Paladin Energy Ltd

Response to the ENVIRONMENTAL JUSTICE ORGANISATIONS, LIABILITIES AND TRADE Article, titled:

Paladin lies to Malawi Government on its Kayelekera Uranium Mine

11 April 2014

Paladin lies to Malawi Government on its Kayelekera uranium mine

Posted by Nick on April 2nd, 2014

By William Nyirenda, Citizens for Justice.

It has been over a year now since Paladin started threatening to shut down the Kayelekera Uranium Mine, following a continuous trend of losses. Finally, on Friday 7th February 2014 Paladin Energy Limited announced that production at Kayelekera Uranium Mine (KUM) had been halted citing the continuous downward trend in global uranium prices as the main reason. According to Paladin, the shutdown would improve the company's cash position by $7 million to $10 million this year and by up to $25 million next year. Meanwhile the mine has been put on care and maintenance and production would not be re-started until the uranium price hits US$75 a pound.

The truth behind the closure

When interviewed by our team on 21st February, Paladin country Director for Malawi Mr. Gregory Walker argued that their other uranium mine in Namibia, the Langer Heinrich Mine (LHM) would not be closed down as well, as its production costs are much lower than that of KUM i.e. US$5.60 per pound cheaper. He further indicated that connecting KUM to electricity grid would reduce production costs by US$5.00 per pound. The implication being that production costs at LHM in Namibia would be almost the same as that of KUM if KUM was connected to the grid, but surprisingly Paladin CEO John Borshoff openly declared that the KUM would not open even if it was connected to the grid (http://www.marketwired.com).

This however raises a lot of questions as to whether the downward trend in uranium spot prices is indeed the main reason for the closure of the KUM.

PALADIN COMMENT:

*Langer Heinrich Mine in Namibia has a much longer mine-life (20 years) than Kayelekera Mine (**KM**) in addition to lower operating costs; therefore its economic fundamentals are quite different to KM. As explained in Paladin's public announcement of 07 February 2014, the decision to suspend production at KM was based on two factors, both beyond the control of the Company:*

- *a) The continuing depressed price for uranium oxide, which has been severely negatively impacted since March 2011 following the nuclear reactor damage caused by Fukushima earthquake and tsunami; and*
- *b) The unsustainable cash demand to maintain the loss-making Operation at KM.*

We have not yet seen the anticipated improvement in uranium prices and Paladin can no longer support the burden of carrying a loss-making operation at KM, which the Company has done since the project's inception. The forecast cash injection required for KM was US$25M per year; whereas Paladin is not required to make such contribution to its Langer Heinrich Mine in Namibia.

*With respect to power costs, these are much cheaper in Namibia, where Langer Heinrich Mine draws electricity from Nampower's national distribution grid. Paladin's announcement of 07 February 2014 noted that, while Paladin (Africa) Limited (**PAL**) "has successfully installed and commissioned one of two major cost-reduction initiatives at KM for Financial Year 2013-14 – the Nano-filtration acid recovery plant; the second measure - aimed at significantly reducing KM's cost of power by connecting the Operation to Malawi's national power distribution grid - has not been achieved to date. During the 18-month negotiating period, uranium prices have continued to fall, making grid power - even if available at this time - ineffectual in achieving profitability at KM."*

Paladin has made connection of KM to the ESCOM grid a precondition of a decision to recommence operations at KM when economic circumstances permit. Mr Borshoff has stated that Paladin would "not contemplate any such an expansion until uranium prices reach at least US$75/lb and are sustainable at or above this level." He added that, consistent with that decision, Paladin would invest in future production only when it made economic sense to do so – and this included recommencement of production in Malawi, as well as expansion in Namibia.

CFJ has carried out a research talking to ex-employees of Paladin and representatives of the Ministry of Mines and Energy. We have also followed up quite closely on the issues coming out through the media. For fear of reprisals, the names of our informants will not be revealed in this write-up. Interviews were carried out between 10th to 28th February.

An inside source from KUM revealed that Paladin has not been affected with the low uranium oxide prices as they have been selling their product (U3O8) at around US$70 following a fixed-price contract that the company had with its buyers, which dates back to 2008.

PALADIN COMMENT:

This statement is factually incorrect and misleading. Paladin's public announcement of 07 February 2014 on suspension of production at KM dealt with this issue. Paladin said: "Since Fukushima, the negative impact on KM of the very low uranium spot price was partially offset initially by several higher-priced term sales contracts put in place before March 2011; however, KM delivered its last product under these contracts in September 2013. Subsequent uranium produced from KM is now fully exposed to the depressed uranium spot market. The very low continuing uranium spot price, together with the Operation's cash cost of production, which remains above the spot price, makes continued operation at KM unsustainable in both current market conditions and in conditions projected in the medium term." To reiterate, PAL now has no higher priced "legacy" contracts and has been unable to secure new term contracts above the prevailing spot price. CFJ's "inside source" is therefore ill-informed, deliberately misleading or non-existent.

It is also noted from Paladin Energy Limited's annual report of 2013 that the mineral resource at Kayelekera Uranium Mine will be depleted due to mining activities by June 30, 2013. This would indicate that the KUM is in the process of shutting down. Inside sources further confirms that the uranium ore at Kayelekera is almost exhausted and that the pit had already started collapsing. A leaked memo from Colin Arthur, a Geology Superintendent to the Mining Manager, Arthur Mulilo, gives a detailed 'Geological Summary' of the high wall pit failure, identified on 21st September 2013. All this points to the fact that KUM is actually in the process of shutting down, and that Paladin is not telling the public the truth.

PALADIN COMMENT:

CFJ remarks on the current state of ore reserves at KM are factually incorrect and the conclusions drawn indicate that Mr Nyirenda does not understand the subject matter on which he is commenting. The statement to which CFJ refers appears on Page 16 of the Paladin Energy Limited 2013 Annual Report in reference to the following table showing the Mineral Resource at KM.

MINERAL RESOURCE AT 300PPM U_3O_8 CUT-OFF				
	Mt	**Grade ppm U_3O_8**	**t U_3O_8**	**Mlb U_3O_8**
Measured Resources	0.87	1,071	931	2.05
Indicated Resources	13.43	722	9,694	21.37
Total Measured & Indicated	**14.30**	**743**	**10,625**	**23.42**
Stockpiles	1.54	945	1,454	3.21
Inferred Resources	**5.4**	**623**	**3,336**	**7.4**

(Figures may not add due to rounding and are quoted inclusive of any Ore Reserves and are depleted for mining to end of June 2013)

Rather than showing that ore reserves are "almost exhausted" as Mr Nyirenda claims, the actual position of Ore Reserves at 30 June 2013 was 16.5Mlb of remaining in the ground – that is 56 percent of the original figure of 29.3Mlb – and sufficient to support mining operations for a further 3 to 5 years, as the Company previously has indicated and as shown in the following table which appears on Page 17 of the Paladin Energy Limited 2013 Annual Report.

ORE RESERVE AT 400PPM U_3O_8 CUT-OFF				
	Mt	**Grade ppm U_3O_8**	**t U_3O_8**	**Mlb U_3O_8**
Proved Reserve	0.49	1,230	605	1.33
Probable Reserve	5.98	907	5,423	11.96
Stockpiles	1.54	945	1,454	3.21
Total Ore Reserve	**8.01**	**934**	**7,483**	**16.50**

(Figures may not add due to rounding and are depleted for mining to end of June 2013)

The underlying Ore Reserve is unchanged from the one announced in 2008 and has only been depleted for mining until 30 June 2013.

The term "depleted for mining" used in the Company Annual report refers to the progressive reduction in the total Mineral Resource or Ore Reserve due to mining activities over the life of the mining operation.

*Paladin has a legal obligation to factually report both its Mineral Resource and Ore Reserve positions on an annual basis. This is done compliant with both the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (**JORC Code**) and the Canadian National Instrument (**NI**) 43-101. These are professional codes of practice that provide a mandatory system for the classification of minerals, exploration results, mineral resources and ore reserves. It should be noted that adherence to the JORC Guidelines is scrutinised by the Australian Securities Exchange (**ASX**) and the Australian Securities and Investment Commission (**ASIC**) and are enforceable by the relevant Recognised Professional Organisation. NI 43-101 is scrutinised by the relevant Securities Commission and enforceable by Canadian law.*

Paladin undertakes to report its Mineral Resource and Ore Reserve positions at the time of issuing the Annual Report to Shareholders. When this statement is made the Mineral Resources and Ore Reserves are referenced to a particular point in time, nominally the end of the financial year (30 June). These figures therefore are official and verifiable and are endorsed as such by Paladin's Competent Persons, a senior geologist and senior mining engineer, both with more than 20 years' experience in resources estimation and mining engineering.

*In regard to information reported for Kayelekera Mine, under JORC, a competent person must be either a Member of the Australasian Institute of Mining and Metallurgy (**AusIMM**), a Member of the Australian Institute of Geoscientists (**AIG**), a Fellow of the South African Institute of Mining and Metallurgy (**SAIMM**) or a Professional Natural Scientist of the South African Council for Natural Scientific Professions (**SACNASP**). In addition, for NI 43-101 the qualified person is required to be either a Fellow of the AusIMM or Chartered Professional Member of the AusIMM.*

It should be noted that none of the current or former geology or mining staff (expatriate or local) at KM meet the requirements of competent or qualified person for either experience (particularly Mineral Resource or Ore Reserve estimation) or level of professional organisation membership, which discounts the competence and capability of CFJ's alleged "inside sources" to make an informed comment on resource or reserve estimation and therefore the remaining life of mine.

*The 'depletion' process involves mathematically removing the material mined from the original Mineral Resource or Ore Reserve estimate – i.e. that amount of material that has actually been mined and either processed or placed on the Run of Mine (**ROM**) stockpile awaiting processing.*

The Mineral Resource or Ore Reserve that are stated in the Annual Report Statement of Reserves and Resources is that material still remaining in the ground which can be mined in the future.

A "Mineral Resource" is defined as a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.

An "Ore Reserve" is defined as the economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include *consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.*

In the case of Kayelekera Mine, the current position is that, of the Mineral Resource of approximately 47Mlb uranium oxide (U_3O_8) at commencement of mining, there was 34.0Mlb remaining, as at 30 June 2013.

Similarly for Ore Reserves, at commencement of mining, these amounted to some 29.3Mlb of U_3O_8. This had been depleted to 16.5Mlb remaining in the ground as a result of mining up until 30 June 2013, i.e. some 12.8Mlb U_3O_8 was mined and processed from commencement of mining until 30 June 2013.

As part of the normal reporting process, Mineral Resources and Ore Reserves will again be re-stated this year in the Annual Report to Shareholders, depleted to 30 June 2014 - and there will still be significant amounts of material in the ground awaiting mining.

With respect to the pit wall movement, this has been reported previously by the Company and therefore is not new information. It is a fact that, in mines of this type with Karroo rock types (alternating sequences of sandstones and mudstones), ground movement within the pit walls is to be expected and is not uncommon. In the case of Kayelekera Mine, the pit walls have been designed for this eventuality. The current pit wall movements are, for the most part, on intermediate walls and do not form the final outline of the pit.

When a sustained improvement in uranium prices enables mining to re-commence, any slumped areas within the current pit will be progressively mined out. The pit itself has been mined in a sequence of stages (up to seven in total by the expected completion of mining in the future) and to date the majority of work has been completed up to, and including, Stage 4. It is therefore factually incorrect for Mr Nyirenda to suggest that the pit wall movement is a factor in the decision to place KM on care and maintenance or that it would prevent resumption of mining in the future.

Closure not in line with Malawi Laws

Section 46 of the Mines and Minerals Act stipulates that a mining licence holder cannot suspend mining without a six-month prior notice to the Mining Commissioner. Greg Walker, Malawi country manager for Paladin, had a meeting with the President of the Republic of Malawi on February 5th (2 days before the closure) informing him of the development. A day later, on the 6th of February 2014, the CEO of Paladin, John Borshoff flew to Malawi to finally endorse the suspension of production at the KUM. In the Weekend Nation newspaper (8th March 2014), the Principal Secretary Mr. Leonard Kalindekafe confessed that the Malawi government only came aware of the suspension on the February 7th 2014. He further argued that what Paladin did was illegal: “The law was not followed and we are working with several lawyers to follow up on these issues.” The Government of Malawi has set up a team to investigate the closure.

PALADIN COMMENT:

*This statement is factually inaccurate and misleading. KM is being placed on care and maintenance, which is not "closure," as the CFJ asserts. Paladin's in-country director, Greg Walker did not meet the President of Malawi, Her Excellency Dr Joyce Banda, two days before the decision was taken to inform the President, as CFJ alleges. On 05 February 2014, Mr Walker was out of Malawi (in Johannesburg, South Africa). The decision to suspend operations at KM was taken by the Board of PAL at its meeting held on the morning of 07 February 2014. The GoM was informed immediately after the Board meeting concluded. At 10.30am, PAL hand-delivered formal written notification to the Commissioner of Mines, pursuant to Section 14.1 of the Kayelekera Development Agreement (**Development Agreement**) and Section 46(2) of the Minerals and Mines Act 1981 (**the Act**). This occurred before a public announcement was released by Paladin.*

It should be noted that the report of The Nation newspaper – and the CFJ - omitted any reference to Section 46 (2) of the Act, which makes provision for suspension for "any reason beyond ...(the) …control" of a holder of a mining licence. Paladin's public announcement of 07 February 2014 indicates that the decision to suspend production at KM was based on factors beyond the control of the Company, as previously stated.

The relevant section of PAL's notification to the Commissioner of Mines reads:

"Dear Commissioner

SECTION 46(2) NOTICE – SUSPENSION OF PRODUCTION

*As you will be aware, Paladin (Africa) Limited (**PAL or the Company**) is the registered holder of Mining Licence 152 and owner and operator of the Kayelekera Mine (**KM**), located in the Karonga Region of northern Malawi.*

*We refer to clause 14.1 of the Development Agreement (**Development Agreement**), dated 22 February 2007 between the Government of the Republic of Malawi (**GoM**), the Company and Paladin Energy Minerals NL. Clause 14.1 provides that, subject to the succeeding provisions of clause 14, the Company's right to suspend production is governed by section 46 of the Mines and Minerals Act (1981) (Cap. 61:01 of the Laws of Malawi) (**Mines Act**). Section 46(2) of the Mines Act provides: 'Where, for any reason beyond his control, the holder of a mining licence ceases, suspends or curtails production from a mine in the mining area concerned he shall, within fourteen days after the cessation, suspension or curtailment, give notice thereof to the Commissioner.'*

Pursuant to section 46(2) of the Mines Act and for all other purposes under the Act, PAL hereby notifies the Commissioner that the Board of Directors of PAL met in Lilongwe today and resolved to suspend the Company's Operations at KM until further notice, for reasons beyond the Company's control, as more fully set out in the Company's public announcement, attached hereto for your information."

In addition, the Company provided formal notification to the Executive Director of the Atomic Energy Regulatory Authority, pursuant to section 62(3) (a) of the Atomic Energy Act 2011 and also to the Commissioner for Labour as the competent authority pursuant to Article 14 of the International Labour Organization Termination of Employment Convention 1982 (No 158).

There is no question therefore of the Company being in breach of its Development Agreement or of its obligations under the Act or other regulatory requirements.

Further, the Company informed President Banda of this development at a meeting at Sanjika Palace in the evening of 07 February 2014, which was also attended by the Minister for Mines, Hon. John Bande MP. A meeting with the Finance Minister, Dr Maxwell Mkwezalamba, was held earlier in the afternoon of the same day. Letters were also hand-delivered to key stakeholders in Lilongwe and Karonga, including the Karonga District Commissioner, Paramount Chief Kyungu, government officials, suppliers, NGOs and Diplomatic Heads of Mission.

The GoM has stated publicly that it accepts PAL's reasons for this decision. The GoM official spokesperson, Mr Brown Mpinganjira, issued a statement on Saturday, 08 February 2014, in which he said the Company was not wrong to halt production at the plant. He further stated: "We regret that Kayelekera has been suspended, but we understand the reasons behind." Hon. John Bande MP expressed similar sentiments the following day, on 09 February and again on 11 February 2014. He was quoted as stating that, while the decision was regrettable, the government understood that the suspension of production was "a business decision emanating from the tumbling uranium oxide prices on the global market." The Honourable Minister is quoted in the article in The Nation (08 March 2014) as reiterating that the GoM understood Paladin's position to suspend production because it was a fact that uranium world prices had gone down and "no company could afford to operate on losses."

With respect to the comments of the Secretary for Mining, Dr Leonard Kalindekafe, PAL has written to Dr Kalindekafe clarifying several points arising from his public comments. The Company also received a 22-strong GoM inter-ministerial delegation at KM on 11 March 2014 and provided detailed information on various aspects of the decision to suspend operations at KM. The delegation declared itself satisfied with the level of cooperation provided to it by the Company.

Retrenchments effected in an inhumane-like manner

Paladin further announced that following the suspension of mining at KUM the company has retrenched 294 Malawians and 71 expatriates, and that therefore it would retain 194 local staff and 27 expatriates. Interviews with some of the retrenched workers revealed that all but one expatriate are still working. Moreover, it has been reported that management at Kayelekera told the remaining 40% of the local staff that most of them will be retrenched in April.

Paladin further lied to the general public that the retrenched employees were paid an equivalent of 10 months' salary. The interviews conducted revealed that most of the retrenched workers were actually given a pay-out ranging from three to seven months' salary. Paladin went on to advise all the associated commercial banks to deduct the remaining loan amounts in full for all the retrenched workers who were servicing loans, a development which left a good number of the workers with no money.

The retrenched workers further complained of unfair treatment following the way the retrenchment was handled. "First we were surprised with the arrival of eighteen armed policemen at the mine early in the morning on February 7th only to be told later on that we have been retrenched," complained one of the ex-workers. He continued to say that with the help of armed police, they were "packed like animals" in different buses on their way home on the very same day, and they were not even allowed to get their personal files from the computers.

PALADIN COMMENT:

These statements by CFJ are misleading and deceptive. PAL identified 296 locally-staffed positions and 71 expatriate roles among its personnel that would not be required during care and maintenance. The first tranche of retrenchments took place on 07 February 2014 and the second tranche will occur at the end of the process rundown phase, which is anticipated to occur during May. All affected employees already have been informed. As previously announced, PAL will retain some 194 Malawi national employees and 27 expatriate staff during care and maintenance to provide security at KM; to maintain plant and equipment and to maintain the Company's strict environmental management of the Operation, in readiness for resumption of production when economic circumstances support such a decision. There is no change to the employment position previously announced by PAL.

In respect to retrenchment packages, Paladin's public announcement of 07 February 2014 stated clearly that "based on length of service, allowances and entitlements and an ex-gratia payment, <u>the average payout</u> for national employees will be the equivalent of 10.7 months' salary." Mr Nyirendra appears not to understand the meaning of "average payout." It does not mean that everyone received this amount. Payout sums actually ranged from 4 months to in excess of 24 months' salary, with 10.7 months being the average payout. The Commissioner for Labour, Mr Hlalewayo Nyangulu, stated on 08 March 2014 that PAL's retrenchment package was "way above what is prescribed in our laws" and that the reasons advanced for the retrenchment were valid.

With regard to repayment of personal bank loans, PAL has no involvement in loans negotiated by local employees with their banks. The Company does not provide insurance of such loans and all responsibility associated with these loans is carried by the individuals concerned.
In order to assist local employees wishing to secure a loan with a bank, PAL at times, at the request of the employee, has provided the employee concerned with a letter confirming:

- *That the employee works for the Company and in what capacity and role;*
- *That the employee's salary will be paid into the employee's account with the relevant bank each month; and*
- *That the Company will inform the bank if the employee is terminated.*

If an employee has requested such a letter from PAL, then the Company will honour these undertakings, specifically to pay the employee's salary into the nominated bank account and to inform the bank of the employee's retrenchment. It is a matter for the individual employee to negotiate with his or her bank the method of repayment of such loans following termination of service, regardless of the reasons. This is not a matter in which the Company should – or has - become involved.

With regard to allegations on unreasonable treatment of retrenched employees, this issue was dealt with during the visit to KM by the GoM inter-ministerial delegation on 11 March 2014. Karonga Police were on hand at KM on 07 February 2014 to ensure the safety of people and security of *property during the retrenchment process. Karonga Police Officer-In-Charge, Senior Assistant Commissioner Foster Peter Mangani, who was a member of the GoM inter-ministerial delegation, informed GoM representatives than the exercise was conducted in a calm and orderly fashion and that no employee was manhandled in the process, either by PAL Security staff or by attending police officers. Retrenched employees were conveyed offsite in the same Company-provided buses used to transport them to and from work on a daily basis. Karonga District Labour Officer, Mr Ensson Kayange, also advised the inter-ministerial delegation that no complaint of unfair treatment had been received by the Karonga Labour Office following the retrenchment.*

As to the claim that employees were denied the opportunity to recover personal files from company-owned computers, PAL received such requests from only two employees and this related to study material for courses being undertaken by the employees concerned. These requests were granted. There have been no requests from any other employee on or since 07 February 2014.

Environmental Pollution and Rehabilitation Issues

Following the retrenchment of workers at KUM, it becomes obvious that there would be a significant reduction in capacity to operate programs on radiation pollution control and monitoring at the mine. Malawians fear the consequences of this closure because the government to date still does not have the capacity to monitor or control radiation pollution.

Furthermore, Greg Walker further revealed that the tailings dam is now full and thus they soon need to start releasing 'treated' water back into the environment before the tailings dam overflows. Paladin was supposed to build a second tailings dam, but this never happened. It is now imperative that the KUM goes into the rehabilitation phase. The release of water is pending government approval, something which is also being delayed, according to Mr Walker.

Paladin gave the Government of Malawi (GoM) a bond of US$20 million for the rehabilitation of the mine. Yet, according to a government employee that was interviewed, all works required to complete rehabilitation of KUM are estimated at US$100 million.

The GoM therefore needs to be very careful here as this may lead to massive radiation pollution of the streams and rivers passing through the mine and possibly Lake Malawi itself.

PALADIN COMMENT:

*Paladin has stated that the Company will maintain environmental standards at KM during the period of care and maintenance. PAL will not be mining or processing ore during this period, so there will minimal emissions from the processing plant. The Environmental Affairs Department (**EAD**) is the Government of Malawi agency responsible for oversight of KM's Environmental Management Plan (**EMP**) and Radiation Management Plan (**RMP**) and that will not change during care and maintenance. EAD is responsible for monitoring the EMP. PAL remains responsible for the conduct of its EMP and RMP.*

*The KM Tailings Storage Facility (**TSF**) is not full, as Mr Nyirenda erroneously asserts. The TSF was inspected by the GoM inter-ministerial delegation that visited KM on 11 March 2014 and was able to see for itself the capacity remaining in the TSF. A second TSF is not required at KM as the retaining wall of the existing facility has been raised incrementally and the TSF has the capability to handle the tailings storage requirements of the operation. A further lift in the dam wall will take place as required when operations resume at KM. PAL has applied to the Ministry of Water Development and Irrigation for a permit to discharge treated water later in the year. This application was submitted only on 01 April 2014, so the approval process has not been "delayed," as Mr Nyirenda erroneously asserts.*

The Development Agreement provides that PAL should arrange an Environmental Performance Bond in favour of the Director of Environmental Affairs and this has been in place since 2009. KM is being placed on care and maintenance and is not being closed, as implied by the CFJ. The Company is drafting a closure plan detailing the work necessary to dismantle plant and equipment, rehabilitate the site and institute a post-mining monitoring programme when closure finally eventuates. Closure provisions are estimated based on land disturbance and are reviewed annually by PAL, a process which will continue up until actual final closure. The figure of US$ 100M by some unnamed "government employee" is a guestimate not sourced in any credible technical calculation and well exceeds PAL's estimate of the likely cost of mine closure.

PAL has developed a modern uranium mine at KM, which includes very high standards of environmental and radiation protection. PAL is in the process, as stated earlier, of applying for a discharge licence to release treated water that meets the regulatory requirements of the GoM. No treated water will be released unless it meets the licence requirements.

It has to be remembered that, prior to KM being developed, uranium and radium would have leached naturally from the exposed ore body, as several springs originated within the ore body. As a result of the mine development and associated environmental control works, most of the natural water discharges containing uranium and radium have been stopped from entering the Sere River. Water quality monitoring of the Sere River upstream and downstream from the project area is a part of the environmental monitoring program, which will continue through the care and maintenance phase and measured data is made available to the Environmental Affairs Department for review.

What exactly is behind the high production costs at KUM

One of the main reasons for the high production cost at KUM is the need to import diesel for electricity generation. Other reasons are not publicised; inside sources (workers at KUM) have always argued that the costs of having a large number of expatriates working in the mine is the main cause for the inflated production costs. One source further revealed that a monthly salary of one expatriate in some departments could be several times more than the sum of the monthly salaries of all locals in the department. He gave an example of the stores department where six expatriates worked, whose job was simply to issue shoes and protective clothes to workers. He also cited the flying in of a jet twice a week from Johannesburg to Karonga as one other main reason behind the high production costs at KUM.

PALADIN COMMENT:

The Kayelekera Mine processing plant is a complex industrial operation, involving the large scale use of reagents (chemicals) in the production of uranium oxide. The principal operating costs at KM are reagents (38 per cent) and mining costs (17 per cent). Therefore to suggest that the cost of employing expatriates is the "main cause for inflated production costs" at KM is totally without foundation. The cost of employing expatriate staff during Operations was 8.5 per cent of total production costs and so was not a major cost factor at KM.

Expatriate salary levels are driven by the global market and bear no relationship to prevailing labour conditions in host countries. This is the reason for the disparity between expatriate packages and salaries paid to Malawi national employees. Although salaries paid by PAL to national employees are among the highest in Malawi, local salaries are still relatively low by international standards. For this reason, it is both logical and commercially sensible for PAL to employ Malawi nationals wherever possible, rather than recruiting internationally and having to pay globally-competitive expatriate salaries. It should be noted that the GoM directly benefits from the higher salaries paid to expatriate employees, as foreign staff are taxed in Malawi at the rate of 30 per cent of their earnings.

With regard to expatriate numbers, it is not unusual for the workforce of mining operations in Africa to comprise 10-15 per cent expatriate staff due to lack of locally-available skills and experience. This is particularly the situation in uranium mining and processing, which requires specialised skills and experience. Prior to the decision to place KM on care and maintenance, the Operation employed a total of 819 people, of whom 99 (12 per cent) were expatriates. During care and maintenance, KM will employ 221 people, of whom 27 (12 per cent) will be expatriates.

*As a comparison, Swakop Uranium (Pty) Ltd (**Swakop**), which is developing the US$ 2.5 billion Husab Uranium Project in Namibia, has reported that some 1,500-2,000 (25 per cent) of the estimated 6,000-8,000 people required to construct the project will be foreign-sourced. Swakop further estimated that 200 expatriate employees (10 per cent of the workforce) would be required for the mine's long-term Operational phase. It should be noted that Namibia has a diversified mining sector; an established mining support base and two existing uranium mines, the older of which has been established for 37 years. It is therefore much easier to find suitably qualified and experienced people in Namibia than in Malawi, which has limited mining experience and hosted no large-scale mines prior to commencement of operations at KM in 2009.*

With regard to the use of a Company-owned aircraft between Johannesburg, Lilongwe and Karonga, this has been made necessary by the lack of an internal air service in northern Malawi. PAL owns its own aircraft for safety and commercial reasons. The aircraft is used by local employees and expatriates alike. The cost of the operating the aircraft is not material to the total operating costs of KM. The frequency of flights has been reduced due to the decision to suspend production at KM, with the attendant reduction in employee numbers.

Our Demands

We therefore join the people of Karonga to demand that:

1. All operations at Kayelekera including processing of the ore should be stopped with immediate effect.

2. The government team investigating the closure of Kayelekera should involve civil society representatives and traditional leaders for transparency purposes.
3. The government of Malawi should immediately institute a team to closely monitor the rehabilitation of KUM to ensure that it is done in accordance with Malawian laws as well as global standards.
4. Appropriate penalties should be given to Paladin for not adhering to the laws of Malawi.

PALADIN COMMENT:

CFJ's demands are fatuous and irrational. PAL already has said that processing of ore will be suspended in the near future. If CFJ is seriously advocating that "all operations at Kayelekera should be stopped with immediate effect," this would include provision of security services, maintenance of plant and equipment and the radiation and environmental management programmes that CFJ argues should be maintained.

CFJ also demands that civil society representatives and traditional leaders should be included on the GoM team investigating the suspension of operations at KM; however since November 2007 civil society, including CFJ, has had the right to appoint three representatives to the GoM team monitoring PAL's environmental and health obligations. Civil society has never taken up this opportunity. It would appear that CFJ is happy to demand such representation, but not to actually undertake the work involved in the process.

Similarly, it is irrational to call on the GoM to monitor the rehabilitation of KM because this will only occur when mining and processing comes to an end. Decommissioning and rehabilitation will be carried out in accordance with the final Mine Closure Plan prepared prior to closure.

Finally, the call to apply "appropriate penalties" to PAL for not adhering to the laws of Malawi is baseless because the Company has strictly adhered to the laws of Malawi. Accordingly, CFJ's demands rightly deserve to be disregarded.