

ADDRESS OF THE PRESIDENT OF THE GHANA CHAMBER OF MINES,
MR. KWAME ADDO-KUFUOR
ON THE OCCASION OF THE 88TH ANNUAL GENERAL MEETING

**Hon. Minister of Lands and Natural Resources,
1st and 2nd Vice Presidents of the Chamber,
Members of the Council,
Executives of the Chamber of Mines,
Members of the Diplomatic Corps,
Dear Colleagues
Members of the Media Fraternity,
Distinguished Guests, Ladies and Gentlemen.**

As I begin to present my very first address as President of our renowned Chamber, the overwhelming honour it depicts, deepens in my own mind, the real significance and nature of this annual event. Traditionally, it has offered succeeding Presidents an opportunity to present, on behalf of our members, the record of the joint endeavours of all sections of the industry in the immediate past year. On this occasion, I am doubly honoured to present to you what represents the 88th Annual Report of the Ghana Chamber of Mines.

Indeed, the challenging developments we have had to manage at the Chamber, in recent years describe in part, the challenges facing the industry. Some of these internal and external causal factors are well-known, while other issues continue to demand from all of us, considerable tact, collaboration and the adoption of relevant strategic options and responses.

Naturally therefore, I would like to begin by congratulating the Chief Executive Officer of the Chamber and his experienced and hardworking team for working assiduously to consolidate the Chamber's invaluable role to us all.

As result of their various activities, we have had ample opportunities to strategise and harmonise views on current as well as evolving challenges.

It is my expectation therefore that the team will continue to exhibit the highest levels of professional competence required by modern mining in particular, and the management of the challenges to policy formulation and implementation and their conjoined impact on our industry.

Distinguished ladies and gentlemen, let me re-iterate that the year under review was a very difficult one for the mining industry in many respects. While the economy experienced serious power crises, mining companies had to manage falling commodity prices with growing operational costs. Significantly, this year's AGM is on the theme: ***Sustaining Mining and Power Investments: Meeting stakeholder expectations in a challenging global environment.*** The theme is fitting not only because of the odds surmounted by players in the mining industry in 2015 but also because our members had to institute tough measures to save jobs and to remain profitable at the same time. We survived it and to this, I say kudos to all my peers for being resolute in the face of significant challenges.

The Chamber has, over the years, implemented its strategic plan in order to fulfil the objectives of operating as an advocacy organisation which facilitates the work of its member companies' mantra of promoting environmentally and socially responsible mining in Ghana.

To manage the current dynamics of our industry and the communities in which we operate, our members require innovative skills and proficient human capital and related resources, operationally perceptible investments as well as full partnership with the government and relevant stakeholders. It is to this mix of factors that we look for enduring support as an industry, in our resolve to deliver real overall benefits for both our local and external investors, local content and other partners, our various host communities, employees and the economy of Ghana as a whole.

We rightly believe that the benefits of mining should transcend the realm of resource exploitation and move on to become a viable catalyst for national development. One of the most effective ways of achieving this is by ensuring that the state continues to commit itself to making Ghana a more competitive capital investment destination for mining and allied industries.

On its part, the Chamber will continue to maintain its role as the foremost advocate for environmentally and socially responsible mining in Ghana and in the sub-region. We plan to achieve this objective by collaborating with the key stakeholders including regulators, government, revenue agencies, host communities and the media. We believe that this effort will ultimately make Ghana a mining investment haven. The Ghana Chamber of Mines is also committed to supporting the transformation of the economy into one that provides even more opportunities for local entrepreneurs and businesses by strictly adhering to the local content law.

Performance of Ghana's Mining Industry in 2015

The GFMS Gold Survey (2016) reports that total gold output in Ghana reduced to 95 tonnes in 2015, relative to 107 tonnes recorded in 2014. Ghana's reduced gold output was mainly caused by the suspension of mining by AngloGold Ashanti Obuasi, persistent curtailment in supply of electricity and a general appreciation in the cost of doing business in the country.

However, Ghana maintained its position as the tenth largest producer of gold, accounting for three percent of global gold output.

Notwithstanding the predominantly difficult business environment faced by gold miners and producers of other minerals, the industry continued to play its role as a key foreign exchange earner for the country.

Local Impact across the Value Chain

Hon Minister, records from the Ghana Revenue Authority (GRA) confirm that the minerals and mining sector maintained its role as a leading source of fiscal revenue for the country. The industry contributed GH¢ 1.35 billion to the national economy in 2015. This amount represents an eight percent increment over the GH¢ 1.24 billion recorded in 2014. The sector's statutory payments comprised GH¢ 463.12 million in corporate taxes, GH¢ 485.6 million in royalties, GH¢ 404.74 million in PAYE and GH¢ 0.87 million in other taxes.

The mining sector contributes significantly to the attainment of monetary policy goals in Ghana through its supply of forex to the banking system. According to the Bank of Ghana, the sector was the leading source of foreign exchange in 2015, contributing in excess of 31 percent of total merchandise exports.

In the year under review, producing member companies of the Chamber returned USD 2.6 billion of their realized mineral revenue into Ghana. This represented 85 percent of the total revenue accrued to members. The remaining 15% largely serviced debt and services incurred in foreign exchange, payments for machinery, equipment, dividends to foreign investors etc.

A total of USD 2.1 billion out of the repatriated revenue of USD 2.6 billion was returned through the commercial banks and the remainder via the Central Bank. The companies spent USD 865 million on local purchases, which represents 28 percent of their mineral revenue. Similarly, USD 166 million was used in importing consumables to support the production process. It is worth mentioning that expenditure on local purchases increased from 18 percent of mineral revenue in 2011 to 28 percent in 2015 while expenditure on imported consumables declined to 5 percent from 15 percent over the same period. This impressive outturn underscores our member companies' commitment to the laudable policy on local content.

Output and Revenue of Members of the Chamber

Proceeds from the export of minerals reduced from USD 3.94 billion in 2014 to USD 3.39 billion in 2015. The reduction in mineral revenue was as a result of reduced production (and price) of gold and purchases of gold and in the shipments of manganese. While the latter recorded a five percent dip in total shipments, the volume of gold exports also reduced by 10 percent. Similarly, purchases of diamond by Precious Minerals and Marketing Company (PMMC) decreased by 28 percent.

Revenue from gold fell to USD 3.32 billion in 2015 from the USD 3.84 billion which was recorded in 2014. This was largely due to the fall in output of member companies and the average realized gold price. Total gold output dropped from 3.1 million ounces in 2014 to 2.8 million ounces in 2015 as a result of declines in production at AngloGold Ashanti Obuasi, Golden Star Bogoso Prestea, Abooso Goldfields, Golden Star Wassa, Chirano, Newmont Ahafo and purchases by ASAP VASA. Even though AngloGold Ashanti Iduapriem, Gold Fields-Tarkwa, Newmont Akyem, Adamus, Perseus, and PMMC recorded growth in output, the positive impact was insufficient to offset the dip in the output from their counterparts.

Purchases of gold by PMMC from small-scale miners in 2015 inched upwards to more than two hundred and sixty seven thousand ounces compared to about two hundred and sixty five thousand ounces in 2014. ASAP VASA, on the other hand, did not make any purchase of gold in 2015 as a result of cash flow challenges.

On diamonds, PMMC, the sole buyer from small scale miners, reported a 28 percent decrease in its purchases, while total purchases and export of diamond decreased from over two hundred and forty thousand carats in 2014 to about one hundred and seventy four thousand carats in 2015, with a corresponding revenue of USD 10.7 million and USD 6.4 million respectively.

Ghana Manganese Company's (GMC) export of manganese reduced from over 1.35 million tonnes to 1, 28 million tonnes in 2015. The decline in exports reflects the inability of the company's major client to lift manganese in 2014 and the early part of 2015. Accordingly, GMC's revenue declined from USD 91.1 million to USD 70.5 million, over the period.

Health and Safety

The Chamber and its members remain committed to the highest standards of health and safety at our operations. This extends through to our host communities. In the fight against malaria,

for instance, the specific initiatives being undertaken have been extended to the nation as a whole through various activities of member companies.

I. First Aid and Safety Competition

The 2015 edition of the Chamber's annual flagship event on inter-mines first aid and safety was successfully organized in collaboration with the Inspectorate Division of Minerals Commission and St. John Ambulance (Ghana). For the first time, the oral component of the competition was telecast on GTV and rebroadcast on regional radio networks of the Ghana Broadcasting Corporation. This innovation gave significant media mileage to the mining industry and created a useful medium for viewers to imbibe knowledge on basic first aid and general safety tips. Participating companies put up spirited performances at the national oral and practical competitions.

Golden Star Wassa climaxed its outstanding performance at the oral competition with a sterling performance at the practical competition level to emerge as the third-time winner of the national competition. It was followed by Chirano Gold Mines, Abosso Goldfields and Adamus Resources respectively. Ghana Manganese Company won the community competition.

II. Research on Occupational Health Risk Associated with Mining

The Chamber engaged a team of researchers, led by the Vice Chancellor of UMaT, Prof. J.S.Y. Kuma to undertake a research on occupational health risks associated with mining. The research team is expected to complete the application for the ethical clearance certificate by the middle of 2016. This is expected to pave way for the collection of samples from the participating mines and their analysis by the researchers. Upon completion, the Chamber will incorporate the recommendations of the study into the operational protocols of member companies.

III. Emergency Response Plan for the Potential Outbreak of Ebola Virus Disease

In the wake of the outbreak of the Ebola disease and its effect on the economies of impacted countries, especially in West Africa, a sub-committee was set up to develop and coordinate the mining industry's response plan to any possible outbreaks in Ghana. The sub-committee subsequently developed a blue print manual for responding to the potential outbreak of Ebola.

Environmentally Responsible Mining

The mining industry remains one of the most regulated sectors in the country and member companies continue to adhere to domestic and international codes, laws, standards and regulations aimed at maintaining a sound and safe environment. The commitment of member companies to the protection of the environment cannot be overemphasised.

Through the strong partnership with the Environmental Protection Agency (EPA), the Chamber has seen the mining industry's performance improve over the years. In 2015, member companies continued to operate in accordance with the requirements of their environmental license/permit conditions and national mining and mineral laws, applicable environmental guidelines, protocols, codes, conventions, and all other approvals.

Delays in Issuance of Statutory Permits

As part of the statutory requirements, mining companies are expected to obtain a number of permits from regulatory agencies prior to the commencement of their activities. While explicit

lead-times are provided in the various statutes that govern the permitting regime, the recurrent experiences of mining companies are at variance with the anticipated duration, particularly in obtaining environmental permits. The drawn-out permitting period impacts negatively on the operations of the companies by hiking the cost of the project and reducing its financial viability, especially in the context of volatile commodity prices.

In this regard, the Chamber organised the Environmental Impact Assessment workshop with the EPA held at Royal Senchi to find an enduring solution to the problem of permit delays. It is worth noting, that the Environmental Protection Agency (EPA) and Inspectorate Division of Minerals Commission continue to collaborate with the Chamber to improve the turnaround time for issuance of permits.

The Chamber is liaising with the EPA to procure software for tracking applications for environmental permits. This technological innovation is expected to facilitate the EPA's capacity to monitor the lead times in approving permit applications and subsequently, initiate reforms to reduce the waiting period. This is expected to be completed in the first-half of 2016.

The Chamber, through its Environment and Social Committee, commenced discussions with the EPA on treatment of mine waste water. It is the Chamber's expectation that the collaboration between industry and the EPA will continue in this regard.

Advocacy and Communications

The Chamber effectively provided mining-related information to international and local institutions and individuals as a way of improving its mutually advantageous collaboration with civil society, academia, and the general public. The Chamber in 2015 continued to work assiduously in promoting Ghana as the preferred mining jurisdiction to investors by collaborating with government to organise the maiden edition of ECOWAS Mining and Petroleum Forum & Exhibition (ECOMOF). The Chamber, among others, advocated against the crippling negative business climate that had come about partly because of the energy crises and the falling price of gold on the world market. A lot still remains though, in the unrelenting quest to limit undue rising expectations from all stakeholders.

Media Relations and PR Training

In view of the critical role of professional media practitioners in the operations of the industry, the Chamber further strengthened its relationship with the media. The Chamber believes that objective reportage from the media based on a two-way collaboration, contributes immensely to the unhindered flow of relevant information that helps in curbing traditional misconceptions over the handling of mining issues in the public arena. This strong collaboration also ensures that member companies thrive on a mutually agreed path with the larger communities to sustainable development while adhering to all relevant laws and codes the industry players have signed on to as they seek to perform to the optimum level for industry and country.

In line with these objectives, the Chamber met with the Journalists for Business Advocacy in Accra, the Western and Eastern Regional press corps as well as other media organisations to share the story of member companies. Subsequently, the PR Committee of the Chamber held a training workshop for Communications and Community Relations Officers and Managers in Kumasi to provide refresher training to participants on how to effectively engage the media as well as other stakeholders.

Challenges in Ghana's Mining Industry

New Income Tax Act, 2015 (Act 896)

Though the New Income Tax Act, (Act 896), has the worthy objective of expanding its tax base and enhancing tax payments as well as revenue collection, the Chamber identified a number of concerns and raised them directly with the Ministry of Finance. The key concerns of the Chamber with Act 896 are as follows:

I. Ring Fencing

Ring fencing is one of the major concepts underlying the entire Act 896. ***In addition to the general provisions on ring fencing in the Act, there are specific provisions which directly relate to the mining industry. Section 78 (1) of the Act provides that a mineral operation pertaining to each mine and a mineral operation with a shared processing facility shall constitute separate mineral operations.***

In 2013, the Chamber participated in a workshop with the Ghana Revenue Authority and the Minerals Commission to discuss the implementation of the ring fencing provisions contained in the Internal Revenue (Amendment) Act, 2012 (Act 839). At the workshop, the concept of "Shared Processing Facility" was defined to mean "a cluster of processing plants in close proximity". Despite the consensus reached at the workshop, the current wording of Act 896, however, appears to indicate that if a single mine has two processing facilities, each processing facility shall be ring-fenced separately. This is not consistent with the consensus we reached at the afore-mentioned workshop and will be extremely difficult to implement in practice.

II. Waste Stripping Cost

The treatment of *Waste Stripping Cost* in the Act is another concern for the Chamber and its members. Sections 79 (7) and 81 (9) provide that expenditure incurred in respect of the mineral operation on waste removal, overburden stripping, and shaft sinking shall be capitalized in accordance with the Generally Accepted Accounting Principles (GAAP) and capital allowances granted over a five (5) year period upon the commencement of commercial production.

Expenditure on waste stripping is necessary to clear the ground and enable access to the underlying ore body. Therefore, mining cannot take place without waste stripping. The ability to expense the stripping cost which is revenue in nature, eases the burden of undertaking such stripping exercises. For some marginal member companies, this is critical to sustaining and continuing their operations. The Chamber is therefore of the view that it is impossible to justify any additional capital investment in the business and by extension, the economy of Ghana if the treatment of waste stripping is capitalized.

III. Non-Recovery of VAT

The inability of our member companies to recover VAT refunds in good time continues to be a major hindrance on their cash flow, especially in the context of high inflation and depreciation. Statistics from our producing member companies show that they are owed over GH¢ 250 million in VAT refunds as at the end of 2015. The un-refunded VAT effectively becomes another debt, compounding the challenges of our members, who also suffer from the

effects of depreciation on the amounts due. Even though the government has attempted to address this challenge by allocating additional funds into the Refund Account, it persists.

Moreover, the situation has been worsened by the government's decision to stop the issuance of Treasury Credit Notes (TCN) which could be used to offset other liabilities. The practice of not allowing a refund for VAT credits until an audit is completed is also a source of concern to our member companies.

Cost Pressures

Following the implementation of cost containment measures in the last two years, the cost associated with gold production trended downwards. The all-in-sustaining cost, which is the summation of exploration, development, depreciation, depletion, amortization and cash costs, declined from USD 1,001 per ounce in 2014 to USD 921 per ounce in 2015. Similarly, the all-in cost of producing an ounce of gold receded from USD 1,058 in 2014 to USD 985 in 2015.

Even though the average cost of production declined for the second successive year, Ghana's cost metrics remains very high. This mirrors the uncompetitive mining business environment, which is largely due to the padded taxes on big ticket inputs such as electricity and fuel. In addition, the mining companies were compelled to co-generate electricity from diesel fueled plants to supplement their power requirements as a result of the year-long load management program which begun in 2014.

The Threat of Illegal Mining

Ladies and Gentlemen, a frightening surge in the activities of illegal miners on the concessions of large scale mines as well as other non-designated mining areas has sadly been a feature on the mining landscape in Ghana. These uncontrolled activities have resulted in the massive destruction of arable lands and the pollution to water bodies of host communities. Government responded to this security threat by setting up a National Security Committee on Lands and Natural Resources as well as amending some portions of the Minerals and Mining Act, 2006 (Act 703). These legal frameworks, together with other initiatives by the sector agencies, have been initiated to address the scale of illegal mining across the country.

Unhappily, the inaction of security agencies and the tacit endorsement of illegal mining by regional and local government representatives as well as traditional authorities present a formidable obstacle to the vaunted resolve to clamp down on illegal mining. In the event tacit pseudo official support from some Local government authorities' for illegal mining has encouraged the operatives to encroach the concessions of large scale mines.

The encroachment of the concessions of Perseus Mine and AngloGold Ashanti-Obuasi mine by illegal miners underscore this observation. In the ensuing confrontation at Perseus in August, 2015, for instance, the illegal miners took over the heap leach and wreaked havoc on the mine resulting in the temporarily suspension of production. A belated but crucial intervention by the national security restored a semblance of normalcy to the mine.

Unfortunately, the invasion of AGA's Obuasi Mine by illegal miners persists as the mine has been forced to cease its operations to avert possible fatal attacks on employees and the destruction of essential equipment. As a Chamber, we mourn the untimely demise of Mr. John Owusu, the Corporate Communications Manager of AGA's Obuasi Mine who died as a result of the marauding hordes of illegal miners on the mine this year. Appallingly, the illegal miners

feel emboldened by the inaction of the security agencies and have started plundering operational materials from the mine.

The Chamber therefore strongly urges the relevant state security agencies to take decisive and immediate measures to evict, arrest and prosecute illegal miners as stipulated in the Amended Minerals and Mining Act, 2015 (Act 900). This will serve as deterrent to other prospective illegal miners. Further, the Chamber implores regional and local government authorities to refrain from accommodating illegal miners in their jurisdiction. The Chamber is by this affirming its support to the state security and other agencies in addressing the menace of illegal mining.

Development of Mining Communities

Mining communities tend to be in remote locations and lag behind in social and economic infrastructure. This has not been helped by the warped mechanism for distributing mineral revenue, which tends to channel a large share of the revenue to the Consolidated Fund, thereby short-changing the very communities who bear the brunt of our operations.. On account of the crowded fiscal space, the spending pattern of the government does not necessarily inure to the benefit of the mining communities. As a result, the standard of living in such areas is relatively lower than non-mining areas and therefore paints negative picture of the mining industry.

While recognizing that the Sector Ministry and Minerals Commission are working to address the poor developmental conditions through the Minerals Development Fund Act, the Chamber maintains that the share of royalty ploughed to the communities should be increased from the current rate of nine percent to 30 percent. Likewise, we urge government to promulgate a Mineral Revenue Management Act, a law that will guide and ensure the prudent management and expenditure of mineral revenue, returned to the communities.

Measures of this nature account for the much higher development examples achieved in the oft-quoted success regions of California and South Africa. Indeed it is not the mere exploitation of the resources or much-less the siting of the operations that turned them into the sparkling paradigms that they have been to the mining world all these decades.

Deplorable State of Railway Infrastructure

The Western railway line, which was the primary mode of hauling bulk minerals to the Takoradi port, has deteriorated so much over the years as a result of obsolescence and limited investments that the bulk mining companies have had to make use of the more expensive road system. It is estimated that the cost of road haulage is 50% more expensive than the alternative of using the railway lines.

This severely depletes the bottom line of the bulk mineral producers and threatens their survival. As an industry association, we believe that the benefits of a well-functioning railway system will not be a preserve of our members but the entire economy. Therefore, we appeal to the government to prioritize the rehabilitation of the Western Railway lines and invest in the entire rail transportation system.

Absence of Incentives for Exploration Companies

The critical importance of exploration in ensuring a pipeline of future viable projects cannot be over-emphasized. Naturally, this would ensure that the country continues to benefit from its

mineral endowment at all times. It would therefore be appropriate to put in place an incentive scheme that will attract the required investments. As a first step, the government could consider exempting Exploration Companies from the payment of VAT on big ticket expenditure such as Drilling and Laboratory Services. Such a measure would not only reduce the pecuniary cost borne by these companies but also stem the drift in investment into neighboring countries and thereby restore or enhance the country's image as a competitive destination for investments.

Outlook of the Minerals Sector in 2016

The price of gold is expected to remain under pressure for most part of 2016 as the US Federal Reserve Bank eases its quantitative monetary programme. Since this is likely to trigger a rise in interest rates of near money assets, investors are likely to redirect their portfolio away from gold. On the contrary, the general decline in global gold output, which is also expected to trend in 2016, could moderate the impact of the “lift off” in the US. In the Ghanaian context, fresh output from Asanko mine and Golden Star Wassa's underground mine is expected to increase the gold industry's output to more than 2.7 million ounces in 2016, all things being equal. In the same vein, the normalization of purchases by the prime client of Ghana Manganese Company is expected to spur the company's shipments to 1.5 million tonnes in 2016.

Conclusion

Distinguished ladies and gentlemen, as I indicated earlier, today's AGM marks the official commencement of my two-year tenure as President of the Chamber. As the president, my primary preoccupation will be the deepening the relationships with our major stakeholders. That is government, regulatory agencies, host communities, our workers and the people of Ghana. Despite past challenges, the sector has maintained its role as the leading support for Ghana's economy.

Permit me to commend the immediate past President of the Chamber, Mr. Johan Ferreira. His able leadership in steering the affairs of the Chamber for the past two years has led to the further strengthening of the Chamber's output and impact. His contribution and those of his predecessors to the work of the Chamber will be etched in the annals of mining investment in Ghana.

I would on behalf of the Chamber and its members, also like to express our immense appreciation to the current Minister for Lands and Natural Resources, Hon. Nii Osah Mills; the Minister for Environment, Science, Technology and Innovation, Hon. Mahama Ayariga; the CEO of the Minerals Commission, Dr. Toni Aubynn; CEO of the EPA, Mr. Daniel Amlalo, and the Chief Inspector of Mines, Mr Obiri Yeboah Twumasi for their contribution to the progress made in 2015.

We are grateful for the contribution of Mr. Fred Attakumah, the immediate past 1st Vice President of the Chamber and Mr. Alfred Baku, the 2nd Vice President for their effective leadership. To Mr. Eric Asubonteng, our current 1st Vice President, we welcome you into our fold as we work together to valorise mining for national development. Finally I would like to congratulate the Executive Committee and Council for the co-operation and support offered to the Chamber. Your invaluable advice has made all the difference.

It is my expectation that the Chamber will continue to strategically position itself to advocate on behalf of member companies through the maintenance of strategic partnerships with stakeholders. I wish you all the best in the coming months as we strive to end the year on a high.

Thank you so much for your attention.

Kwame Addo-Kufuor
President