Notice to Mining Lease Holders

Date : May 18, 2017

The attention of all mining lease agreement holders is drawn to the provisions of Section 148 of the Mines and Minerals Act of 2009 (MMA 2009) which stipulates royalty payment rates and the use of "market value" in the calculation of royalties. In addition, Sections 154 of MMA and 77 of Mines and Mineral Regulations (MMR 2009), stipulate the use of arm's length principles as well as "the best international terms compatible with world market conditions" in such calculations.

We hereby inform you that effective from April, 2017, the Government of Sierra Leone will vigorously implement these provisions in the computation of mineral royalty payments.

The National Minerals Agency will henceforth ensure that all royalties are based on prices obtained in an arm's length transaction without discount, commissions or deductions. To meet this requirement, free-on-board (FOB) price as published in international commodity price publications, such as Platt.com, less the transport costs as reported in Baltic Exchange Capesize Index, will guide royalty computation. All invoices submitted will continue to be considered as provisional invoices, and NMA will subsequently calculate and determine all final royalty payments due based on the legally stipulated arm's length provisions.

GOSL remains fully committed to regulation of the mining sector in a manner that ensures a win-win situation, whereby mining contributes to sustainable development of our people as well as ensuring good returns to investors.
We thank you for your understanding and expected full cooperation.

Sahr Wonday
Director General

Copy:

The CEO, Tonkolili Iron (SL) Limited, 154 Wilkinson Road, Freetown
The CEO, Sierra Minerals Holdings 1 Limited, 37 Wellington Street, Freetown
The CEO, Sierra Rutile Limited, 2nd Floor Access Bank Building, 30 Siaka Stevens Street, Freetown
The Minister of Finance and Economic Development
The Minister of Mines and Mineral Resources
The Financial Secretary, Ministry of Finance and Economic Development
The Commissioner General, National Revenue Authority
The Permanent Secretary, Ministry of Mines and Mineral Resources

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APPENDIX 1

MMA 2009, Section 148: Royalties

(1) Subject to this Act, the holder of a mineral right shall pay to the Government royalty in respect of any mineral obtained by him pursuant to his mineral right.

(2) Royalty is payable pursuant to subsection (1) shall be the following percentages of market value as defined in subsection (3) below-

(d) 3% for all other minerals.

(3) The term "market value" shall for the purposes of calculation of royalty be the sale value receivable in <u>an arm's length transaction without discount, commissions or deductions</u> for the mineral or mineral products on disposal as defined in regulations.

(4) Subject to the Income Tax Act, 2000, royalty payable in pursuance of subsection (1) shall constitute an operating cost of the mineral right holder and shall be allowed as a deductible expense in ascertaining his net chargeable income for income tax purposes provided that royalty shall not be imputed as part-payment of any tax on income.

MMA 2009, Section 154: Arms-length

(1) Subject to subsection (3), the holder of a mineral sales right shall sell mineral products obtained under its mining operations-

(a) in accordance with generally accepted international business practices;

(b) for exported minerals, at the best available international market prices at the time the contract for sale is made; and

(c) for exported minerals, on the best international terms compatible with world market conditions and conditions obtainable in the circumstances.

(2) Subject to subsection (3), the holder of a mineral right shall make sales commitments to affiliates only at prices based on or equivalent to arm's length sales to non-affiliated purchasers and in accordance with such terms and conditions on which agreements would be made if the parties had not been affiliated.

(3) The provisions of this section shall apply to holders of large-scale mining licenses having a capital expenditure of not less than US$5 million.

(4) Where the Minister considers the realised price does not comply with subsections (1) and (2) the Minister, on the advice of the Minerals Advisory Board, shall determine the appropriate price.

MMR 2009, Section 77. Calculating Royalties

(*1) Pursuant to section 148 of the Act all holders of mineral rights who obtain minerals shall be required to pay a royalty based on a percentage of the market value of the mineral. For the purpose of this calculation, market value shall mean the sale value receivable in an arm's length transaction without discount, commissions or deductions for the mineral or mineral products. The following methods will be used in determining market value for specific minerals:*

(c) the market price for all other bulk minerals, namely bauxite, rutile, and iron ore will be calculated using the realized gross price for a sale free-on-board (fob) at the point of export from Sierra Leone or point of delivery within Sierra Leone, and pursuant to section 154 of the Act based on or equivalent to arm's length sales. Royalty payments will be paid on conclusion of the transaction and payable to the Commissioner of Non-Tax Revenue within the National Revenue Authority.

Signed copy of this notice can be downloaded here.