COMZ PROPOSES CHANGES TO NEW MINING LEGISLATION

Finance Minister, Tendai Biti

AT the end of 2009, the Government made decisions that have a bearing on the mining industry. These, as outlined below, were presented in the 2010 Budget framework as well as the Three Year Macroeconomic Policy and Budget Framework.

● **Exclusive Prospecting Order & Prospecting Grants:**

According to the Mines and Minerals Act, the size of EPOS shall not exceed 65 000 Ha, reservations for coal, mineral oils, and natural gas may not exceed 135 000 Ha and reservations for precious stones other than diamonds shall not exceed 2 600 Ha. In the case of SG under part XX no maximum area is prescribed. As now suggested, in the case of flat dipping resources, the maximum size stipulated area of 20 000 Ha is very limiting. These reductions in area amount to not only reducing the probability of success of prospecting activities, but also economies of scale. We must be informed that the success rate of mineral prospecting activities is well below 5%, anyway.

Given the above, COMZ advises that the law be maintained and that the Mining Affairs Board be mandated with making any such determinations of a technical nature. The requirement to relinquish ground should be prescribed by the Board in accordance with the provisions of the Mines and Minerals Act.

●**EPO Application and Renewal:**

The proposed charge of USD100. 00 per Ha per month for application and renewal fees is prohibitively high. This is supported by the Geological Society of Zimbabwe. If we consider the proposed 20,000 Ha maximum size, the applicant would have to part with $72,000,000 over three years for a piece of ground that they do not know whether or not they will, in fact, discover a mineral in quantities that make economic sense for long term investment.

Although a high fee is meant to deter speculative behavior, it is counterproductive as it also discourages the serious investors, as the application fee of $72,000,000 is in excess of the amount spent on most exploration programmes over a three-year period.

Nowhere else in the region does this punitive practice occur! We believe that other forms of deterrence can be employed. For instance, we propose that an effective way to ensure that prospectors achieve results is to stipulate the amount to be spent per hectare in actual mineral exploration. The Mining Affairs Board could set an escalating investment structure per year based on realistic exploration work that serious companies spend over the life of an exploration programme. These rates should be set by the MAB and enshrined in a statutory instrument. Setting a fee that has no relevance to actual work done, only serves to increase the costs of exploration to prohibitive levels.

● **Management of Mining Titles:**

The changes in the fee structure for mining titles administration should be gazetted to give them legal force. As far as we can tell, some of the changes

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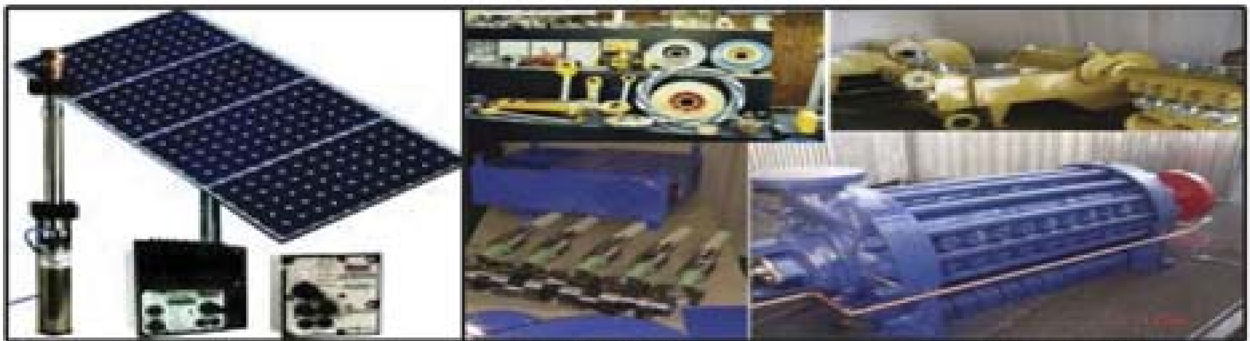

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effected are not gazetted. However, we strongly recommend a reduction of the fees to reasonable levels, taking cognizance of what prevails in other mining countries in the SADC region.

Attached below is a comparative table of mining title management fees and maximum area size prevailing in key SADC mining countries

Country	EPO Size Ha	Tenure of title	Application EPO Fee US$\ha
Namibia	100 000	3 years 2 renewals of 2 years each	0.014
South Africa	100 000	5 yrs renewable once for a max period of 3 years	0.21 (Escalating fee structure
Botswana	100 000	3 years 2 renewals of 2 years each	0.0095
Zambia	100 000	2 years renewable once for 2 years	0.22
DRC	40 000 (Maximum of 50 licenses per person)	5 years--2 renewals of not more than 5 years each	Not clear
Ghana	15 000	3 years – 2 renewals of not more than 2 years each	Not clear
Tanzania	500 000	3 years renewable	Not clear
Zimbabwe (Proposed)	20 000	3 yrs renewable for periods of 2 yrs	5

A Comparison of Mining Titles Management Fees, Maximum Area, and Tenure

Country	EPO Size Ha	Tenure of title	Application EPO Fee US$\ha
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As is evident from the above table, the area reduction from 65 000 Ha to 20 000 Ha greatly reduces the initial size of EPOs and SGs. Mineral exploration being akin to the proverbial searching for a needle in a haystack implies that the larger the area the higher the chances of success.

The COMZ recommendation on mining title fees is 15 cents per Hector per year or $9 750 (or $29 250 over a three-year period) on the basis of 65 000 Ha per year). This is based on an estimated average for the SADC region at which rate, Zimbabwe would still be more competitive than Namibia, South Africa or Zambia-major competitors for international mining investment.

● Unutilised claims:

The government's rational for introducing these punitive fees as well as reducing the maximum allowable area is to encourage the efficient utilisation of land under mining title and the elimination of hoarding of ground. However, this approach is counterproductive. The COMZ suggested the following two-pronged approach:

■ The setting of appropriate minimum work requirements — the Ministry of Mines and Minerals Development can work with industry to set minimum work that should be conducted in six months to a year to enable one to maintain a mining title. These minimum work requirements should be demanding enough to encourage effective utilisation of land under title but not deterrent.

■ Government must have effective structures to monitor the conducting of work on the ground. The mere charging of US$100 per Ha will drive away genuine small scale miners as a standard block of 10 ha will attract US$1000.

■ The mining industry believes that royalties must be paid but feels these must be set at levels that allow companies to recover their investment over time. Ideally, royalties should be charged on profit rather than gross sales. On an estimated gross profit of 25%, a 3.5% royalty on gross sales is actually 14% of gross profit.

Metal prices are cyclical and high prices will be followed by periods of low prices. In the event that prices decrease as they inevitably will at some point, the government should be able to review the royalties to provide relief to producers. Being based on gross revenues royalties are paid even if companies make losses. It is also important to note that although South Africa had considered introducing royalties from February 2010, they have decided to put off the plan for another year, which is an indication that the government realizes that royalties may be counterproductive.

POWER CRISIS HAMPERS MINING SECTOR DEVELOPMENT

PRODUCTION continues to be affected by electricity supply interruptions and unavailability of funding to support working capital requirements and recapitalisation efforts.

Many mineral producers have reported a huge increase in load shedding during the quarter. This particularly affected the mines in Gwanda, Bulawayo, and Mashonaland West. Whereas ZESA should ask consumers to shed a certain amount of load, it appears that most of the mines are not being given the latitude to determine how to minimize usage, while remaining in production. Most mineral producers advised of higher than expected voltages on their supply lines, a development that damaged some electrical equipment.

The mining sector continues to face the difficulty of securing adequate capital to support current operations and mine expansion projects.

The Marange case and others where security of tenure is being brought into question, require urgent attention by the Ministry of Mines and Mining Development. The Mines and Minerals Act (MMA) in its current form clearly provides for security of tenure. The clauses that deal with acquisition of mining title, maintenance of mining title and relinquishment and forfeiture are clear, unambiguous and easy to follow and administer.

One key challenge with the current system is the bad state of the claims maps, which form the basis of geographic location of mining claims. The current system provides that where the beacons are located is the official position of the claims. Thus disputes may arise from movement of the beacons. To avoid this type of dispute most countries have moved on to map staking as opposed to ground pegging. Thus, the much awaited support of the World Bank for a scoping study for the computerisation of mining titles system is overdue.

MINERAL PRODUCTION REMAINS DEPRESSED

Nickel continues to come as a by-product of platinum operations as Bindura Nickel is still not in production. The primary nickel producer is still under care and maintenance with a possible worst case scenario being nil production for the year 2010, which will result in only 1,850 tonnes of nickel concentrate being produced. The main challenge facing Zimbabwean nickel production is that of capital. Long term funds are required to provide sufficient working capital to see production rise to 10 000 tonnes of metal contained in concentrate. The last time such levels of production were achieved was in 1999. Given the worsening electricity supply interruptions, it is difficult to envisage the early return of production to levels achieved in 1999.

We forecast that nickel production from platinum operations for 2010 could be around 6000 tonnes of contained metal, based on production achieved in November 2009.

Nickel price during February was bullish moving from US$18 125/t on January 28 to US$18 450/t on February 12 before surging to US$20 490/t on February 26. The increase in price is attributable to rising demand from steel producers particularly those in China. In addition, uncertainty in primary nickel supply has also affected prices.

Most of the mines that closed due to tumbling prices are finding it difficult to get production back to levels witnessed in early 2008. It appears that stainless steel producers in Europe and America are witnessing improvements in their order books, as a result of recovery in auto and machinery industry.

A veteran nickel/stainless researcher, H Pariser, predicts a 16% increase in stainless steel production to 30.5 million tonnes in 2011. Pariser, at the 2nd Annual Euro Nickel Conference advised that stainless steel growth will be higher outside China this year at 22% compared to 9% in China.

Gold — Zimbabwe's production of gold declined with levels for January 2010 at 519.1218 kg and that for February being 487.6587 kg. The gold industry, with most of the operators connected to electricity supply lines at 11 kVA, is heavily affected by interruptions in power supply. Most gold producers reported increased levels of downtime attributed to electricity outages in February going into March. This could explain the reduction in the gold output. Working capital constraints continue to affect availability of spares. An operation visited during the month showed evidence of such constraints in the poor state of the processing plant. All other things being equal, it appears that the constraints of power and working capital will hound the gold sector for the rest of this year.

Asbestos production is declining due to a severe lack of capital. Only 860 tonnes were produced in January and 629 tonnes in February. At present only Shabanie Mine is operating with power supply to Gaths Mine having been disconnected. The asbestos sub-sector has significant upstream linkages in manufacturing, making it a very strategic sector for economic recovery.

Iron ore — Zimbabwe is likely to pass another year with no production of iron-ore. Production of iron ore is heavily reliant on the good fortunes at ZISCO Steel. With grades of iron ore around 53% — 60% Fe, export of ore is a likely option, but exports are constrained by the restricted rail capacity and the distance to the ports

POWER critcal to mining

SOCIAL AND INFRASTRUCTURE DEVELOPMENT

MINING houses are involved in ever increasing social and infrastructure development initiatives, particularly in the communities surrounding their operations.

Thus, Mining Houses such as Zimplats, RioZim, Mimosa, Murowa, Metallon, BNC, Hwange Colliery, Zimasco, and AAMines are among the many mining houses that have undertaken specific community development initiatives which continue to impact positively on the communities surrounding their operations. These development initiatives include:

- Primary and Secondary Schools;
- Hospitals, Clinics and Health centers;
- Community Housing Schemes;
- Road Construction;
- Support for Local income generating projects;
- Scholarship programmes and contribution of study aids; and
- Stadia and recreational infrastructure.

The scope and magnitude of these development initiatives have varied but always invariably implied ploughing back financial resources into the communities for development. While the contribution of these social investment activities is immense, it is NOT readily accounted for in the national official output statistics.

Investment in health centers and clinics across the country has complimented Government efforts towards health provision. These health centers played a critical role in stemming the tide of Cholera outbreak in 2008, as mining houses joined forces with Government in fighting the epidemic.

Housing development initiatives such as those instituted by Zimplats in Ngezi, Murowa Mines and others have created an entire integrated community, with water, electricity and improved road networks. This has uplifted the livelihood of local communities and ancillary industries have developed as a result of the development initiatives.

MINING TOWNS AND SETTLEMENTS

Zimbabwe is inherently a mining settlement dominated economy. Since the early mining settlements in Shurugwi (then Selukwe) in 1906, mining has underpinned the development of towns, mining settlements and cities.

Thus, over the years, several towns and two cities have settlements and commercial activities that are directly anchored on mining. These are:

- Bindura
- Hwange
- Mashava
- Zvishavane
- Dorowa
- Shamva
- Mvuma
- Shurugwi
- Kwekwe
- Gweru

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The cities of Gweru and Kwekwe have developed settlements that have been largely influenced by mining and related activities at both Shurugwi and Steelworks at Zisco. In addition to settlements and the subsequent development of towns in mining areas, such development has naturally attracted a whole range of commercial activities, which generate employment and output. The activities have included, wholesale and retail activities, banking, industry and mining supplies, tertiary institutions and other services.

Thus, mining towns have evolved, creating synergies for all the services such as bakeries, retail, telecommunications, construction, banking, distribution outlets and other activities which generate employment and income.

The downstream multiplier effects imply jobs and employment — hence taxes — Payee, VAT, Customs duty, and Excise duty that flow to the fiscus.

Conceivably, the cascading economic activities that are inextricably linked to mining imply a much larger mining sector contribution to the economy and fiscus than the sector is credited with.

Mining houses have undertaken significant social investment in the mining towns and settlements. For example, Shurugwi town is entirely a mining settlement and Zimasco has invested in both Primary and secondary schools, a health centre that services both Shurugwi residents and nearby rural communities. AA Mines of Mashava and Zvishavane as well as Hwange Colliery are among the many mining houses modeled in the same pattern.

Ngezi Road

'LET THE ORE DICTATE THE TERMS!'

OF late the buzz word, or should we say sentence in Africa has been, "I'm into mining".

During a visit to most hotels in Africa, from Cape to Cairo you will invariably notice clumps of people huddled in close and concentrated meetings, all very deeply intent and focused.

These are the mining fraternity (geologists, process engineers, exploration experts, metallurgists and mining engineers to name a few). The continent has attracted extreme interest from all corners of the earth and within, all concerning the huge, and in many cases, dormant surface and underlying resources within. Africa is endowed with a huge array of minerals and to enter into that realm would take up a huge hunk of time. Suffice to say, the interest is there and many projects are being planned, implemented and commissioned right now.

Mining today is an applied art; the business model must be efficient and worthwhile, taking into account all aspects such as; preliminary mineral test-work, resource targeting, resource evaluation, environmental and social impact, water and power needs and availability, return on expenditure, etc.

Old time miners will easily take a seat and proclaim, "You need this and you need that", and in many cases would be miners and active miners take advice from these revered men of yore; going ahead blindly and often boldly, only to find the recommended process equipment does not suit the actual ground conditions and feed material. White elephants in the form of abandoned plants can be found all over the African continent, these rusting sentinels that have a tale to tell.

Fortunately there is an up to date mineral test-work laboratory www.peacockesimpson.com situated on the continent (Harare) where material can be submitted for actual amenability test-work to ensure that, before a project is undertaken, the ore does the talking. A great mining cliché' is "Let the ore dictate the terms." The laboratory boasts the latest state of the art equipment, such as XRF / Digital Microscope Technology, not to mention the Knelson Gravity test work modules and all aspects of chemical recovery process test-working. Using this world leading technology hub, mining concerns can rest assured they will be given the red, orange or green light before proceeding onto process specification.

A popular process that has evolved of late is the of scrubbing available resource to liberate minerals within the loose matrix that can thereafter be recovered by gravity, alleviating the use of chemical processing that takes up a lot of time, money and and raises environmental issues.

The RG (Rubble Guzzler) (a large diameter scrubbing drum with integral trommell and screen) range of scrubbers represented by Appropriate Process Technologies APT has taken not only the African continent by storm, but others to boot. Advantages of the RG process are many, a few examples are: easy maintenance, easy operation; easy installation; quick return on capital expenditure; low operating expenses; chemical free process; high recovery efficiency; low energy requirement (usually below 2 kw/hr per tonne, as opposed to conventional mining process of milling & crushing etc., +14 kw/hr per tonne), low labour requirement.

APT have also recently offered the option of combining a unique crushing module with the scrubbing plants. Therefore if the washed oversize is carrying well it can be crushed and reintroduced to the scrubber feed system. This is proving a very popular addition to the range and by utilizing up -to-date technology APT have ensured the energy required for these modules is kept to the absolute minimum, a win win situation.

In other words, once a resource is ready and proven to be amenable and there is enough raw water available on site, the scrub/gravity or scrub/crush/gravity recovery process plant can be implemented with the minimum of effort. Gone are the days of setting up mine admin centre's, mine clinics, mine staff complexes that sprawl over the countryside, huge milling houses engineering departments etc. etc., to do just 20t/hour. The RG plants minimal footprint for 20t/hr is miniscule only 100 square metres. Start up is short and sweet and mineral recovery is instant. What more could a miner want !! The RG scrubbing plants cater for many different minerals. Most commonly the big five; gold, chromite, tantalite, tin and silver. Chatting to the guys and girls who represent the RG Scrubbers is easy

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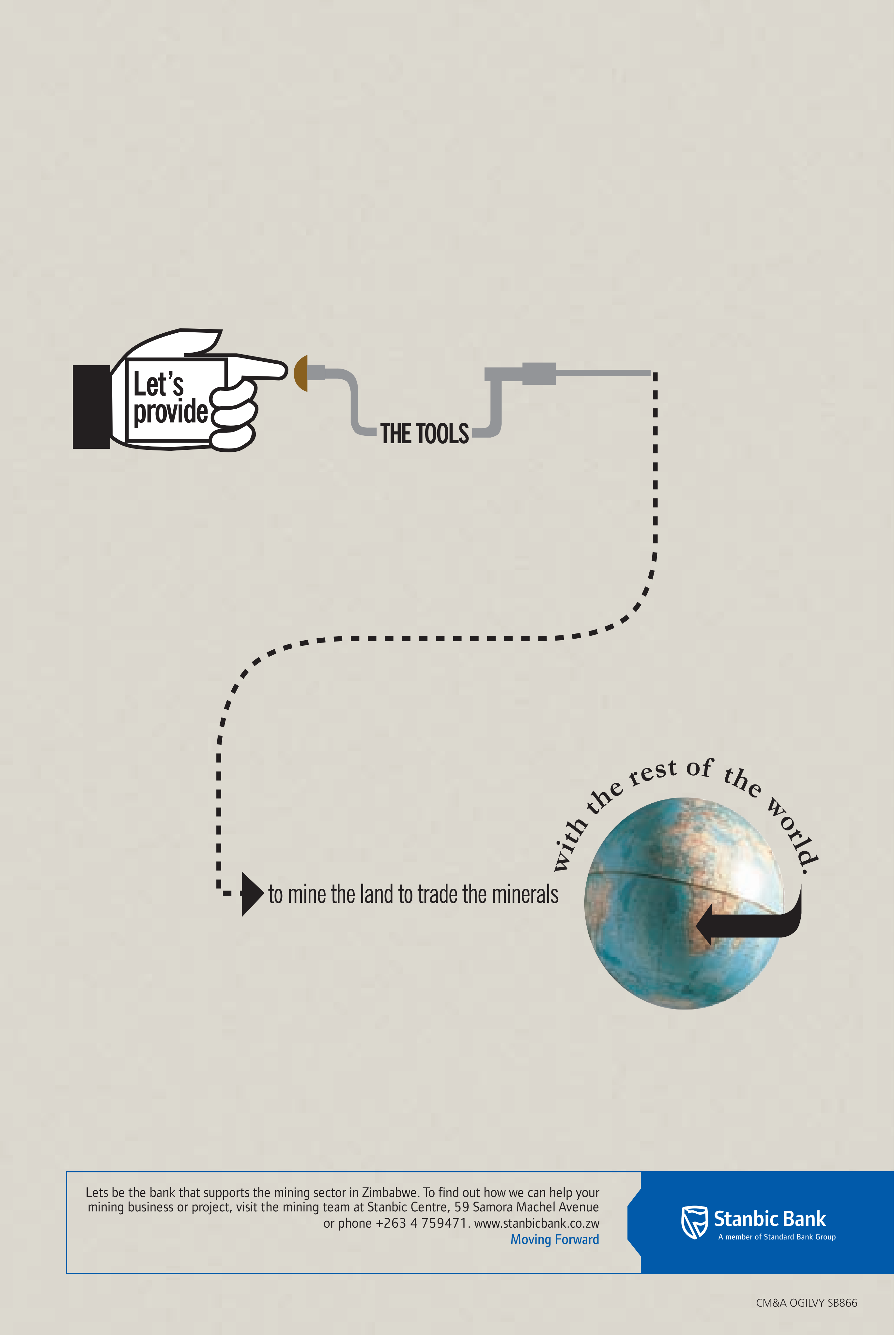
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ZIMBABWE NEEDS A NEW REFRACTORY GOLD ROASTING PLANT

UNLIKE Zimbabwe, Zambia has seen dynamic growth in the past decade due to proactive investment policies and a commodity price boom. However, Zimbabwe could achieve an even greater mining project boom with the total investment in Zimbabwe mining over the next ten years, being more than what Zambia has achieved in the past ten years. The reason for this is that Zimbabwe has, fundamentally, a superior Mines and Minerals Act, supported by the Chief and Regional Mining Commissioners and a better education / skills base than most other countries in Africa.

Zimbabwe however does not have the richest resources in Africa, but the reason Zimbabwe has had more historical mines (per square km) than any other country in Africa is due to the Mines and Minerals Act, which allowed small, medium and large scale miners to prosper. In fact, the emphasis in the past was on a range of assistance provided to the small scale miners via the regional Mining Commissioners. Most other African countries do not support small-scale mining and this is why those countries have only illegal artisanal miners and a few large mines, if any.

Small and medium scale (SMS) mining has the potential to employ and benefit, directly and indirectly by far, many more people than large-scale mining. It is for this reason it should be promoted as soon as possible as SMS mining can have a much more positive impact on empowerment of local people and on the national economy.

SMS miners often lack the scale of operation to justify a pyrometallurgical and/or hydrometallurgical process to treat the concentrates they produce. SMS miners will often only be able to justify the CAPEX for a simple mineral processing plant such as gravity or flotation concentrator.

Such plants may even lack Cleaner and Re-Cleaner circuits and thus those concentrates will often be low grade and thus unsuitable for export. Even where high grade concentrates are produced the small quantities do not allow for export as foreign buyers insist on 100 t lots and regular supply.

Small-scale gold processing

Export of any concentrates is not ideal and if there are facilities to process such within Zimbabwe, then the value adding should take place here. Regardless of whether a SMS miner produces a low or high grade, base or precious mineral concentrate, refractory or not, they need to be able to generate cash quickly to sustain and build their operations.

Thus a facility to process and refine a wide range of base and precious metal concentrates is one of the things needed for SMS mining to prosper in

Zimbabwe. The Roasting Plant Corporation facility in Kwe Kwe (which closed in the late 90's) did buy concentrates from SMS miners but was limited to the processing of refractory gold ores viz: arsenopyrite and stibnite concentrates. The payment terms of 3 months or more from the Roasting Plant Corporation also stressed the cash flow of SMS miners to the extent that many of them closed down in the nineties.

To promote a wide range of SMS Mining, SMS miners need to be able to toll process or sell their concentrates and be paid promptly. Also needed, is the facility to process and refine a wide range of base and precious mineral concentrates produced by SMS miners including concentrates such as:

- Base mineral concentrates — oxide and sulphide.

Examples:
Copper oxide (malachite) hand cobbed ore or gravity concentrates from the Kadoma (Copper Pot), Nkayi (Nkayi Copper), Kwe Kwe (Rifle Range), Chiredzi (Edward) and Masvingo regions;

Polymetallic (Cu, Zn, Co, Pb, Au, Ag etc) sulphide concentrates from Gokwe (Copper King/Queen), Kwe Kwe (Cactus) regions;

Copper sulphide (chalcopyrite) concentrates from Kadoma (Copper Duke), Makonde, Mutare (Odzi Copper), Bikita (Umkondo) regions;

Copper and or Nickel sulphide concentrates from Zhombe (Empress), Chegutu (Perseverance) regions;

- Gold concentrates of all descriptions including refractory concentrates.

<u>Examples:</u>
Arsenopyrite refractory gold concentrates from Kwe Kwe (Club, Black Prince, Venus), Mutare (Cairndhu, Champion), Gwanda (Champion), Shurugwi (Belvedere) regions;

Stibnite refractory gold concentrates from Silobela (Gothic), Belingwe (Belingwe Star), Kwe Kwe (dozens of small workings) and Kadoma regions;

Low grade (20gpt) contaminated concentrates (flotation cleaner tails, combined with copper as produced by some gold mines etc) that cannot be treated by conventional means;

Base or precious mineral, high grade ores that may have been hand sorted.

<u>Examples:</u>

Hand cobbed massive sulphide ores of stibnite, pyrite, arsenopyrite etc from Silobela, Kwe Kwe, Gokwe, Kadoma, Shurugwi etc

Another requirement of such a facility is that the SMS miners are paid quickly and preferably the same day as delivery of the ore or concentrate (provided it is delivered before 09:00hrs). BioMetallurgical has proposed a facility capable of meeting all these criteria.

<u>Kwe Kwe Polymetallic Refinery (KKPR)</u>

BioMetallurgical, an offshore company that has been investing in Zimbabwe for over a decade, has proposed the building of the Kwe Kwe Polymetallic Ore and Concentrate Refinery (KKPR). The plant would be situated well outside the Kwe Kwe city confines, at an old copper mine site approximately 20 km along the Gokwe Rd.

The advantages of situating the KKPR at the old copper mine include:

Location of this inherently hazardous process (Arsenic containing refractory concentrates) well away from any built up area. (the previous Roasting Plant in Kwe Kwe deposited arsenic fall out in urban areas).

The on-site use of the sulphur dioxide produced from roasting and smelting at the KKPR, for the leaching of oxide ores. Previously at the roasting plant in Kwe Kwe the sulphur dioxide was emitted into the atmosphere.

On-site acid production would also considerably reduce the required imports of Sulphuric acid from South Africa.

The Location is central Zimbabwe and has access via good tar roads from all parts of the country. A significant portion of Zimbabwe's deposits of refractory gold and polymetallic sulphides, mostly owned by small scale miners, are located within a 200km radius of the proposed site.

The generation of over 300 permanent jobs on site at KKPR would benefit the Kwe Kwe, Zhombe, Silobela, Gokwe, Kadoma and Gweru regions.

The empowerment of more than 40 medium scale and 500 small-scale mining syndicates in Zimbabwe would result in an estimated 15,000 jobs directly and another 50,000 jobs indirectly, benefiting our country substantially.

A Pre Feasibility Study has been conducted and full implementation is simply awaiting funding. The proposed project would be constructed and commissioned in phases as follows:

Phase One	2010	Refractory gold processing facility with Arsenic recovery;
Phase Two	2010	Base metal refinery and Sulphuric acid recovery from Roaster;
Phase Three	2011	Antimony refinery and other base metal by products refinery;
Phase Four	2012	Increase Gold and Base Metal processing and refining facilities;

PROCESSING SUMMARY

The KKPR will utilise a range of synergistic technologies that include pyrometallurgical and hydrometallurgical processing of ores and concentrates. For example, the sulphur dioxide produced from roasting of refractory gold concentrates and the smelting of base metal sulphides will be converted to sulphuric acid and used to leach base metal oxides and roaster calcine's.

Sulphuric acid will also be used to agglomerate low grade gold refractory gold concentrates that will be bio-leached prior to CIP gold recovery. Excess sulphuric acid will be sold as a by-product.

The base metal refinery will utilise Solvent Extraction Electro Winning (SXEW) technologies to produce pure copper cathode and a range of base metals.

Products of the KKPR will include Gold and Silver bullion, Copper cathode, Arsenic, Antimony, Nickel, Cobalt, Zinc and a PGM concentrate. The following figures are subject to SMS mines and larger mines re-opening and producing concentrates.

The mines, skills and resources are present in Zimbabwe and such capacity to produce exists if provided with the capital required to develop such.

ESTIMATED PRODUCTION FROM THE KKPR

Product	Phase 1 & 2 Capacity	Phase 3 & 4 Capacity
Gold	30 to 60 kg per month	80 to 150 kg per month
Copper LME A	500 tonnes per month	1000 tonnes per month
Nickel HG	50 tonnes per month	200 tonnes per month
Cobalt / Zinc ppt.	50 tonnes per month	200 tonnes per month
Arsenic Trioxide	30 tonnes per month	150 tonnes per month
Antimony HG Metal	20 tonnes per month	100 tonnes per month

PAYMENT FOR CONCENTRATES

One of the fundamental principles that KKPR will operate under will be spear-headed by the implementation of the quick-payment-system and the provision of technical assistance to the SMS miners.

Quick payment to sellers of ores and concentrates will be implemented as follows; Payment of 80% of first estimate on the same day as delivery and the corrected remainder within 3 days. This practice is vital for the SMS mining industry to restore production to the levels seen during the 1950's to 1990's. Delayed payments of up to 3 months by previous operators of the Roasting Plant resulted in a downward spiral of production as the miners battled with cash flows and lived hand to mouth.

As the ore or concentrate is delivered the mass is determined via weigh bridge, the ore or concentrate is off loaded and fed through a crusher and an automatic sampler takes a representative sample under the witness of the seller (ore representative). The sample is riffled and split into six samples all of which are all sealed under the witness of the seller. The seller keeps one sample for umpire assaying if there is an argument over the assay. One sample is immediately sent to the lab where, using XRF spectrometry, an assay result is produced within an hour. Gold results are produced quickly by aqua regia digest and AAS. These figures are passed to the accounts department and a cheque is produced for 80% of the estimated metal content based on the prevailing rates for that week. The SMS miner leaves with his or her cheque the same day!

ISO CERTIFIED COMPANY TAKES MINING SECURITY TO NEW HEIGHTS

SECURICO has established itself as a leading security services supplier to the mining industry and has become an authority in this field. The company currently provides services to major mining firms and has taken a new approach to its security role at mining sites.

"Our security operatives are trained to be more than just a security guard protecting assets. We believe that our operatives should take a leading role in safety, health, environmental and quality issues," said Divine Ndhlukula Managing Director of DDNS Security Operations t/a SECURICO and MULTI-LINK, the only ISO9001:2008 QMS certified manned security services provider in Zimbabwe.This new approach has seen the company investing heavily in the training of security personnel on SHEQ issues to enable them to monitor and enforce SHEQ requirements at their guarding sites.

"Our operatives should not add to and increase the risk profile at their work points. Rather they should intervene to reduce risk and assist in the monitoring and enforcement of safety regulations. That is our unique value addition to the mining sector," added Ms Ndhlukula.

SECURICO teams are participating in SHEQ competitions and have won awards at the recent First Aid Team competition held at ZIMPLATS' Metallurgical Complex in Selous.

"Mining is a unique and very involving operation that requires a proactive approach to risk management," said Ms Ndhlukula. "Our approach is to establish a well researched and holistic risk profile for each guarding site. That way we improve our capacity to deal with all possible eventualities. Our role becomes more than just guarding. We become part of the mining team."

Commentators have stressed the need for security service providers to keep abreast with developments in the mining sector. In particular there is need for local organisations to increase capacity to meet the needs of the mining sector and capitalise on the competitive advantage of a local supplier. Currently mining firms routinely rely on foreign suppliers even for basic supplies including security technology.


Divine Ndhlukula

However Ms Ndhlukula believes that SECURICO has built capacity to compete favourably with the traditional foreign suppliers of technology based security products to the mining sector thereby eliminating any need for local firms to import security products on their own. In importing these security products, customers run the risk of costly support services and in most cases there is no continuity once the technology becomes obsolete.

"We have gone into partnerships with manufacturers of top of the range high-tech products which are robust and well suited for local use," said SECURICO's Managing Director. "Our technical teams have been trained by our suppliers and we have the capacity to handle all installations and maintenance so our customers are not inconvenienced whenever there is a break down."

"In the end it is cheaper to use a competent local supplier and we are glad of the confidence that our customers have shown in us," said Ms Ndhlukula.

In 2008 SECURICO acquired MULTI-LINK (PVT) LTD an alarms and rapid response company. This organisation was quickly transformed into a provider of High–Tech security products with a bias on robust and durable computer-based products. The products are especially adapted and relevant to the mining sector where there is need to monitor remote and sensitive sites.

"We are quite certain of our role and relevance to this sector. We have done our ground work and our clients are benefiting immensely at no extra cost,' added Ms Ndhlukula.

Once triplicate fire assays and base metal assays have been performed within the next three days, a revised metal content is calculated for the concentrate delivered. The remainder of the payment is then made via transfer to the SMS miner's bank account.

The payment for concentrates and ores delivered to the KKPR would be based upon refined metal prices for that week and an industry standard discount dependant on the grade of the ore or concentrate. On delivery to the KKPR, concentrates are assayed and the moisture content is established so as to determine the contained tonnes of metal (or grams for precious metals). This is referred to as Dry Metal Metric Tonne (DMMT) and this is the price, multiplied by the DMMT price of metal, at that concentrate grade, to calculate the payment to the seller.

Examples of prices used in the industry (and as would be used by the KKPR) at the moment are as below:

Ore or Concentrate	Buying Price
Copper oxide concentrate 10% Cu	USD2800 DMMT
Copper oxide concentrate 35% Cu	USD5500 DMMT
Antimony concentrate 35% Sb	USD3000 DMMT
Antimony concentrate 60% Sb	USD4500 DMMT
Gold concentrate 50 gpt	80 to 85% of the contained Au
Ores or concentrates containing significant levels of Ni, Zn, Co, Ag, PGM	30 to 60% of the contained metal values.

It must be stressed that lower grade concentrates incur higher processing costs and thus high grade concentrates will always achieve a better price per contained unit of metal. For interest sake; the old Kwe Kwe Roasting Corporation paid 77% of gold content to the SMS miners but only after about 3 months.

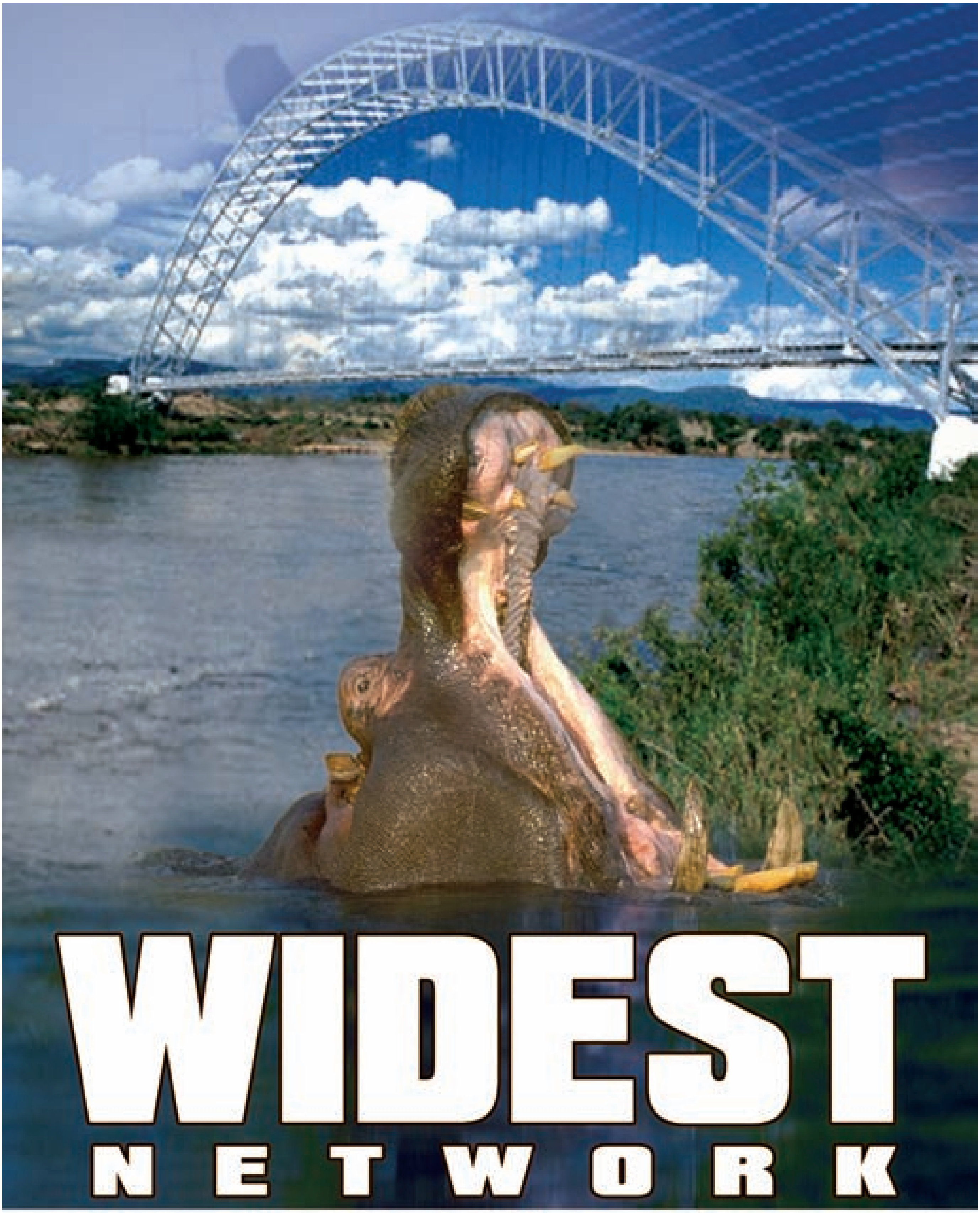
EXAMPLES OF SMS MINES TO BENEFIT FROM THE KKPR

Three examples of typical mines that would be reopened as a result of the opportunity to sell concentrates to the KKPR are presented below.

Silobela Region

Stibnite & arsenopyrite bearing quartz reef.

Underground mine developed to two levels. Reserves intact. Mine is flooded. This mine was abandoned when the previous owners could no longer


WIDEST
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find a market for their mixed sulphide concentrate. The mine shaft could be de-watered and re-equipped as it is only two levels and was a reasonable dry mine. A simple 100 tpd mill with a Rougher Scavenger flotation plant and gravity gold circuit would be required. Production would be around 300 tonnes per month of concentrates at 40 gpt gold and 20% Sb (12kg of contained gold) as well as 3kg of gold from the gravity circuit.

The KKPR would buy the concentrate and pay at the rate of 85% of contained gold and 30% of contained antimony. Initial payment of 80% of the estimate value would be made the same day as delivery and the remainder upon full assay within 3 days. Thus the revenue of this small mine with a simple plant would be approximately USD600,000 per month (at current prices).

Nkayi Region.

Chalcopyrite and pentlandite bearing ore body.

Underground mine developed to one level in the 1960's. Mine is flooded. This mine was abandoned when the previous owners could no longer find a market for their mixed Cu/Ni sulphide concentrate. A simple 200 tpd mill with a Rougher Scavenger and Cleaner flotation plant would be required. Production would be around 600 tonnes per month of concentrates at 15% Cu & 10% Ni.

The KKPR would buy the concentrate and pay a market related DMMT price for the contained copper and nickel. Higher grade concentrates would naturally fetch higher prices. The revenue of this small mine with a simple plant would be approximately USD900,000 per month.

Kadoma Region.

Malachite bearing ore body.

Small scale opencast abandoned. This mine was abandoned when the previous owners could no longer find a market for their hand cobbed malachite ore. A simple 200 tpd scrubber and screen with Jigs and Rougher Scavenger and Cleaner spirals plant would be required. Production would be around 1000 tonnes per month of concentrates at 10% Cu. Gravity gold could also be recovered prior to the spirals.

The KKPR would buy the concentrate and a market related DMMT price for the contained copper (USD3375 DMMT at this week's prices).

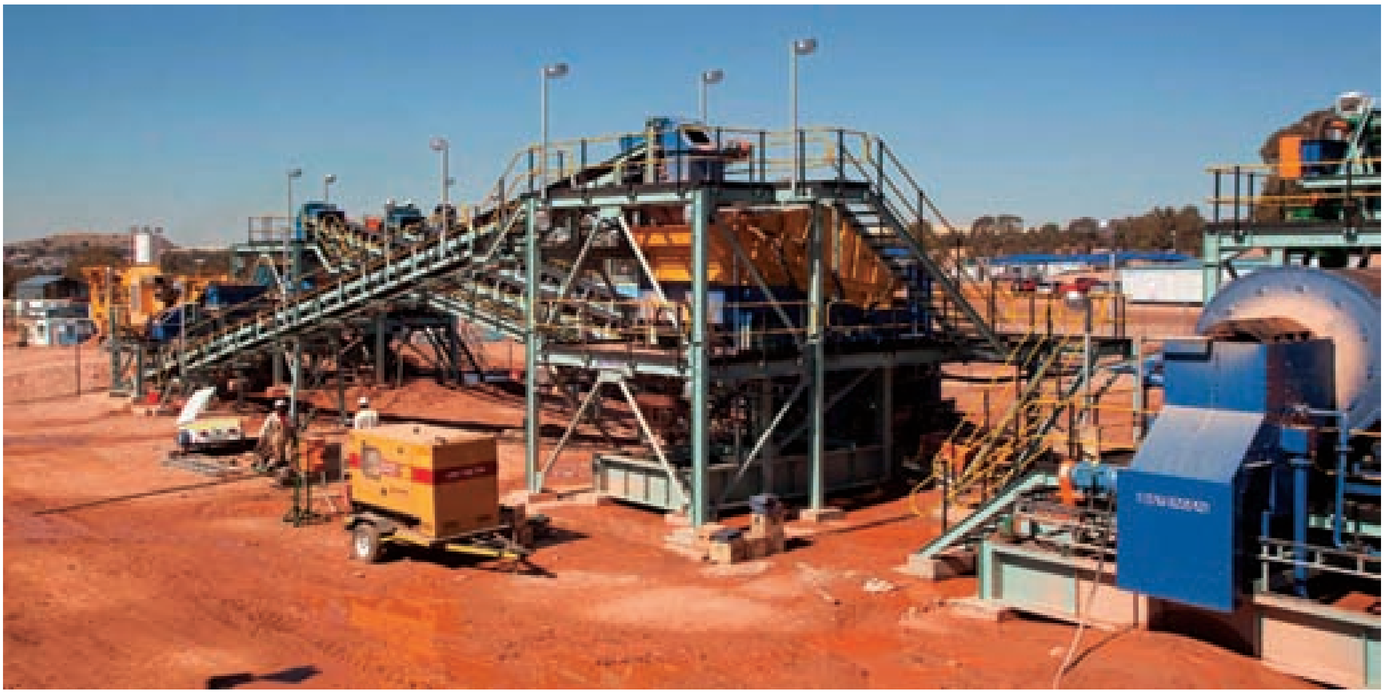
The revenue of this small mine with a simple plant would be approximately USD375,500 per month.

All three of the above projects would be able to pay back their capital expenditure in well under twelve months and would be able to develop on the quick cash flow availed by the KKPR.

TECHNICAL ASSISTANCE TO SMS MINERS

The provision of technical assistance to SMS miners is a fundamental philosophy of the planned KKPR project. Technical services and assistance in the fields of environmental, safety, survey, mining, geology, metallurgy, administration and training will be provided by the KKPR to the SMS miners.

Services provided will be subsidised relative to delivered production and SMS miners will be ranked in Class depending on the quantity, quality and regularity of deliveries to the KKPR. Higher ranked SMS miners may qualify to receive subsidised hire of mining equipment and loans to expand their opera-



MINING SECTOR PROPOSAL ON INDIGENISATION TO RESULT IN REAL BENEFITS TO COMMUNITIES

1.The debate on economic empowerment is not new. Many countries have gone through a phase when empowerment has been a prime concern of the government. Between the 1960s to 1980s, indigenisation and empowerment took the form of state control or communal ownership as in Zambia, Tanzania, Chile, Argentina, Bolivia, Brazil, Peru, Ecuador, Mexico and Venezuela. Post analysis shows that all countries that pursued the nationalization policy suffered economic stagnation. In the case of African countries, real per capita gross domestic product went on a free fall as private capital and skills fled, with economic stagnation as the ultimate result. Again, without exception, countries that decided to reverse the nationalization policy attracted investment and began to grow. This is evidenced by growth driven by new investment in Zambia's and Tanzania's mining sectors in the last 10 years. Countries such as Malaysia and Singapore did not opt for nationalization or indigenisation based on acquisition of existing businesses per se, but embarked on preferential treatment for locals as in Singapore, and a quota system and preferential funding of indigenous initiatives as in Malaysia. The successes of Singapore and Malaysia are attributed to the fact that these countries were highly capitalized when they embarked on their empowerment programs.

The Chamber of Mines of Zimbabwe (COMZ) recognizes and accepts the need to ensure broad based empowerment and indigenisation of the economy. While the concept is not in dispute, it must be carried out in a manner that will ensure that Zimbabwe's mining sector can continue attract the investment required to ensure capitalization and growth.

It must be borne in mind that a policy that merely seeks to transfer ownership and control of a business is short sighted and will not address the inherent problem of economic empowerment. Sustainable and genuine empowerment goes beyond just asset acquisition of assets to include the creation of a broad platform for wealth creation and opportunities for the disadvantaged.

Zimbabwean investors in the mining sector must be able to raise amounts well in excess of the purchase price of the equity. It is often the case in mining that the shareholders of the business are required to recapitalize the business directly from their own resources or the business must be able to qualify for long-term financing, which undoubtedly, is dependent upon the promise that the business offers, the quality of management, and the quality of shareholders, not to mention the risk associated with the location of the business.

The COMZ has put forward a well crafted and demanding proposal on indigenisation and economic empowerment that will have direct and immediate benefit to communities. The proposal demands commitment of mining companies to invest in communities on a continuous basis, through a variety of social investment projects ranging from:

1. Social and Infrastructure Spending,
2. Zimbabwean Procurement,
3. Assistance to Small Scale Miners,
4. Skills Development & Technology Transfer,
5. Establishing Companies and Factories,
6. Release of ground, and
7. Any other socially and economically viable program.

The proposal recommends a minimum of 15% direct equity sales with the remaining 36% being in the form of equity equivalents earned through social investment, to allow for various permutations that are mutually beneficial to mining companies and the communities.

It is a fact that over the years mining companies' social investment activities have resulted in more benefits to communities, which far outweigh dividends to shareholders. Mines have contributed significantly to the upliftment of livelihoods not only in areas they operate in, but also beyond, through various social investments and the development of downstream industries supporting mining activities. This is evidenced by the development and growth of several town centers around mining, such as Hwange, Gweru, Shurugwi, Kwekwe, Bindura, and more recently, Ngezi being developed by Zimplats.

In spite of these positive investments, mines have, been blamed for the problem of ghost towns such as Mhangura. However, ghost towns arise due to lack of shared development vision and responsibility by all stakeholders—a lack of coordinated policy and planning by governments in conjunction with local authorities and the communities themselves in creating an integrated post mining investment framework for viable and sustainable social investment. The COMZ proposal takes these past failures into consideration—failure occurred because of a lack post mine planning on the part of the mines as well as there being no legal requirement to have a plan.

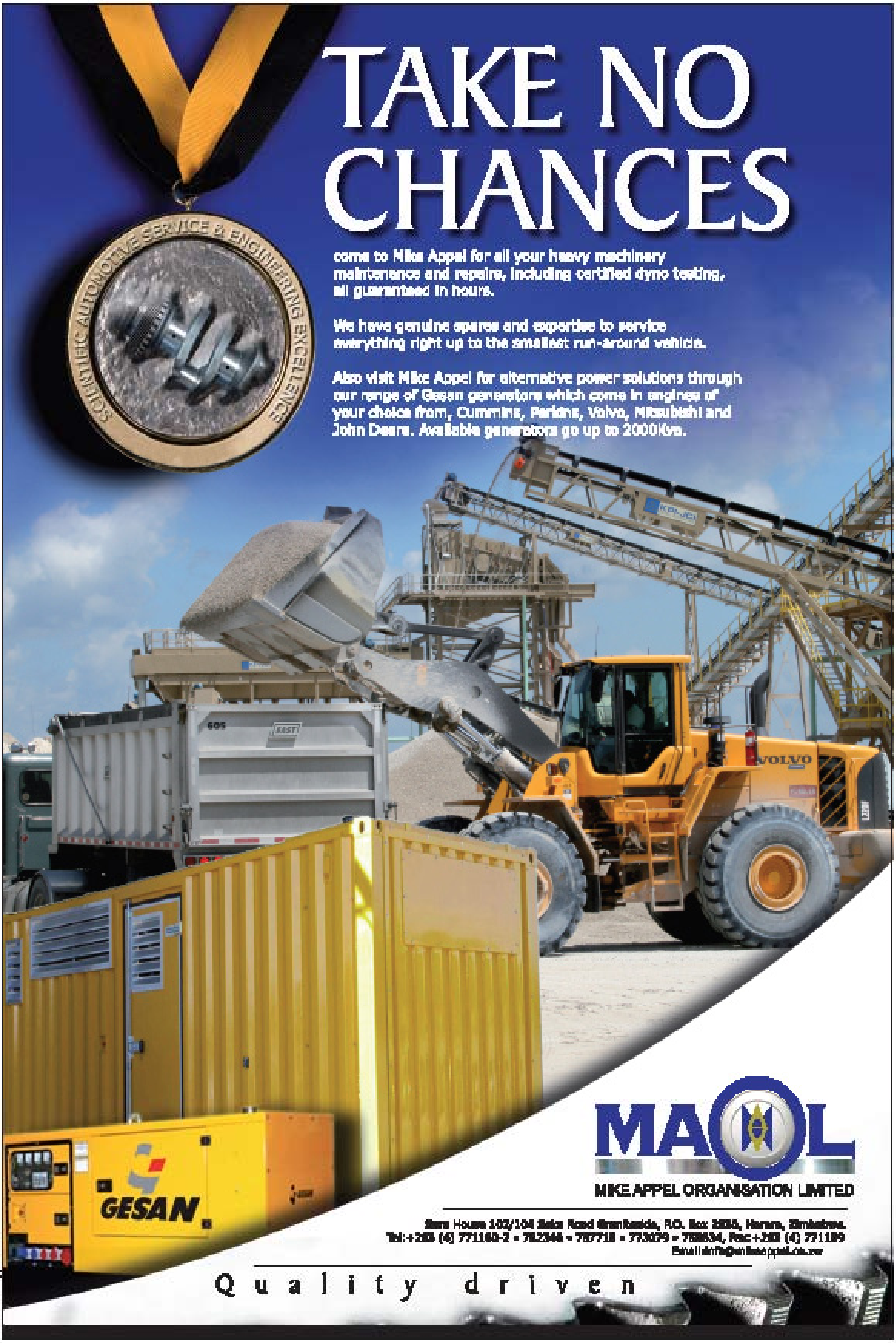
The COMZ argues that it is a better deal for the

Empowering rural communities

majority of Zimbabweans in rural communities that mining companies commit to measurable social investment on a continuous basis rather than allowing large equity acquisitions by a privileged few, who will, most unlikely, take social investment seriously. According to the COMZ proposed scored card system, mining companies will find themselves having to commit as much as 2% of revenue on various social investment programs agreed with the communities and local authorities over and above the royalties already being paid for the companies to earn meaningful social investment credits.

The COMZ also warns that for every dollar earned in mining, shareholders actually get the least benefit as frequent recapitalization is common in the business of mining. The focus must be on expenditure on those activities that will result in the upliftment of the Zimbabwean communities in general. It is for this reason that the COMZ suggests that whatever percentage of compliance is set by government, it be a combination of direct equity and empowerment credits earned through social investment targeted at achieving the desirable broad-based indigenisation and economic empowerment.

It is the COMZ submission that the legislation, as promulgated on January 29 2010, does not support economic growth and is unlikely to attract investment into capital intensive projects, characteristic of mining. A focus on ownership will not necessarily empower ordinary people and is in fact, a burden. Equity is an immediate cost whose returns are either in the form of dividends or capital gains realized on disposal. Dividends are never guaranteed and neither are capital gains. Thus a 51% equity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acquisition may in fact result in loss of value, which is ultimately dis-empowerment.

A majority stake of 51% by locals, who at this stage do not have access to capital, will result in the stifling of the growth and development of not only the mining industry, but also the development and growth of the communities. The focus must be on growing the cake rather than sharing a shrinking cake, and capital accumulation is the key to the growth of the mining industry and the Zimbabwean economy at large.

The COMZ has suggested amendments to the legislation in the spirit of creating a legislation that is effective, credible, and provides confidence for all stakeholders. This should lead to sustainability of indigenisation and economic empowerment in the country. The summary of amendments is as follows:

1. Change the word cede to sell to provide for fair commercial transactions,
2. Provide for 51% to be a combination of direct equity and credits from social investment,
3. Recognize Zimbabwe Stock Exchange listing as part of indigenisation,
4. Employee Share Ownership Schemes to rank at par with other forms of equity,
5. Raise threshold from $500,000 to $5,000,000 to exclude small family owned businesses,
6. Minister to respond within 3 months from fixed date to shorten the period of uncertainty,
7. Establish sector specific boards to take care of idiosyncrasies within sectors,
8. Minister to act on advice from main boards, getting input from sector boards,
9. Once empowered, always empowered, i.e., foreign shareholders must not be held responsible for decisions made by indigenous shareholders with regard to disposal of their equity. Indigenous shareholders may wish to maximize value by disposing off their equity to an investor who may not be indigenous,
10. Indigenous investors to be required to disclose their net-worth upfront to prevent time-wasting opportunists,
11. Time frame to take cognizance of good faith, i.e., a foreign owned business that offers equity to indigenous investors, may be found to be unattractive as an investment for whatever reason. In such a case, that company should not be put to task for not complying with the law once the period of offer has expired,
12. Indigenisation must not hinder business growth. If indigenous shareholders fail to meet their portion of a capital call after all procedures have been followed in accordance to the shareholders' agreement, they should be diluted by anyone capable of injecting capital; i.e., they must accept dilution without penalty to the foreign shareholders, and
13. The definition of indigenous as currently presented is narrow and confusing. It is desirable that the definition includes all Zimbabweans.

It must be noted that indigenisation and economic empowerment is not an event but a process. While the desire to have wealth is a continuous urge in every Zimbabwean today, it takes years to create wealth. In most cases, the efforts or sacrifices of a generation only yield results after a few generations. Thus there is need for Zimbabweans to appreciate that tremendous hard work and sacrifice will be required from everyone in order for desirable results to be achieved.

It is important to remind ourselves that there are several examples of social investment expenditure that have gone unnoticed. One only needs to tour various mining communities and witness what some major mining companies have been doing to uplift the quality of life in the surrounding communities through support to agriculture, education and health, small scale business formation. Examples include Zimplats, Mimosa, Murowa, and New Dawn mines, among others.

We must emphasize that the size of a mine is a crucial factor in its ability to generate meaningful cash flows that can allow a commitment of 1-2% of revenue to be invested effectively in the community. Simply put, a mine whose 2% of revenue amounts to $1,000,000 can do more for the community than a mine whose 2% of revenue is $20,000. Thus, in the process of parceling our mineral resources, a concept of optimum size be developed based on the correct understanding of the differences between minerals.

● ***Dr Chris Hokonya***