15th August 2016

The Business and Human Rights Resource Center
United Kingdom

Dear Mr. Joseph Kibugu & Mr. Greg Regaignon

Re: Letter of Clarification - Nyala Mines Limited, Chimwadzulu Hill, Ntcheu District - Malawi

We hereby acknowledge receipt of your mail and appreciate the opportunity to respond to the concerns raised in a recent report regarding our mining operations in Malawi.

From the onset, allow us to register our dire disappointment and perturbation emanating from the 'outrageous' allegations leveled against us in the ICOME report and we wish to set the record straight, once-and-for-all. We also have reason to believe that this is a deliberate campaign designed to demotivate our resolve to raise Nyala Mines to its optimal potential.

Nevertheless, in view of our commitment towards maintaining an exemplary profile, please find attached and herewith below, a detailed response to clarify our position, which ought to assist you in presenting a 'fair' and 'unbiased' opinion of the actual situation on the ground.

Background

Let the record state that I am a **Malawian** born to **Malawian** parents (not Portuguese as has been claimed in the NCA Report). I am deeply passionate about Malawi, a firm believer in locally generated economic development and as such, totally committed towards the eventual success of the Nyala Ruby & Sapphire project for the benefit of our beautiful country and people.

Nyala is the only ruby and sapphire mine operating in Malawi and, to date, is the only source in the world that is totally transparent from the mine-to-the-market.

History

Nyala is presently the only mine in Malawi that is producing natural ruby and Padparadscha (orange sapphire). It is therefore a unique locality as it has produced some exceptional natural gems in the past.

Corundum was first reported at Chimwadzulu in 1958. A little sporadic mining took place from 1965 until between 1988 and 1990 the deposit was mined by a subsidiary of the Malawian Development Corporation (MDC), an autonomous government entity. Little is

known about this period except that only the summit of Chimwadzulu hill was sporadically treated.

The penultimate mining license was taken out in 1994 and operated by Mineral Exploration PVT Limited (Minex), a Malawian company owned by various investors until the license expired in 2006.

Nyala Mines Ltd, (a Malawian company), applied for a new license which was granted in October 2007 but was conditional on a further agreement between Nyala and the government which was signed in June 2008. Nyala commenced mining in April 2008 using the original 25 m^3 per day test plant. Shortly thereafter, it was apparent that rampant theft, high operating costs and the first wave of the Global Financial Crisis (GFC) had had a serious impact on the investor's ability to continue funding, and the project was subsequently put on hold.

In November 2010, Abdul Mahomed - a Malawian entrepreneur, approached the majority shareholder, York Fidelity Limited, to negotiate a rescue and expansion plan for the mining operation, which at the time was going through severe operating and financial difficulties. An agreement was reached and exploration activities under the new arrangement re-commenced in July 2011. In March 2013, Mr. Mahomed negotiated and executed a takeover of the company from York Fidelity Limited to make Nyala Mines Ltd. a '100% Malawian' owned company.

Corundum

Rubies and Sapphires are varieties of the mineral corundum, which is aluminium oxide.

Corundum is the second hardest mineral after diamond and is colourless in its pure form. The well-known red colour of rubies and pink sapphires reflect traces of chromium in the crystal structure and, when saturated, rubies result. The well-known blue colour of sapphires reflects traces of iron and titanium.

The majority of corundum gemstones are mined from small, low-cost and widely dispersed alluvial deposits in remote regions of developing countries.

MINE TO MARKET®

The steps that rough corundum gemstones must go through before reaching the final consumer.

Nyala Mines Limited has an exclusive marketing agreement with Columbia Gem House Inc (CGH) of Vancouver - USA. Owned and run by Mr. Eric Braunwart, a highly respected and trusted name in the Industry. Mr. Braunwart is also a strong supporter of the Fair-Trade ethos, and with his encouragement, Nyala negotiated a Fair-Trade Mining Agreement with the Government of Malawi - believed to be the first of its kind in the world. Please see www.nyalaruby.com and www.columbiagemhouse.com where the intent of Fair-Trade is more fully explained.

Colored gemstones go through many more steps than diamonds or gold before they become part of a piece of jewelry on some lucky person's finger. Gold is a "listed commodity" on most exchanges and diamonds had the luxury of DeBeers creating a market and demand for the past 75 years.

Colored stones are left more on their own and it's up to the supply chain to both produce these gems and also create a desire and demand from jewelry buyers. In diamonds, DeBeers was basically promoting and marketing one stone type -- diamond. In colored gemstones, where the money for both production and promotion are only a very small fraction of what diamonds have to spend, there are well over 200 stone varieties.

This means the money available for any one colored gemstone variety is tiny fraction of the money expended on diamond production. This means when a company has found a gemstone resource, they must spend significant dollars mining it with equal or greater investment in market development. This is done, by partnering with a gems marketing group so that the marketing outreach to the consumers is guaranteed to include the specific variety of gems the mine is producing.

To complicate the mining/marketing issue even more, colored stones from a famous location can out sell, and command much higher values, than the same gemstone from a new or lesser-known location. Diamonds are not traced by source and are all mixed together. Thus, a VVS, G color diamond from South Africa will sell for exactly the same price as one from Botswana or Russia. This is not the case in color.

A ruby from Burma will sell for 2 to 15 times more than a matching stone from Madagascar, Mozambique or Malawi. Thus, it's up to the marketing end of a gemstone supply group to create a new and different story to create a value added demand for a ruby from Mozambique or Malawi. One can market an existing "Burma ruby market," or create a new market based on factors other than the historical thinking that the best place to get a ruby is from Burma only.

Marketing must find a way to get closer to the value of the "ideal Burma ruby" and this takes a lot of time, money and know-how. As you can see, "brand and market creation" to support a value in jewelry consumers' eyes, are recurring themes here. There is a great deal that goes into the production of a gemstone even before value and market creation can begin. This is the story of the stone.

Mining

First, someone must identify a potential site for mining a certain gem material. Once this is done, they need to do exploratory digging to even see if any gemstones are actually present. If the answer is yes, then one must do a great deal of "tests" to see if the site can actually be mined profitably. There are plenty of gemstone locations, but few can actually be economically viable to mine.

The miner must first do some sample production that then goes to a heat treater (to determine if it should be heated to enhance the color, or not) and from there, to a very well educated and trained "sample cutter." This sample cutter must look at the rough and, from their experience, determine the best way to cut to generate both the best percent yield in cut stones, but also the most beautiful and saleable (and valuable), shapes and sizes. Cutting decisions vary from one location to the next, even when cut from seemingly identical gem rough.

Once these stones are cut, a valuation of them must be done for both rough, bulk cut, custom cut, wholesale and retail gemstone values. These values are then fed back to the mine to do a profit and loss feasibility study. If the sample cut gems, seem to have a value, the mine operation must determine a number of items to feed into the feasibility study.

1) They must do test diggings to see how many grams per cm^3 of gem materials are produced.

2) Next, they need to "sort" this rough to see what percentage of the grams per cm3, are of cuttable quality.

3) They must put this "cuttable" gr/cm^3 to figure rough dollar value per cm^3 that can be expected.

4) From here, they must look at the equipment needed to mine this specific type of location and determine the requisite Capital Expenditure and ongoing operating expense to come up with a monthly production cost.

5) Once they have done this, they must look at how many cm^3 can be processed in a day, determining how many cuttable grams will be produced and the value of these "gem grams."

6) Once this is done, they have a "monthly" estimated value of rough and a monthly expense budget. If this shows the mine can be profitable, the company can then proceed to the next "mining steps."

Mining Steps:

There are many steps in the mining and extraction process needed to increase productivity and make this a success, but I will only mention a few that directly relate to the down stream gemstone/marketing/value needs.

A) Confirm equipment, yields in gr/cm^3, operating expense per month.

B) Ground site analysis as to most productive places to mine.

C) Estimate monthly rough mine production.

D) Identify all un-cuttable gem material and work with the cutting/marketing to determine secondary uses.

E) Document all aspects of the mining operation in photo form for marketing and promotional efforts to support brand value in the consuming countries.

Now that rough gem material is out of the ground, the actual processing begins. For diamonds, this generally means size and quality sorting and valuation but for color, there are more steps. First, the material does need to be sorted into various sizes, grades, colors and qualities. Diamonds are generally cut "very close to free of inclusions." In color, there are many valuable stones that will be cut leaving eye visible inclusions in the gem. So, the quality sorting done here is very critical and based on years and years of experience with cutting. That said, this is a "first sort" and will be re-sorted again prior to cutting.

At this stage, one is not looking for size (most large pieces of rough actually must be cut into much smaller pieces and produce multiple smaller stones), but level of clarity, and color. A relatively, clear light brownish corundum is not worth much. On the other hand, a rich blue sapphire with no clarity is also worth very little. So this sort is a combination of clarity, color and luster and size is looked at later.

This "rough sort" material then moves to the cutting and heating stage. This is a very careful area because here is where the actual "value" of production can be improved, or ruined. It is where the secondary sort needs to separate by color again and specific types of inclusions, so one can determine if the rough should be heat treated or not. There are certain shades of colors that can be improved to more valuable shades. Other colors have no change or actually can become less valuable. There are also certain types of inclusions that can be "removed" through heat to make the stones clearer and brighter. This is a very critical stage because heat-treating is always a risk. Untreated stones are generally worth 1.5 to 3 times more than the heat-treated stones, but there are certain untreated stones that because of color shade or inclusions; cannot be sold. It is these gems that should be heated, which will create greater value.

The bottom line, one must determine, or make an educated guess, is whether heat treatment will increase the beauty enough to increase the value more than untreated stones. Conversely, is it more valuable, and still saleable, to leave as an untreated stone?

There are many different types of heat treatment that provide varying levels of alteration to the stones. Too "heavy" a treatment method actually hurts the gemstone brand and lowers the overall perceived value. We only do one level of treatment and that is heat with no added foreign elements. This means no flux to fill small cracks or holes, no light elements (such as Beryllium, Lithium, Titanium), foreign elements cooked into the stone (drastically lowers the value) and no low temperature lead glass filling to actually hold highly fractured crystals together during cutting. This is a very unacceptable treatment and is only done on really low-end rough. This treatment will do serious damage or kill a brand.

There are many other types of treatment but; as previously stated, Columbia Gem House, Inc., does only "traditional" heating with no additives and only by Crystal Chemistry Co. in the US, It is run by expert physicists and they maintain and monitor their equipment very carefully. This ensures no foreign elements get introduced intentionally or unintentionally during the heating process. It also assures the equipment doesn't fail during the heating process resulting in the destruction of valuable gem crystals inside. There is always a possibility that crystals can be seriously damaged in heating so the decision to heat or not heat must be carefully analyzed with the "greatest end value" in mind.

Columbia Gem House and Crystal Chemistry work closely as an integrated team and is probably the only such team in the world. Crystal Chemistry will do four "master treatment" processes on a certain group of "test" rough. A control, or unheated group is also set aside. Once done, Columbia Gem cuts and grades for value to determine the best and second best heating procedures. Once these are determined, Crystal Chemistry will do four variants on each of the two best of the procedures from the first test. Once again, Columbia Gem, cuts and grades for value to determine the "most valuable" method, of this second set of treatments.

Again, Crystal Chemistry, in a third heating stage, takes this "best of the best" procedure and does four new variants. Columbia Gem then again cuts and determines which of these last four variants resulted in the greater value of the gem rough. This becomes the heating protocols for this specific type of rough (we kept an original control sample of untreated rough to match in the future). Mines will vary in the "type" of rough they produce and, if a new looking rough begins to come out, this same procedure needs to be done again.

At this point, the stones that make sense to be heated are now done, and the ones determined to be more valuable unheated are also ready to cut. Here the cutting group again resorts as to what shapes, sizes and clarities should be cut from both types of gem rough. This stage is very clearly an art, and not a science. There is no machine that can tell you what cut is going to produce the most value. There are machines that do some of this for diamond, but they are not appropriate for color. Here it's the shop manager and skilled, lapidaries that must make these decisions using only eyes and experience.

Cutting Stage:

It is here that the lapidary workers must determine what cutting will produce the most beautiful stones and the highest weight yields. This information is then combined with the marketing group that knows what cuts and shapes are in the greatest demand and will sell the fastest. Once both are looked at, a decision is made on made and how to cut that will generate the greatest value and sell the fastest and easiest.

Significant time can be spent on large stones at this stage, but small, inexpensive stones will need to be processed efficiently and rapidly. Efficiency is important here because labor costs are often the largest costs in small stones. If they are not produced efficiently, one will lose money cutting small stone sizes.

Gemstone Cutting Onward:

We have looked some at the processing needs at the cutting/heating stage. Decisions are made here by, both the lapidary end and the marketing/branding group. Input from both is critical to allow for more rapidly selling gemstones and ones that generate the greatest value to the material.

Marketing and market development is the "onward" portion of this exercise. Once stones are cut, the marketing and distribution takes over. There are many sources for most gem varieties around the world. At times, there are worldwide shortages in certain varieties, or sizes or grades, but most of the time, there is more production than the market can absorb. That means everyone is competing on price. This is where the marketing end of the team needs to create a special story or "Brand" that makes the products from a certain mine or country, more desirable than ones from other locations. In times of worldwide over supply, people will follow the brand they know and support instead of just buying from anywhere. When there is an over supply worldwide, the brand helps provide a buffer against steep value declines when everyone else is cutting price to get their material to move.

To create a brand, it is best done where there is a fully integrated supply chain from mine to retailer. In this manner, the brand narrative can better be told and the supply chain team can better work with many of the major retailers and manufacturers that constitute a large portion of the market. By working together, each group along the supply chain can focus on what they do best. In today's world market, brands are becoming more and more important and critical. This is even for components as we see with computers that say "Intel Inside." So, whether one is selling to gem brokers, manufacturers, jobbers, wholesalers or retailers, being able to tie back into a supported brand, to add value and desirability. Without this today, the products produced are just commodities. Leather is a commodity, but a Gucci or Coach purse is not. So whether supplier, wholesale or retail, brand creation is critical in today's competitive world.

Brand and Consumers:

Ultimately, it's the consumer who determines which "Brand" they will support. This means the brand marketers must be reaching out to consumers to introduce their products and brand directly. Today's consumer, especially in jewelry and gems, respond to many more brand elements than "just the cheapest price." There are so many companies mixing synthetics into the supply chain. There are even more companies mixing in all sorts of treatments that range from enhancing a natural stone to outright fraud. The fraud is taking worthless non-gem materials and doctoring them to make them look pretty nice and then selling as just a nice gem. These materials, like glass filled ruby, are worth nothing.

To avoid these pitfalls, distributors, manufacturers, retailers and consumers are looking for producers they can trust. This trust is built around reputation and brand. These same groups, but especially younger customers, are also looking for a socially responsible

element in the brand. Study after study has shown these buyers want to spend their dollars with companies who are involved in improving things in the world. This social responsibility element has become an important force in brand acceptance. So today, marketing and branding is not only telling people about your product, but also telling them how your product is produced. If production is a compelling story, both from the social responsibility and product integrity levels, today's consumer will support it.

As we follow the stone from "Mine to Market" in today's world, we see much more integration and cooperation is needed in the supply chain compared to 15 years ago. It's becoming much more important that the colored stone supply chain find ways to work together to make sure they get the customer dollars instead of the electronics or home décor industries. Colored stones have the ability to compete for these dollars if we work together to convey all the elements that make gemstones desirable: beauty, rarity and value. Today, though, we also need to add emotional benefits, like excitement, love and commitment.

Commitment today means commitment to the product and all those who touch it. That is what will give colored gemstones the winning combination for today's consumers.

There is a very long journey that a piece of rough gemstone travels before it's finally in a form to be sold as a finished gem. This journey varies for stones such as amethyst or rose quartz when compared to corundum. How stones like corundum are handled varies greatly on origin, grade, size, clarity and color. There is a general system for processing stones, but it does vary quite a bit based on the various grades and varieties.

When looking at corundum, there is a huge variety of rough "grades" the material needs to be separated into before any processing, cleaving, or cutting begins.

First, corundum needs to be sorted into clarity grades. The vast majority of any corundum mined is heavily included and shows little to no clarity. In general, this material is of very low grade and worth little or nothing at any stage along the supply chain. If raw corundum is this low grade, with very rare exceptions, it cannot be made into something valuable. This low-grade corundum may have a little value as specimens (if in some sort of crystal form) or potentially can be made into very inexpensive beads that may sell for 25¢ - 50¢ per gram after cutting and polishing. Many of the pieces in this grade are not even suitable for beads and have no commercial value other than industrial corundum. According to the Government of India Bureau of Mines, India produced 740,792 tons of corundum, of which 534,994 tons was industrial grade and 5,798 tons or .8% was ruby and sapphire from very low grades to better grades. Most of this ruby and sapphire was very inexpensive grade. The average value of the raw corundum was $200/ton, which includes the gem material. This illustrates that the vast majority of corundum is the industrial, very low-grade material and very inexpensive material wherever it is produced. This material must be crushed and processed into consistent grit sizes (which is a great deal of work) and sell for $400 to $900/ton once processed and graded.

There is one notable exception to this "heavily included corundum" rule. If the rough pieces have fractures and/or inclusions, they are industrial corundum or specimens, both of low value. If the pieces of rough are heavily included with rutile needle inclusions, the quality and value can possibly be improved by heat-treating. The most notable example of this is **'Geuda'** material from Sri Lanka. The heavily included material we have tested from Malawi is of a different variety and the clarity is not improved with heat treatments. We have done hundreds of tests for clarity enhancement on a 70 kg parcel of Malawian corundum with no success. This heavily included rough material has essentially no value except for color treatment (not clarity) testing that might be successful on material with better clarity.

Raw materials are separated into heavily included and less included materials. The heavier included materials from Malawi would be used either for color heat treatment testing (not clarity because clarity does not improve) or for training workers at a local lapidary operation. Material that could be sorted for crystal specimens or made into beads could be done at the local workshop. The raw materials with some clarity would be sorted into a separate group based on degree of clarity and color. The colors will be the red/pink material and "other." Size of raw material is usually not too important because much of the large material will only be broken down or "cleaved" to allow for cutting of small, mostly clean stones. Big rough rarely cuts bit stones. Most big rough has big inclusions and must be broken down to cut-able sizes.

At this point, raw materials have been sorted into groups that are either reddish pink or other, but all have some clarity. The next step is to determine what size and grade is worth cutting, or has to have additional heat treatment added (to try to improve color) to see if it is worth cutting.

The smallest red/pink material is often too small to be commercially cut. This means the yield (size of finished stone) is so small that it sells for only a bit more than the cutting cost. This material takes a lot of cleaving, sawing and processing to even cut these small stones. Thus, the raw material value may be very small because the stones that are produced are very small and processing costs make up much of the final sell values. Most lapidaries put no value on these sizes because the cut stones sell at just a mark up over cutting labor costs.

Raw materials that produce somewhat larger, mostly clean stones; have a greater value but, in many cases, this value is partly determined by how qualified and skilled the cutters are. Thus, the same piece of rough cut by one cutter may produce a value of $50, whereas a more skilled cutter (by properly orienting inclusions, adjusting depth or cut of the stone, etc.) may create a wholesale sell value in the west of $150. With many gemstones, much of the final value of a piece of raw material is determined by the skill of the cutter and not the rough itself. This is also true, but to a much lesser degree, for very clean, single pieces of raw material. These are very rare, but there is more intrinsic value in the piece of rough here, but still the cutter/seller must determine the correct style of cut for the market. A certain style or shape may generate a 20% premium over a stone of

equal weight. The cutter must also be able to determine if a larger stone with a few inclusions is worth more than a smaller stone with no inclusions.

The other main area that has the greatest impact on value of cut stones is the marketing and branding of the gem itself. This branding varies from market to market and country to country. The proper branding can have the greatest effect, on the value of most gems.

Corporate Social Responsibility

One of the major challenges for modern mining operations like ours is to ensure that they command a continuing social license to operate and play a part in creating sustainable benefits for local communities. Moreover, we regard our role in the development of the communities associated with our operations as a key part of our transformation agenda.

In addition to the commitment by Nyala to refurbish the clinic at Katsekera and to build 4 houses for teachers at Kandoma Primary School, Nyala has set up the Dzonze District Development Fund (DDDF); Its mandate is to support development initiatives aimed at bringing new hope, direct benefit and opportunity to local and disadvantaged communities around the mining area. Currently, the DDDF committee consists of the Managing Director of Nyala, the Group Village Headman, the Village Headman Kandoma, the Head-teacher of Kandoma Primary School, the Doctor in charge of the Katsekera Health Centre and a highly respected local businessman.

The DDDF Committee has devised a CSR strategy called 'VISION 2020' and encompasses all the 'key' areas of corporate social responsibility projects required in the MLA and the district as a whole. We are constantly engaging with the community leaders to understand their short or long-term needs and subsequently, their inputs have been incorporated into the greater development agenda.

Furthermore, Abdul Mahomed, the majority shareholder in Nyala Mines Limited has committed to donating 5% of his shares to the communities around the Mining License Area (MLA) as soon as the regulatory provisions allow it to proceed. An independent committee, nominated by the community to run the development agenda for the community at large, will manage this DDDF vehicle.

Projects already completed include:

- Supply of Various teaching and learning materials;
- Supply of Sports equipment (footballs and netballs);
- Employment of ten (10) school teachers on the company payroll
- Construction of three (3) teacher's houses;
- One (1) borehole for Kandoma Primary School;

- General assistance to the community in and around the mining area, in the form of a dedicated vehicle to transport emergency patients to Ntcheu District Hospital. Funeral assistance, blankets, footballs & netballs for young children;
- Construction of a placenta pit, an incinerator and ashes pit for the safe disposal of medical waste at Katsekera Health Centre;
- Construction of an extension to the dispensary and drug store inclusive of wooden shelves for safe storage;
- Supply and installation of submersible borehole pump for clean water supply at Katsekera Health Centre;
- Developing a 5,000 tree nursery at Kandoma Primary School;
- Purchase of land for the Kandoma Primary School expansion project;
- Supply and installation of mosquito screens for malaria prevention at Katsekera Health Centre.
- Provision of School uniforms for 160 orphan children.

Projects currently underway include: -

- Two (2) x Classroom Blocks at Kandoma Primary School;
- Construction of a Kitchen facility for the maternal waiting home at Katsekera Health Centre; and
- Phased refurbishment of the Katsekera Health Centre, including new ceilings, furniture, Beddings, linen and general aesthetics like painting, curtaining etc…

Future Projects including but not limited to: -

- An administration block with library at Kandoma Primary School;
- Construction of Sanitation facilities for students at Kandoma Primary School
- Construction of football, netball and basketball facilities for Kandoma Primary School;
- Construction of Kandoma Nursery School;
- Student feeding program at Kandoma Primary School;

- Boreholes for the community in all villages surrounding the mine area; and
- Under-Five (5) Children's Clinic at Katsekera Health Centre
- Construction of a Specialized Nursery Ward at Ntcheu District Hospital

Environment

Both Mining and further prospecting in the area will have minimal negative impact on the environment due to the fact that recovery and processing of the corundum requires no chemicals and only uses water. The fines (-2mm) and water from the treatment process are directed to settling ponds from where the water is mostly re-circulated through the plant.

The fines are subsequently used as topsoil to re-vegetate the mined areas and repair the road network around the mine. However, every effort is being made to preserve environmental integrity and we have set up a tree nursery with 10,000 seedlings, as well as a nursery for 5,000 seedlings at Kandoma Primary School, which will be used to reforest areas that have been excavated and at the same time educate the children about the importance of trees and environmental safeguards.

Safety

Safety is an area in which we have significantly improved our performance. This imperative affects all parts, especially here in Malawi. Our firm intention is to create a workplace, with the co-operation and support of other stakeholders such as our employees, their families and government, in which each individual is treated with care and respect and goes home safely at the end of their day's work.

We have provided the best quality of safety wear and continue to enforce the use of the same for all staff employed at Nyala Mines Limited.

Expansion

Apart from the investment to acquire the foreign shareholding, the company has injected over US$1 million into the restructuring process to date, which includes: -

- Plant & Equipment: comprising Excavator, Wheel Loader, Tipper etc.;
- Process buildings;
- New Processing Plant (1,000 tons per day capacity)
- 10 million liter water reservoir and 3 boreholes on site;
- Water Reticulation accessories (Pumps, Piping, Motors and Engines)

- Staff Housing (14 units built, 6 currently undergoing 'finishing');
- Heat Treatment, Quality and Value Addition Testing;
- Establishing the Nyala® Ruby & Sapphire brands internationally;
- International Marketing initiatives

We have now finalized our preparations and subject to regulatory approvals on the proposed expansion plans, are poised to move up another level in terms of production, significant revenue gains and expect to see sizeable sales growth within the next twelve (12) months.

Nyala has received a brand-new wash-plant to enhance gemstone production, which will increase the potential sales emanating there-from and, as a result, generate more revenue for the national coffers. Other equipment of note will include ancillary plant for screening, material handling, tractor/trailer haulers, excavators, front-end loaders and crushing equipment.

Future Development

Nyala has agreed with the government that it will, through a wholly owned subsidiary, build a small cutting factory locally and train Malawians in cutting and marketing of gemstones. This project is very much on the strategic timescale over the next three years and, ultimately; our aim is to become the hub of commercial gemstone cutting in Africa.

The infrastructure is ready; all that remains is the installation and commissioning of the new processing equipment to achieve commercial production, recruitment plus training, and most importantly inflows of sufficient volumes of raw materials to enable an economically viable operation.

Nyala will support the development of the jewelry industry as an additional means of creating value for local entrepreneurs and artists, which in turn will enable them to showcase their products at local and regional events. Malawi's fashion designers are gaining recognition on the international stage and will be encouraged to use selected pieces to inspire dress designs for their collections. We anticipate this element to become a significant local component in the entire process.

To begin with, only the lesser value stones will be cut and sold in Malawi, as the local market for luxury goods of this nature is relatively small. However, the tourist trade is increasing annually and this may require larger volumes, together with the manufacture of finished jewelry.

This is a part of a broader program to promote jewelry production, boost sales, create jobs and enable small businesses to grow in Malawi and to help address the socio-economic challenges facing the country.

Employee Share Ownership Plan (ESOP)

Nyala Mines Ltd., through its operations and social investment activities, will continue being a leader, not only creating wealth for our shareholders, but of making a broader and lasting contribution to our employees, the community and the area in which we operate.

The Nyala Employee Share Ownership Plan will be a dedicated instrument through which ordinary employees will assume greater control of their earning potential through the generosity of the majority shareholder, Abdul Mahomed who will relinquish 5% of his issued share capital to an Employee Fund, the dividends of which is to be disbursed equally amongst ALL employees on an annual basis.

It will be managed independently and give the employees a sense of ownership, thereby ensuring their continued commitment and dedication to the company in which they are part owners.

The implementation of the ESOP will also help to better align employee and shareholder interests, recruit employees and reduce staff turnover, reduce downtime and improve the overall relationship with employees. In creating additional potential benefits for employees, we believe that stronger relationships can be forged between our shareholders and employees, and this should decrease any potential conflict.

Conclusion

We firmly believe that Nyala Ltd. is now poised to take off and, in so doing, will shed all the negative baggage that has brought this company into disrepute. Indeed, we are committed to raising our standards whereby we would be considered a 'model' of national development and an invaluable asset to our nation. However, we are also mindful of an increasingly hostile environment that does not auger well for a smooth progression. Nevertheless, we are determined to succeed in spite of any obstacle or iniquity that confronts us because we believe that justice will always prevail in the long run – and we are certainly here for the long haul.

We trust you will find the above information enlightening you can rest assured that any concerns on the welfare of the communities around the MLA will be addressed through greater participation, engagement and sensitization initiatives using the correct channels, as has been the case in as far as our company is concerned.

Please do not hesitate to contact the undersigned if you require any further information.

Yours progressively,

Abdul Mahomed

Managing Director

Nyala Mines Limited

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Clarification Document

1. **Poor Working Conditions**

Nyala Mines Limited is and will always care for the welfare of its' many employees as they are shareholders in the company. ALL employees have direct access to the Managing Director through an internal staff welfare committee to bring forward any grievances to the managements' attention. As a matter of fact, this is the first time we are hearing of these so-called poor working conditions.

Nyala Mines Limited conducts itself in accordance with the laws of Malawi. Like the majority of security guards employed nationwide, most if not ALL are required to work 12 hours, and the salary is prepared in strict adherence to the prescribed laws of the employment act.

Section 36 of the Employment Act permits the following; -

(1) An Employee's normal working hours shall be set out in the employment contract: Provided that no employer shall require or permit any employee, other than a guard or any category of employee exempted from this part pursuant to section 38, to work for more than forty-eight (48) hours during any week, excluding overtime.

(2) Subject to subsection (3), no employer shall require or permit a guard to work for more than forty-eight (48) hours in a week, excluding overtime.

(3) An employer may require a guard to work for more than forty-eight (48) hours where circumstances so demand:

Provided that any hours worked in excess of forty-eight (48) hours will be treated as overtime and paid at the rate of fifty (50) percent of the guard's basic pay.

Furthermore, Government officials from the Department of Mines and Environment conduct periodic visits to the mining site and have never once had to address this concern with our company.

2. Nyala is less concerned about the welfare of its employees

Nyala has in the past and going forward, will continue to do everything possible in maintaining a healthy and constructive relationship with its many employees. Any member of staff that has been involved in an accident or suffers ill health has been handled in the most respectable manner at all times. The company provides a vehicle in case of emergency transport and in times of need financial resources to the affected person/s.

3. People work in fear

This is a very surprising allegation leveled against the company, which in our view is aimed at destabilizing the excellent working environment at the mining site. Due to the sensitive nature of the operation and more importantly in the interest of safety concerns, loitering around the mining site is prohibited and employees are only permitted to move within their respective areas of operation.

4. Absence of clear demarcations of the mine

Nyala Mines Limited has over the last 5 years tried unsuccessfully to sensitize the community about the dangers of cultivating on or around the slopes of Chimwadzulu Hill.

In the past, defiant locals have vandalized the existing perimeter fence around the entire hill; Nyala has planted several thousand trees to demarcate the boundary, but in an act of defiance, some of the locals just uproot these trees for easy access into the mining area.

Secondly, the company only arrests those found illegally mining in its property and as required by law, the trespassers are then handed over to the Malawi Police Service for further action.

The community has, through the village elders been requested and advised on several occasions to stay well clear of the active mining areas. Grazing of cattle in and around the active mining areas is prohibited and presents a huge risk to the children herding them, our employees as well as the animals themselves.

Contrary to the allegations contained in the report, Nyala has never ill-treated any children, nor has it sent any children to prison. It is true that cattle do sometimes stray into the active mining area but are immediately re-directed away for safety reasons. There is no evidence to suggest this claim is authentic and in our view is a

poor attempt to fabricate lies and sow discord in an otherwise very pleasant and cordial co-existence by all stakeholders.

In a bid to strengthen the company's relationship with the people of the area, and as a gesture of goodwill, Nyala's Managing Director has on several times personally taken the initiative to drop all criminal charges on those individuals who have been caught mining illegally and summoned to appear before the courts for their offences.

5. Unfair Employment

ALL prospective employees are accorded an equal opportunity for employment at Nyala and there is no discrimination on race, color, sex, language, religion, political or other opinion, nationality, ethnic or social origin, disability, property, birth, marital or tribal grounds.

- Of the current total of 60 employees, 57 are local Malawians and only 3 are Asian expatriates holding management positions.
- There are two (2) female employees at Nyala, a number, which is expected to grow exponentially once the expansion of the mine is completed.
- Nyala's employees come from a wide range of villages surrounding the MLA, there is no clear evidence that only people from Kandoma village are employed at the mine.

6. Theft

As with any other similar mining operation anywhere in the world, theft of minerals is illegal, it's a major problem facing mines worldwide and in most cases heavily contributes to the demise of a mining operation. Nyala does not and will not in the foreseeable future, condone theft of any kind or form and will seek remedial action to protect its interests and substantial financial exposure.

7. Nyala Mines releases muddy water used in processing the ore from its dams into the Kapeni River and this results in siltation of the river, dirty water and reduction of the water table.

Nyala Mines Limited is one of the most environmentally friendly mining operations in the country today. **ALL** water from the wash-plant is directed to a series of tailing ponds for natural purification, whereby the fines are settled and water gravitates to the next section for further settling and subsequent further purification.

Furthermore, the company has **NEVER** released or needed to release any water into the Kapeni River, be it spillage or intentional discharge, as the report erroneously suggests.

This allegation is a deliberate attempt to tarnish the image of a company that emphasizes and promotes the protection of the environment as one of its core business principals.

8. **Members of the community suggest that they should be the ones to do active mining and sell the precious stones to Nyala Mines implying that the company should open a special office where they can be buying the stones from community members.**

   The deposit was discovered in 1958 and has at some point or another been in the hands of the community ever-since. What exactly have they got to show for illegally mining Chimwadzulu Hill for the last 50 years?

   Chimwadzulu II and III have been known to produced corundum and these deposits are readily available for potential investors. Why do they want to focus on taking over Nyala operations only? Is it because it's already been developed and poised to take off to the next level?

   These poor people are just being used by interested groupings, NGO's, political figures, religious and/or ethnic leaders and public service members to elicit corrupt payments from all levels of the mining industry. In one form or another, such activities inevitably result in serious infringements of human and corporate rights.