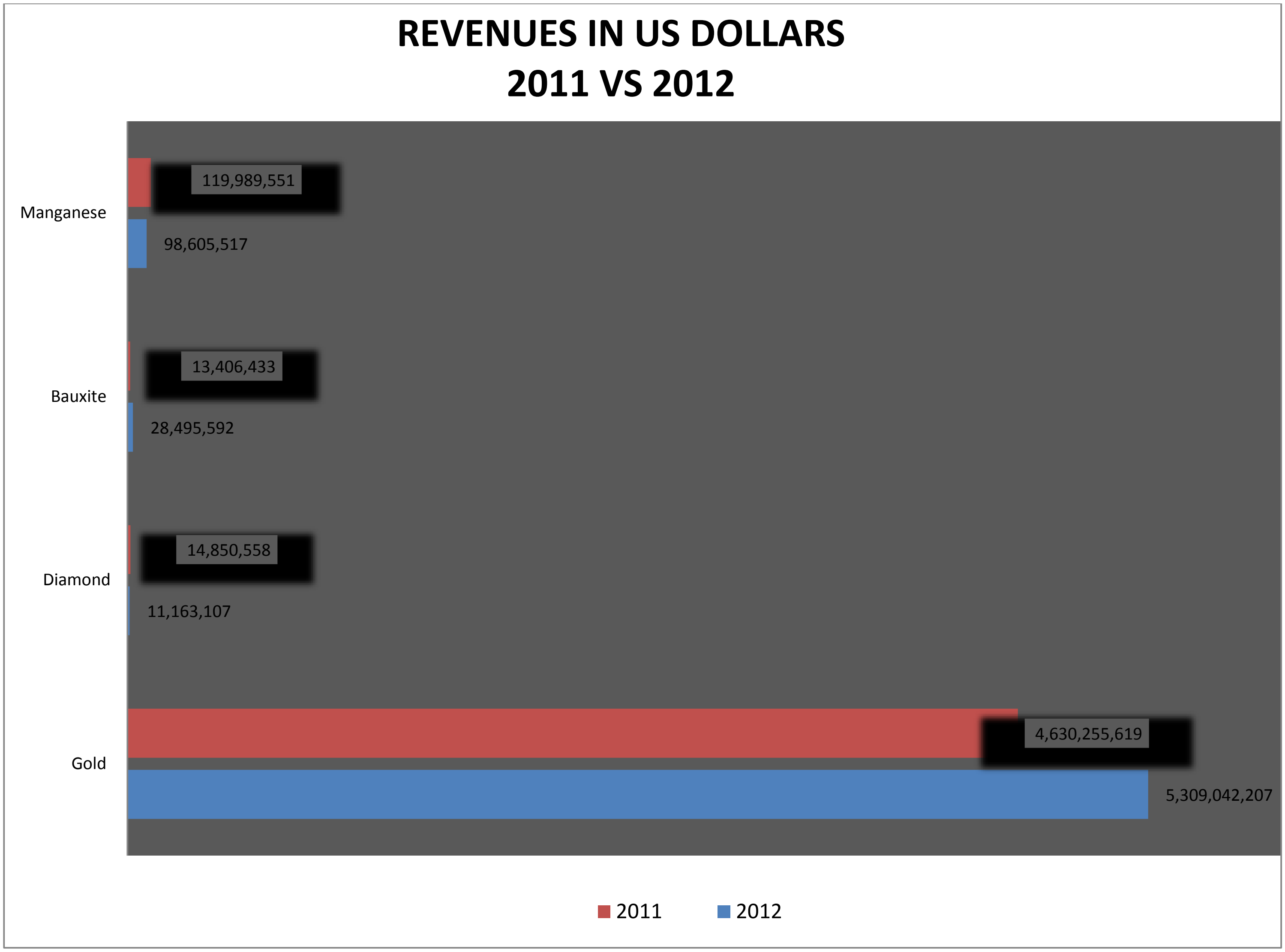
Figures from the Minerals Commission indicate that the mining industry attracted an amount of US$ 1,000 million in total investment inflow into the country in 2012. These investments came from producing, exploration and support service companies. The multiplying effect of these investments in Ghana's economy cannot be overestimated.



Source: Minerals Commission

Mineral revenue from producing members of the Ghana Chamber of Mines was up 14% to US$5,447,306,422 from the US$4,761,748,688 recorded in 2011. The increase was largely attributable to gold revenue which went up on the back of appreciation in realized gold price and output. Revenue from bauxite was also up in 2012, although the key driver of increase in mineral revenue was gold.

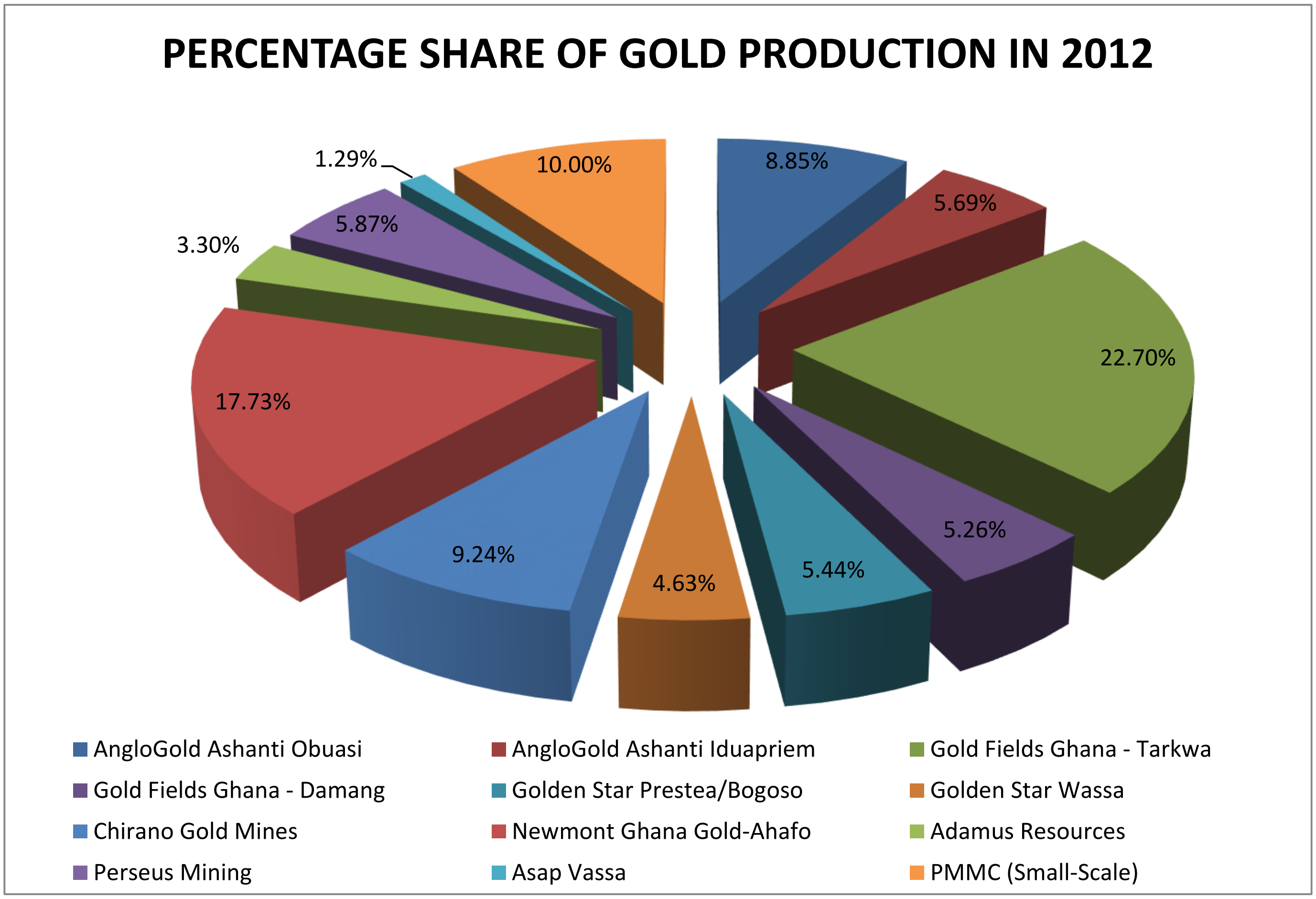
Revenue from gold improved by 15% from US$ 4,630,255,619 in 2011 to US$ 5,309,042,207 in 2012 due to an 8% increase in gold output from 2,924,385 ounces in 2011 to 3,166,483 ounces in 2012; coupled with a 6% appreciation in the average realized price of gold from US$ 1,583 in 2011 to US$1,677 in 2012.



The 8% growth in the overall production of gold from producing member companies was on account of boosts in output at Golden Star Resource Bogoso Prestea, Chirano Gold Mines, Adamus Resources and Gold Fields Ghana, Tarkwa. This was complemented by increase in purchases and exports of gold from small scale miners by PMMC and Asap Vasa.

Additionally fresh production from Perseus mining which commenced production in 2012, contributed to the overall growth in output of gold. The upturn in output at the aforementioned companies and the additional production from Perseus more than made up for the declines at AngloGold Ashanti

Obuasi, AngloGold Ashanti Iduapriem, Golden Star Wassa as well as a marginal dip at Newmont Ahafo.



Gold Fields Ghana-Tarkwa maintained its position as the leading producer of gold in the country with a marginal increase in its output from 717,342 ounces in 2011 to 718,878 ounces in 2012 despite the closure of its relatively high cost South Heap Leach operation in the fourth quarter.

On other hand, Gold Fields Ghana-Damang, witnessed a decrease in production by about 24% from 217,719 ounces in 2011 to 166,448 ounces in 2012 owing to moderation of the milling rate to enhance plant reliability.

Total production of the Gold Fields Ghana group in 2012 was 885,326 ounces relative to the 935,061 ounces it produced in 2011. This represents a decline of 5% on the group's total production in 2011.

Production at AngloGold Ashanti-Obuasi was down by 10% in 2012 at 280,084 ounces compared to an output of 312,595 ounces in 2011. The decline was attributable to inadequate underground development that culminated in the mine separating from its age long contractor and deciding to engage in owner mining.

AngloGold Ashanti Iduapriem’s outturn declined by 9% from 199,004 ounces in 2011 to 180,238 ounces in 2012 as a result of the processing of low grades.

The total output of the AngloGold Ashanti group decreased by 10% from 511,599 ounces in 2011 to 460,322 ounces in 2012.

Production at Golden Star Bogoso Prestea was up by about 4% from the 166,147 ounces recorded in 2011 to 172,379 ounces in 2012 on account of the re-commissioning of its oxide plant early in the year increasing processing rates by about 40%. In contrast, Golden Star Wassa’s output contracted by 9% from 160,618 ounces in 2011 to 146,703 ounces in 2012.

On the whole, the Golden Star Resources mines’ output was 319,082 ounces in 2012; a 2% decrease on the 326,765 ounces it achieved in 2011.

The outturn at the Newmont Ahafo mine was 561,356 ounces in 2012. This represents a decrease of about 2% on the 572,256 ounces it produced in 2011.

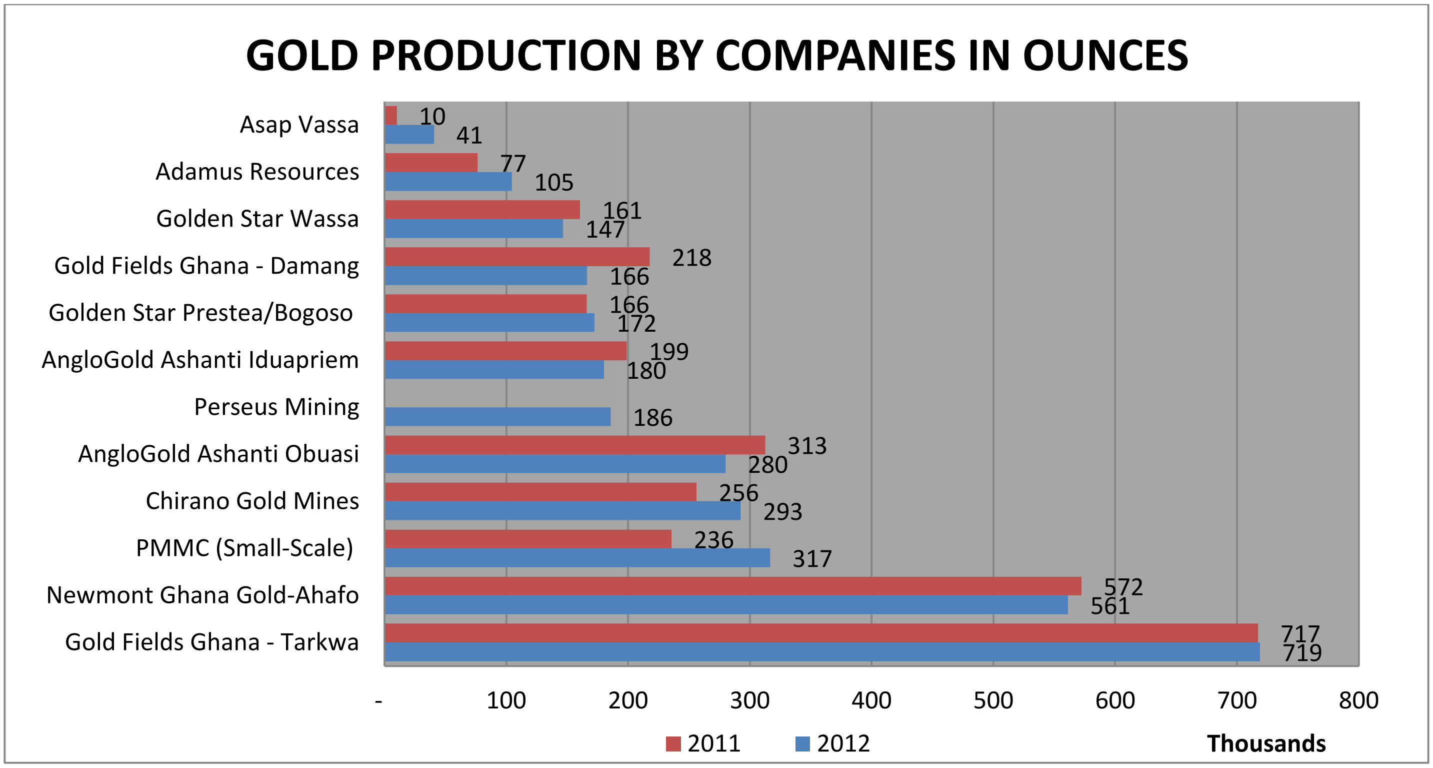
Chirano Gold Mines saw a significant increase of about 14% in its output from 256,240 ounces in 2011 to 292,534 ounces in 2012 on the back of improved head grades and process recoveries.

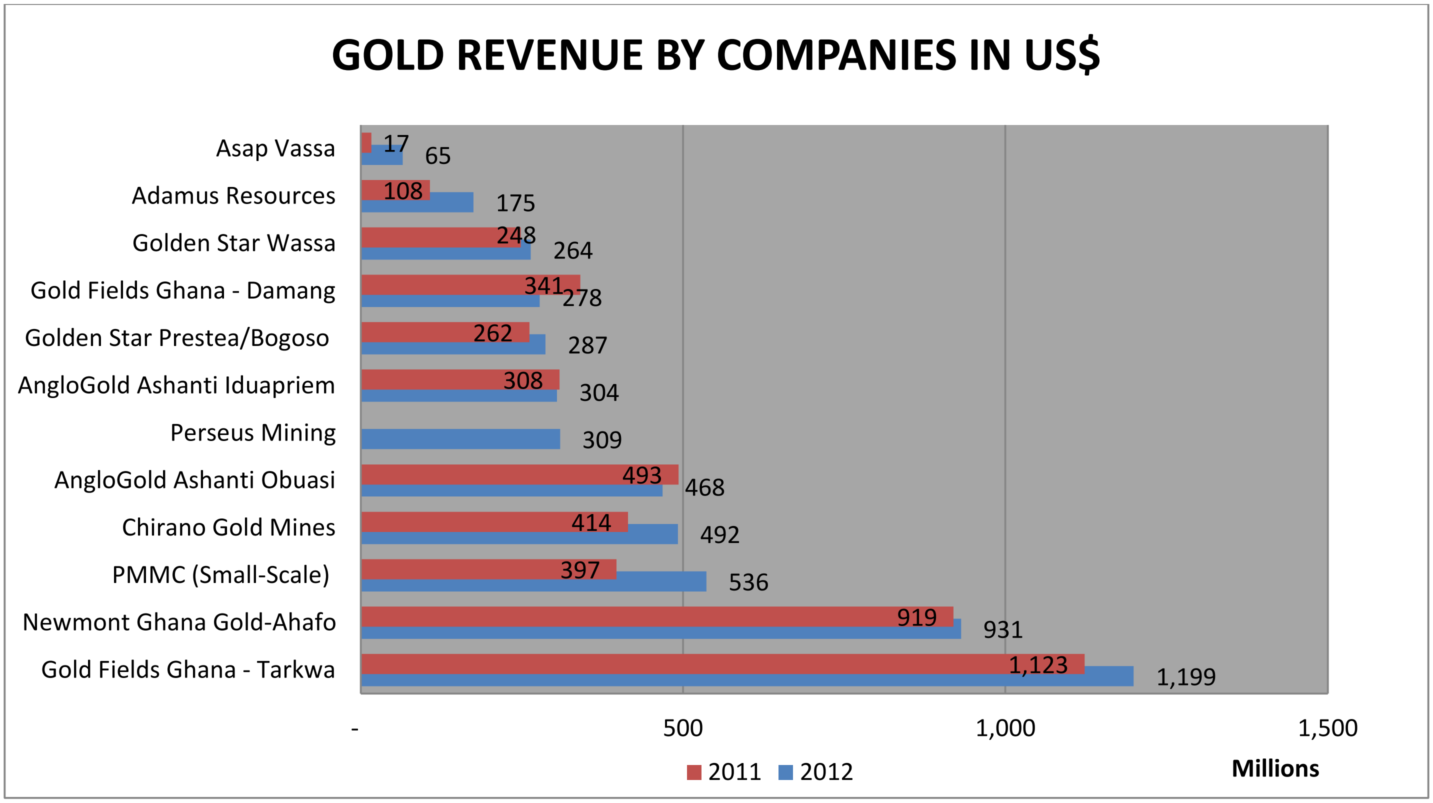
During its second year of production, Adamus Resources’ output went up by 37% from 76,504 ounces in 2011 to 104,629 ounces in 2012; the mine having commenced production in 2011 whilst the 2012 performance reflects a full years’ production.

Perseus Mining Ltd which commenced production in 2012 recorded an output of 185,740 ounces in the year.

PMMC's total purchases and exports of gold from small scale miners increased significantly in 2012 from 235,787 ounces a year earlier to 316,699 ounces in 2012. The 2012 performance was about 34% higher than the amount recorded in 2011.

Asap Vasa's purchases and exports of gold from small-scale miners appreciated tremendously from 10,173 ounces in 2011 to 40,794 ounces in 2012; a 301% lift.

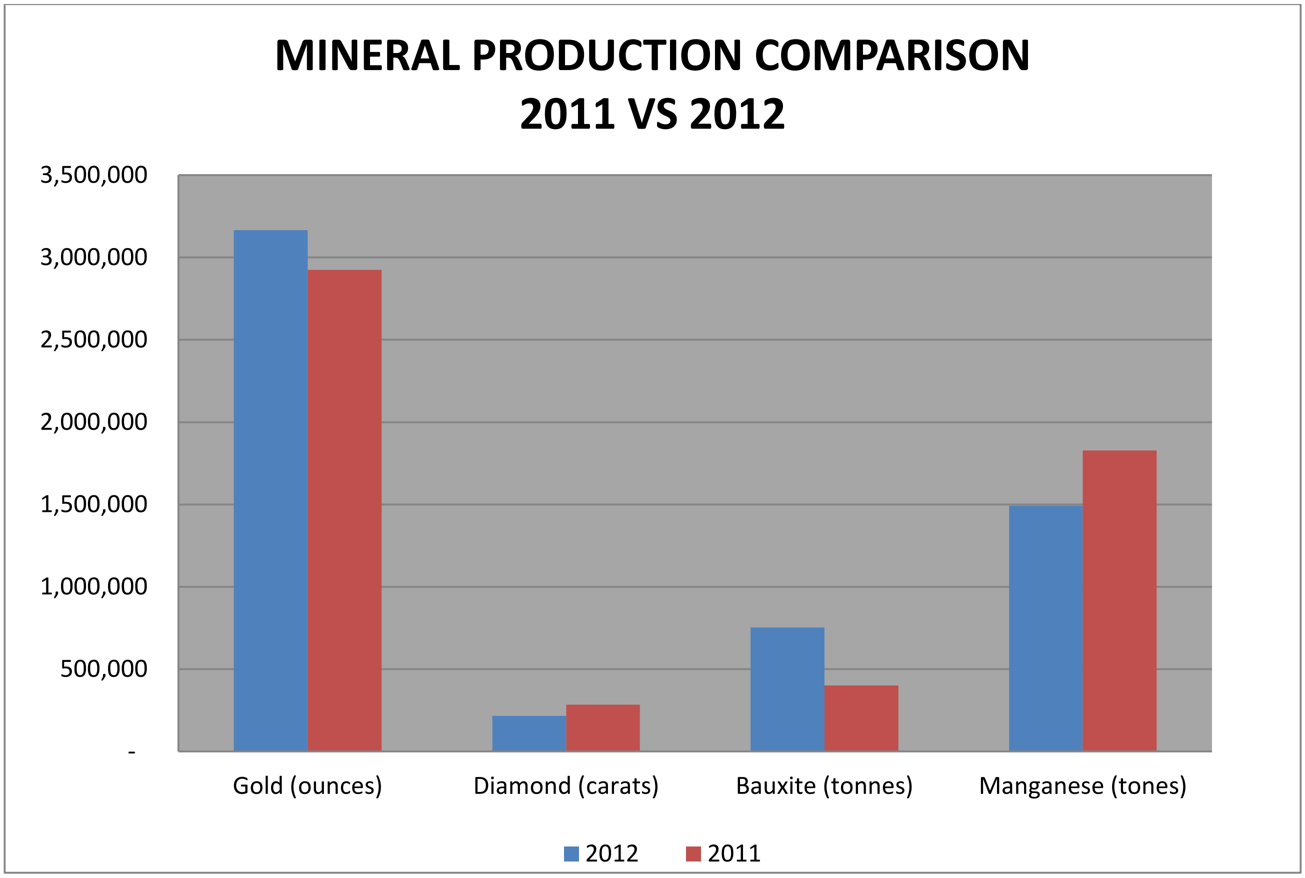




PMMC's purchases and exports of diamond from small-scale miners decreased by 24% from about 283,369 carats in 2011 to about 215,118 carats in 2012. The decline in purchases of diamond was attributable in part, to the relatively low market price of diamond which drove more hands into gold production.

The export of manganese by Ghana Manganese Company declined by 18% from 1,827,692 tons in 2011 to 1,490,634 tons in 2012. The shortfall was due to new developments and pit integration to ensure easy maneuvering of mining equipment and also to enable the company to mine different grades from different parts of the same pit for optimized blending. The decision of the company to focus on mine development and not to mine ore in November and December 2012 was driven by a strategy to better position the company for structured higher export levels. Not surprisingly, manganese revenue was down by about 18% from US$119,920,951 in 2011 to US$98,605,517 in 2012, given the relative stability of the price of the mineral over the period.

Bauxite shipments by the Ghana Bauxite Company increased significantly by 88% from 400,069 tons in 2011 to 752,771 tons in 2012. The increase in volumes contributed to a significant increase in the corresponding mineral revenue by about 113% from US$13,406,433 the year earlier to 28,495,592 in 2012.



The achievement was on the back of Ghana Bauxite Company's decision to haul its ore by road instead of the more cost effective and appropriate rail transport. The poor rail infrastructure is a major constraint, which could potentially impact the long term viability and sustainability of the two bulk mining companies; Ghana Bauxite Company and Ghana Manganese Company.

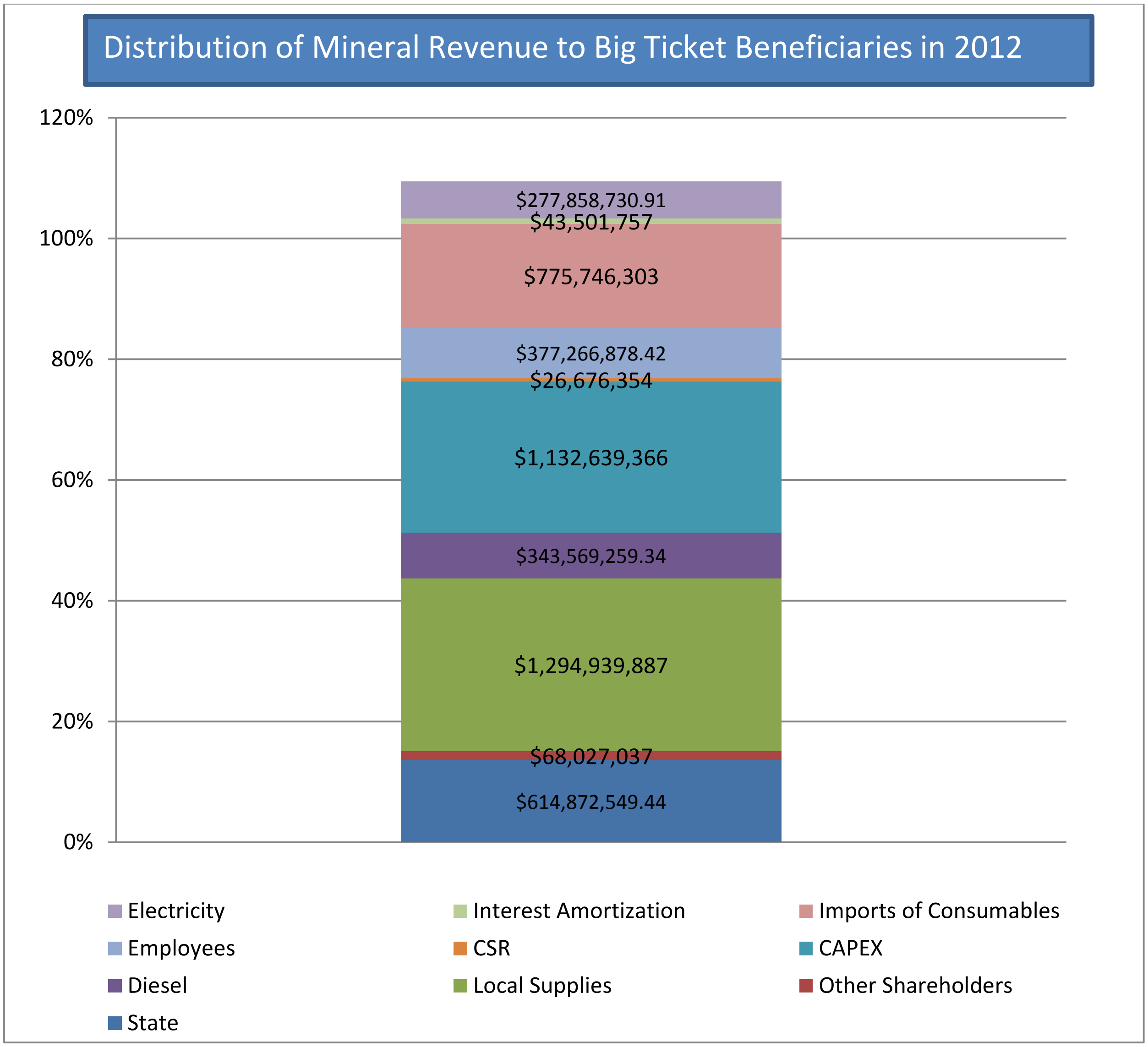
Local Impact across the Value Chain

In 2012, the mining industry once again made favourable impact on the Ghanaian economy. Beside its direct contribution to the overall growth of the economy and to GRA's kitty, the mining industry's impact was positively felt in various facets of the country's business environment. Producing member companies returned about 72% of their mineral revenue to the country. Of this, an average of 17% was returned through Bank of Ghana and 55% through Commercial Banks with which they transacted business. The US$2,512,647,449 returned helped prod the Ghanaian cedi in a period where the local currency came under intense pressure.

The repatriation by the mining companies into the Ghanaian economy was used to settle their obligations by way of taxes, mineral royalties, and payment of salaries to employees as well as purchase of local inputs. In all, 14% of mineral revenue was paid to the State, whilst only 2% was received by other shareholders. Purchases of big ticket items such as diesel and electric power accounted for 8% and 6% of mineral revenue respectively.

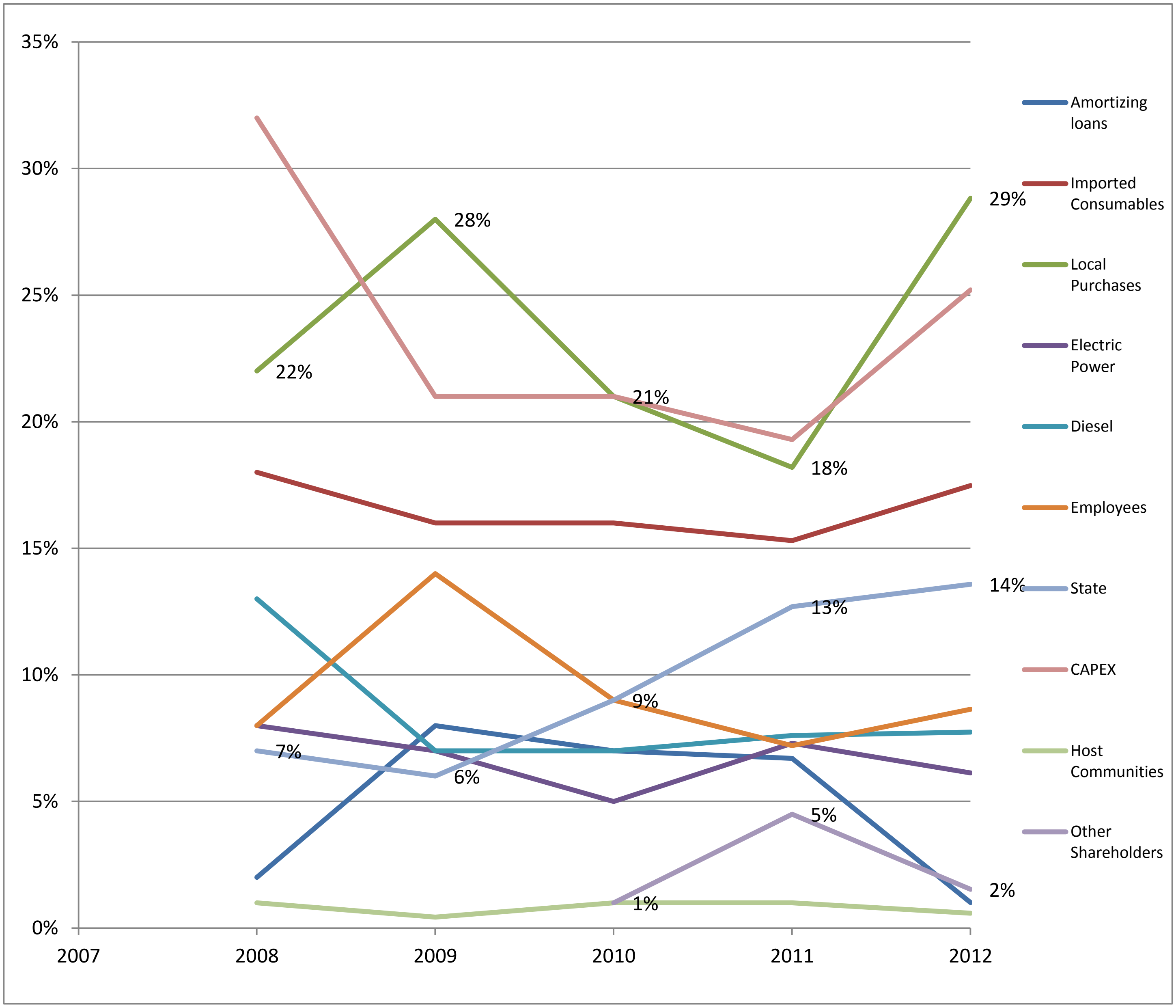
Mining companies spent, 29% for their revenue to procure other inputs locally to run their operations. Furthermore, they used 17% of their revenue to import consumables and another 25% to procure capital equipment, plant and machinery to support their operations. Whiles a percentage of the industry's revenue was used to amortize loans, another 9% was deployed to cater for employee remuneration, covering salaries and other benefits.

At the end of the year, producing member companies of the Chamber had directly employed about 20,268 people of which 313 people were expatriates. The expatriates constitute about 1.5% of the total work force.



Producing members of the Ghana Chamber of Mines voluntarily contributed an amount of US$ 26 million to their host community and the general public in 2012. Among other areas, these contributions went into social infrastructure, such as schools, roads, clinics, provision of potable water systems and extension of electricity to host communities.

Distribution of Mineral Revenue to Big Ticket Beneficiaries



Challenges

Skilled Labour

Competition for skilled labour has driven up employee costs in the global mining industry in the last few years. For Ghana's mining industry, this has been made acute with the commencement of commercial oil production in Ghana. The reason is not far-fetched. Critical skills required in the mining industry finds place in the oil and gas sector. The appreciation in the gold price has improved the economics of projects globally. Accordingly, hitherto marginal projects have been brought on stream, leading ultimately to demand and competition for skills in the mining industry. The foregoing circumstances have been worsened by the desire for labour to get higher take of the price of gold.

Additionally the changing demography of employees in the mining industry where a significant proportion of skilled labour and experienced hands are either retiring or on the verge of retirement is a significant challenge the mining industry is contending with.

Illegal Mining

As predicted and advocated by the Ghana Chamber of Mines a few years ago, illegal mining has become an environmental, health, safety and security nightmare to Ghana. Its economic implications are dire for the country. Unfortunately, the Chamber of Mines' repeated advocacy for government to take a leadership role to deal decisively with the menace went unheeded. This was when the illicit activity occurred mainly on encroached concessions of member companies. Whilst their focus has not shifted entirely from member companies' concessions, today, illegal miners mine every conceivable land or water body where they expect to find gold.

Given the nomadic nature of their activities, illegal miners leave in their trail polluted water bodies, craters and general destructions of flora and fauna.

Various experts including the Ghana Water Company have cautioned that the nation may face an imminent catastrophe, considering the rate at which its water bodies are being destroyed primarily through illegal mining activities. In the very near future, the already increased cost of treating water to make it potable will escalate due to extensive pollution of the water bodies. Ultimately, the volume of potable water that can be produced nationwide will be reduced sharply if the spate of water pollutions continues.

The economic implications are equally telling. Whilst it is acknowledged that small-scale miners are expected to operate responsibly, the compliant ones are in the acute minority. Generally the difference between small-scale mining operations and illegal mining is not distinct. Not surprising they both contribute minimally to the nation's kitty. Although these concerns have not been at the fore of major policy discussions on the menace, the fact that they both contribute more than a third of the nation's gold production makes the situation worrying.

To bring the challenges of illegal mining to the public domain, the Chamber continued its series policy dialogues pursuant to the BUSAC Funded study with various stakeholders.

The Chamber has noted the recent commitment of government to eradicate the canker from the country. The industry will continue to support government with advocacy and thought leadership in its efforts to address the challenge.

Rail Infrastructure

The deplorable state of the western line had been a major problem for the bulk producers of manganese and bauxite, Ghana Manganese Company and Ghana Bauxite Company for a rather long period. As a result, Ghana Bauxite Company has completely stopped hauling by rail and solely transports its ore by the less cost effective road mode. Ghana Manganese Company is the last industrial user of rail haulage in Ghana, although on a reduced operational level.

On two (2) occasions Ghana Manganese Company has offered to directly invest in the rail infra-structure, but until now the authorities are yet to accept the company's offer.

Despite assurances of government through major policy statements that the western rail line will be fixed, regrettably these promises have not been fulfilled. Naturally, this has adversely impacted the realization of the strategic objectives of these companies. The Chamber continues to advocate for the rehabilitation of the western rail line as the inherent benefits to the country will be enormous given that its services will extend to other sectors of the economy.

Cost Pressures

A bane of the global gold mining industry is the metric in which it reports its costs. Cash costs, the usual metric does not reflect the total or all-in cost of production. Therefore, by continuing to quote cash cost, the mining industry does itself a great disservice by fueling the public's perception that the cash margin which is the difference between the price of gold and its cash cost is the same as the profits of gold mining companies.

This erroneous impression has led to a situation where parties who have a take on mineral revenue have positioned themselves to rake in a lot more. Notable stakeholders include government, input suppliers and labour. This demand has driven up mining costs.

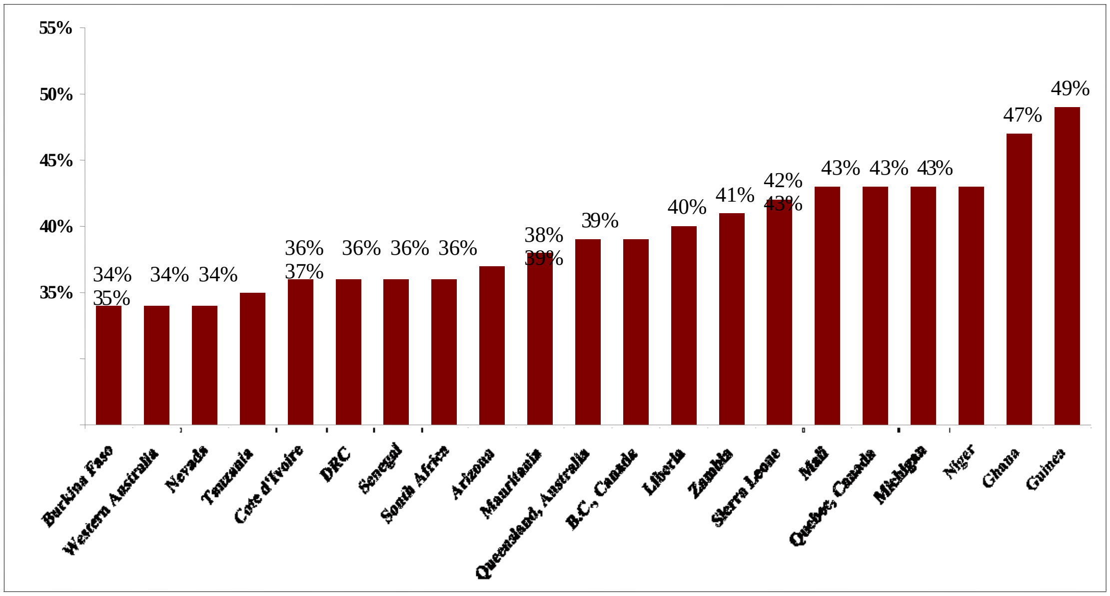
As indicated earlier in this report, Ghana's cash cost for gold production in 2012 was US$ 809 per ounce compared with the global average cash cost of US$ 738 per ounce as reported by GFMS, underscoring the country's position as a relatively high cost destination.

Ghana's cash cost in 2012 was 7.7% higher than the US$751 it recorded in 2011. Global all-in cost of gold production was up 11.4% from US$1,079 per ounce in 2011 to US$1,202 per ounce; reflecting a general increase in cost of gold production compared to an appreciation in gold price of 6.2% over the same period.

Drivers of global cost increases include labour, fuel, power, consumable costs and capital equipment. This was also exacerbated by the processing of lower ore grades. Another area of significant cost appreciation, is the cost of compliance with regulatory requirements.

The country's high cost of production is compounded by a relatively high tax regime as reflected in the chart below.

Effective Tax Rates of Mining Countries



Source: Clarus Securities Inc.

Outlook for 2013

For the first time in several years sentiments in the mining industry about prospects for the near year appear downcast with some observers asking whether the 11-year bull-run in the price of gold will come to an end soon. In fact the marginal increase in the price of gold in 2012, its dip in the first quarter of 2013 combined with the high cost of operations has led to a situation where operating companies are reviewing their budgets downwards. As a result expansion projects are either being reconsidered or downsized in the light of the challenging environment. Whilst the depressed mood will adversely affect planned projects in the early part of the life cycle, more advanced projects are expected to come on stream. Accordingly, additional production is expected from Golden Star Resources' New Century Mine as well as Newmont Ghana Gold's Akyem mine albeit under stringent budgets. Output of manganese and bauxite are expected to increase in 2013.