

SI EITI RECONCILIATION FOR 2014 FISCAL YEAR

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This report has been prepared at the request of the SI EITI MSG according to requirements set out in the contract of engagement. The views expressed in the report are those of the Independent Reconcilers and in no way reflect the official opinion of MSG.

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LIST OF ABBREVIATIONS

CBSI	Central Bank of the Solomon Islands
CED	Customs and Exercise Division
EITI	Extractive Industries Transparency Initiative
GRML	Gold Ridge Mining Limited
MCILI	Ministry of Commerce, Industries, Labour and Immigration
MMA	Mines and Minerals Act
MPGIS	Ministry of Provincial Government & Institutional Strengthening
MMERE	Ministry of Mines, Energy and Rural Electrification
MoFT	Ministry of Finance & Treasury
MSG	Multi-Stakeholder Group
NSG	National-Stakeholder Working Group
Oz	Ounce
SBD	Solomon Islands Dollar
SI	Solomon Islands
SIEINSG	Solomon Islands Extractive Industries National Stakeholder Group
SIEITI	Solomon Islands Extractive Industries Transparency Initiative
SIG	Solomon Islands Government
SINPF	Solomon Islands National Provident Fund
ToR	Terms of Reference
USD	United States Dollar

1 INTRODUCTION

1.1 Background

Solomon Islands Extractive Industries (SIEITI) Reconciliation Reports for Solomon Islands for 2012 and 2013 fiscal years was compiled by Moore Stephens in June 2014 and the Supplementary Report was done by GBusiness Consultancy Services, Solomon Islands. It was the first time that such reports were produced by a local consulting company after the establishment of the National Stakeholder Working Group (NSG) to lead the EITI implementation in Solomon Islands. The report for 2014 was done by George Kosui under the supervision of the NSG and in consultation with the Solomon Islands EITI National Secretariat Office in Honiara.

This Reconciliation Report contains data and information on revenue from extractive companies and government agencies including Provincial Governments for 2014 fiscal year.

The report also contains findings by the Independent Administrator on data and information that form the basis of the processes and systems in companies, Government Agencies, and related entities that contribute to reporting and dialogue between all participants and players in the extractive sector in the country. Compilation of this report is supported by the Office of the Solomon Islands EITI National Secretariat under the leadership of the Undersecretary of Ministry of Finance & Treasury, and National Coordinator, Mckinnie P Dentana, and assistance of the Secretariat Officers.

This Reconciliation Report is prepared according to the TOR authorised and approved by SIEITINSG on 4 June 2015. This report is prepared for the Solomon Islands Extractive Industries Transparency Initiative National Stakeholders Initiative Group (SIEITINSG) the body mandated to oversee this initiative in Solomon Islands.

1.2 Objective

The purpose of the 2014 Reconciliation Report is to reconcile, data and information provided by companies in the extractive sector (hereafter referred to as ‘Companies’) with data provided by the relevant Government Ministries and Agencies (hereafter referred to as ‘Agencies’).

The overall objective of the reconciliation is to help the Government of Solomon Islands to identify the contributions that mineral resources are making to economic and social development of the Country. This includes recognising the potential, and to realise their potential through improved resource governance and policy-making derived from the adoption and implementation of the principles and criteria of the Extractive Industries Transparency Initiative.

1.3 Nature and Extent of Work

The Reconciliation Report ('Engagement') was undertaken in accordance with the International Standard on Related Services and based upon approved procedures for the engagement. The procedures performed were those set out in the terms of reference as approved by the SIETINSG on 4 June 2015.

The nature of this report requires us to do a full reconciliation report and report them in the findings. Our work does not include an audit of the Reconciliation Report, but where issues arise during data collection and interviews with companies, government agencies and related entities that are deemed relevant and necessary for inclusion in the reconciliation such information or data shall be included in this report.

The report provides a brief background, objective, nature and scope, methodology and approach to undertaking the review of the reconciliation report and related processes. It then provides details of our findings, reconciliation and recommendations for improvement and the way forward for the reconciliation process.

Our report incorporates data and information received up to 30th September 2015. Any information received after this date is not therefore included in our report. For the purpose of consistency, where necessary and relevant we will adopt data and extract information from the 2013 report for inclusion into parts of this Reconciliation report.

2. EXECUTIVE SUMMARY

2.1 Completeness and Accuracy of Data

A meeting on 20 July 2014, the NSG decided on the companies to be included in the 2014 reconciliation based on the list of currently active mining companies considering the size, threshold and willingness of management to participate in the exercise. It was decided that only Axiom Mining Limited has shown its willingness and commitment to participate and SMM Solomon Limited to do unilateral disclosure. However, a meeting with management on 3rd August 2015 concluded that SMM Solomon Limited had also shown their interest to take part in the 2014 reconciliation exercise.

Due to closure of operations, St Barbara Mining Limited will not participate in the exercise but data on its contributions to the economy will be captured in reports by Central Bank and those supplied by the Government Agencies. For Provincial Governments, visits were made to Isabel, Choiseul, Western and Guadalcanal Provinces purposely to assist with the collection of data. For the Government Agencies especially the MoFT, CED and MCILI, access to records to complete the templates is a problem contributing to delays to complete the draft reconciliation on the scheduled time.

To address these circumstances, the EITI National Secretariat has taken the following actions for the 2014 EITI Reports:

- Arranged a meeting with SMM Solomon Limited to explain the relevance and need for them to participate in the reconciliation exercise in 2014;
- The National Secretariat and Independent Administrator are to visit Isabel, Choiseul, Western and Guadalcanal Provinces to assist with completion of templates;
- The National Secretariat Officer and the National Coordinator to send letters and reminders to the IRD and CED to get the data for the reconciliation;
- The National Secretariat Office to request the written consent from Axiom Mining Limited and SMM Solomon Limited for the IRD to release data;
- The failure of Axiom Mining Limited and SMM Solomon Limited to submit data by the required date led to the decision to do the Reconciliation based on unilateral disclosure; and
- The reconciliation report is submitted by 30 September 2015;

2.2 Payment Reconciliation

As a result of non-reporting by extractive companies, we have decided to report the total amount received by the Government of Solomon Islands as summarised by Government Agencies. The total payments made by the extractive companies as reported by the Government Agencies are as summarised in the table below:

Company	IRD (MoFT)	2014		Amount (SBD'm)	
		MoFT	CED (MoFT)	Total	%
Axiom Mining Limited	160,393	108,799	1,229,364	1,498,556	0.5%
SMM Solomon Limited	4,744,125	-	-	4,744,125	1.6%
GRML	37,000,868	40,065,393	204,878,200	281,944,461	94.5%
Others	-	4,032,306	6,036,608	10,068,914	3.4%
Total	41,905,386	44,206,498	212,144,172	298,256,056	100.0%

2.3 Government revenue

Data obtained from the Financial Reporting Division of the MoFT contained revenue received in the form of taxes contribution to the country revenues as detailed below:

Recurrent (SBD'000)	2012	2013	2014
Taxes	2,278,104	2,493,418	2,520,184
Non-Tax	271,733	385,178	425,114
Total Domestic Revenue	2,549,837	2,878,596	2,945,298
Extractive Industry	3,389	3,435	4,317
% of Total Revenue	0.13%	0.12%	0.15%
Tax Revenue/Total Revenue	89.3%	86.6%	85.6%

3. APPROACH AND METHODOLOGY

Prior to the collection of data for the 2014 reconciliation process, we carried out preliminary analysis for the purpose of ensuring that the scope of the EITI reporting process has been clearly defined, including the reporting templates, data collection procedures and the schedule for publishing the EITI Report. We also sent written instructions to companies and government agencies explaining how to complete and submit these reporting templates.

3.1 Preliminary Analysis

In accordance with our terms of reference, we carried out a preliminary analysis and reported to SIEINSG on matters which should be considered in determining the coverage of the 2014 reconciliation, including:

- materiality threshold for receipts and payments;

- taxes and revenues to be covered;
- companies and Government Agencies required to report; and
- assurances to be provided by reporting entities to ensure credibility of the data made available to us.

We made regular visits and consultations with the SIEITI Secretariat Office in Honiara during the period of engagement (15 June - 30 September 2015) purposely to:

- sought the number of taxpayers and the relevant Government Agencies that will involve in the reconciliation exercise;
- confirm the flow of revenue from the Extractive Industries/Companies to Government Agencies;
- review the template for line Companies and Agencies, and
- identified areas in which reconciliation is feasible, i.e. where there is perfect symmetry between the paying and receiving entities, and areas in which only a unilateral disclosure by the receiving or disbursing entity is necessary.

The results of the preliminary analysis submitted to NSG for approval is described in Section 5 of this report.

3.2 Reconciliation Process

3.2.1. Data Gathering

NSG reviewed instructions, including reporting templates and reporting guidelines, requesting mining companies and Government Agencies to report all required data in accordance with SIEITI regulations. These reporting templates were sent electronically to the stakeholders. The companies and Government Agencies were required to report directly to the National Secretariat Officer, to whom they were also requested to direct any questions on the reporting templates.

NSG agreed that the deadline for submitting hard and soft copies of the reporting templates and supporting schedules is 30th August 2015 however there were no submissions from Extractive Companies even after the latest deadline of 30th September 2015.

As part of our assistance we accompanied the Secretariat to Isabel and Guadalcanal Provinces to complete the templates and Choiseul, Western were done by the Secretariat Officer. During the visits we explained the role and objectives of SIEITI and purpose of the reconciliations to the Provincial Secretaries, Treasurers and Other senior staff. Except for

Isabel, Choiseul and Guadalcanal, we are unable to collect any other templates or disclosures from any other Provinces.

We also made several visits to the Governments Agencies and two extractive companies in order to provide further explanation of the reporting instructions and the need and urgency to complete the templates.

3.2.2. Data compilation and resolution of discrepancies

The process of compiling the data and resolving or justifying discrepancies was carried out during the months July, August and September 2015. In carrying out the reconciliation, we performed the following procedures:

- figures reported by Government Agencies were carefully analysed item-by-item to identify and separate payments according to the different types of payment flows;
- the data reported by Government Agencies were compared to those provided by the MoF; and
- the Government Agencies and the companies were asked to provide supporting documents and/or confirmation for any adjustment to the information provided on the original data collection templates.

For the Government Agencies, in cases where capturing data is difficult in one Ministry, we decided to take time to make comparisons of one Government Agency against another purposely to verify the figures, names of companies and type of payment flow.

3.3 Reliability and Credibility of data

In order to comply with point 5.2 of EITI standards and to ensure the credibility of data submitted, we proposed the following approach in the preparation of the 2014 EITI report:

- All companies and Government templates must be signed by a Senior Official;
- All figures reported in the template declaration should be detailed payment by payment and date by date in the supporting schedules;
- Private companies are required to provide us with audited financial statements for 2014.

Mining companies are required to obtain confirmation from an external auditor that their 2014 financial statements have been audited under International Auditing Standards and

that the transactions reported in the template are in accordance with instructions issued by SIEITI, are complete and are in agreement with the accounts for the year 2014.

- The Public Finance and Audit Act requires the preparation of the SIG financial statements on a cash basis. Chapter 2 of the Interim Financial Instructions 2014 requires that the preparation and presentation of the annual accounts must be in accordance with the IPSAS accounting standards. We have checked to ensure that that this requirement is observed by the MoFT.

In terms of audits of the extractive companies data and templates, the intention to have the data audited by the OAG was not possible because of the failure to submit the SIEITI audit scope and requirements before the audit of accounts for fiscal yearend audits for 2014.

As a result of this we decided to get validation of data from the compliance section of the Ministry of Finance.

3.4 Basis of Reporting

The reconciliation has been carried out on a cash accounting basis. Accordingly, any payment made prior to 1 January 2014 was excluded. The same applies to any payments made after 31 December 2014.

For the payments made in foreign currency, the reporting entities were required to report in the currency of payment. The payments made in US Dollars have been converted to SBD at the rate of USD 1: SBD 7.50¹

3.5 Challenges and Limitations

- i. Gold Ridge Mining Limited has transferred all business activities and operations to landowners and will no longer be operating in the Solomon Islands. Therefore they were not being able to participate in the reconciliation exercise.

¹ USD1 = SBD7.50 – average exchange rate for 2014 – CBSI Annual Report 2014

- ii. We have made consultations with Government Agencies and few Extractive Companies and it was revealed that some companies and Provincial Governments are finding it difficult to complete the templates.
- iii. The failure of Axiom Mining Limited and SMM Solomon Limited to submit data even after continuous reminders and consultations has resulted in the decision to adopt unilateral disclosure reporting, affecting the desired reconciliation approach and result and delay in completion of the final report.
- iv. A meeting with the Comptroller of Customs revealed that around 25 companies (both individuals and companies paid export duties during the period covered by the reconciliation exercises, with GRML exporting gold until second quarter of 2014. For companies with exports value of less than SBD1 million, we proposed to include the revenues collected from all the mining exporters through a unilateral disclosure by the Government Entities. We were unable to get unilateral disclosures from any of the companies listed above.
- v. For small mining companies and dealers who are required to provide unilateral disclosures, we were unable to contact most companies since we were unable to get their contact addresses or telephones from the MMERE.

4. OVERVIEW OF EXTRACTIVE INDUSTRY SECTOR IN 2014

4.1.1 Background of Mining Sector in Solomon Islands

The mining industry in Solomon Islands is in its infant stage of development. While there is potential for the industry, the closure of Gold Ridge Mine Limited (GRML) has affected government finance and export earnings. As reported by the CBSI in 2014, there was a decline in economic growth as a result of decline in logging, contraction of the agricultural sector and the closure of GRML affecting the country's exports.

The Gold Ridge Mine is the only operating mine in the Solomon Islands. The company has decided to suspend its operations in August 2014 as a result of ongoing dispute with landowners which disrupted operations. The closing down of company operations later in the year has resulted in a substantial decrease in minerals exports adversely affecting the

country's economic export revenue, employment but most importantly advancement of the mineral sector in the country.

The lengthy litigation between Axiom Mining Limited and SMM Solomon Limited also affected the mining activities on Isabel. The extraction of nickel on Isabel by Axiom was halted in 2014 when the two companies fought a court battle for the rights to do exploration in San Jorge, Isabel Province. Axiom was given the legal rights to do exploration but an appeal to the high court casts doubt over any proposed mining activity in the future. Estimates put the life of any mining operations at around 30 years and would be the country's largest mining company, a big revenue earner for the country which should create more jobs for people in Solomon Islands.

Other potential mineral deposit sites have been identified in Guadalcanal, Isabel, Choiseul, and Western Provinces. To date, three companies have been granted mining licenses and there are 16 companies prospecting in the country – two off shore and 14 on shore.

Mining could contribute significantly to the Solomon Islands' economic development if plans are put in place for investing the proceeds in basic services and community development. This includes strengthening the current legislative framework and policies that govern management and regulation of the mineral sector.

4.1.2 Profile

a. Production²

Gold production figures as revealed by the Central of Solomon Islands Annual Reports for 2014.

Minerals Production	2012	2013	2014	Variance
Gold (oz)	67,819	58,690	49,886	-15%
Average International Price of Gold (USD)	1,669	1,412	1,267	-10%
Export Value (USD)	97,953,610	82,870,280	63,205,562	-24%
Export Value (SBD)	715,159,307	605,036,914	474,041,715	
Silver	28,993	22,021	-	-100%
Average International Price of Silver (USD)	31	24	19	-21%
Export Value (USD)	898,783	528,504	-	-100%
Export Value (SBD)	6,562,015	3,858,608	-	

² CBSI Annual Report 2014

In 2013, gold output and export was 58,690 ounces but fell 15.3% to 49,886 in 2014 mainly as a result of the closure of the Gold Ridge Mine. Average gold price in 2014 as revealed by the London Bullion Market was USD1, 267 per ounce and silver sold at USD19.08 per ounce. Export data for silver was not disclosed in the 2014 report as a result of the closing down of GRML operations.

b. Contribution of the mining sector

(i) Solomon Islands Economy

The contribution of the mining industry, in percentage terms, to the Real Gross Domestic Product of Solomon Islands is shown in the table below:

Industry	In Million SBD			
	2012	2013	2014 (Average)	
Gross Domestic Product	7,177.8	6,271.7	7,202.3	6,883.9
Mining & Exploration	175.8	0.0	0.0	58.6
% of GDP	2.4%	0.0%	0.0%	0.9%

Figures for the mineral and exploration sector contribution to GDP were not available at the time of compilation of this report. However, if the average figure of SBD147.9 is used, the sectors contribution to the total GDP would be around 2 percent.

(ii) Exports

The extractive industry is also a major contributor to the economy. The closing down of the Gold Ridge Mine has affected exports in the mineral sector. The sector has recorded a decrease of around 197% from 626,600 ounces to only 210,000 ounces of gold exports in 2014. This has also affected the country's real GDP growth for 2014.

Exports/GDP (SBD'000)	2012	2013	2014	Variance
Total Exports	3,659.0	3,273.2	3,353.0	79.8
Mineral Export	855.1	623.6	210.0	-413.6
Percentage of Total Exports	23.4%	19.1%	6.3%	-0.1
Real GDP(value)	4,675.3	4,810.8	4,851.5	40.7
Real GDP Growth	2.6	2.9	0.85	-2.1
Mineral Contribution to Growth	.018	0.13	0.04	-0.1

(iii) Government Revenue³

Data obtained from the Financial Reporting Division of the MoFT contained revenue received in the form of taxes contribution to the country revenues as detailed below:

Recurrent (SBD'000)	2012	2013	2014
Taxes	2,278,104	2,493,418	2,520,184
Non-Tax	271,733	385,178	425,114
Total Domestic Revenue	2,549,837	2,878,596	2,945,298
Extractive Industry	3,389	3,435	4,317
% of Total Revenue	0.13%	0.12%	0.15%
Tax Revenue/Total Revenue	89.3%	86.6%	85.6%

(iv) Employment Sector

In terms of employment, the extractive industry has contributed significantly to the formal employment sector in Solomon Islands. Of the total of 122,857 registered employees in 2014, 6,111 or 5% are employed in the extractive sector. The figure was reduced by 53% from 13,075 in 2013 to 6,111 in 2014 as reflecting the closing down of Gold Ridge Mine in early 2014. Employment in the extractive sector for the periods from 2012, 2013 and 2014 were as stated below⁴:

Employment	2012	2013	2014	Variance (%)
Total Employment	141,180	162,351	122,857	-24.3%
Extractive Industry	13,150	13,075	6,111	-53.3%
% of Total Employment	-9.3%	8.1%	5.0%	
Contribution Value (SBD)	13,361,891	13,496,357	6,303,791	-53.3%

4.2 Legal Context

The country's Mineral Policy is subject to the Mines and Minerals Act 1996 and the Mines Mineral (Amendment) Regulation 1999. These legislations create a centralised regulatory framework for mining in the Solomon Islands. The three main stages of the mining sector are: reconnaissance, prospecting and mining. The Mines and Minerals Act and Regulations

³Financial Management Division, MoFT – 17/07/2015

⁴Employment figures supplied by SINPF Office– 16 May 2015

is aimed at making sure that mining is properly regulated in order to safeguard resources and ensure proper utilization of extractive resources to maximise revenue, and other benefits for the benefit of the country and people.

4.3 Licensing

The three types of licence available to large-scale operators are:

- Reconnaissance Permits:

Reconnaissance is the first stage in the mining process, for which a company must obtain a Reconnaissance Permit from the government. A company with a Reconnaissance Permit is only allowed to take photos and small samples from rocks on the surface of the ground. A Reconnaissance Permit does not allow the use of machinery to drill holes or dig trenches in the ground. A Reconnaissance Permit lasts for one year and can be renewed for one additional year.

- Prospecting Licence

Prospection is the second stage in the mining process. A Prospecting Licence holder is allowed to use machinery to drill holes and dig trenches. Prospecting may involve clearing large areas of vegetation to allow vehicles and drilling rigs onto the land. A Prospecting Licence can cover an area of up to 600 square kilometres, and is valid for three years. It can be renewed for two further two year periods.

- Mining Lease:

Mining is the third and most important stage. Prospective mining companies must get a Mining Lease from the government. Mining Leases cover a smaller area of land than Reconnaissance Permits and Prospecting Licences, but a company with a Mining Lease is likely to do much more extensive work than during the other phases. This work includes constructing roads and site clearing, extracting ore from the ground, disposing of unwanted waste rock and soil ('overburden'), processing the ore and disposing of the processing waste ('tailings'). A Mining Lease lasts for 25 years, with unlimited additional renewals for 10 years at a time.

Small scale mining in the Solomon Islands is centrally regulated through the MMA. Part VI of the MMA sets out a separate process for small-scale miners to obtain permits, referred to as

'alluvial miner's permits'. 'Alluvial mining' in this context refers specifically to small scale mining carried out by individuals or groups.

4.4 Environmental

The Mines and Minerals Act does not contain any comprehensive environmental protections. It only empowers the Minister for Mines to make regulations for the disposal of waste and the protection of the environment. These regulations primarily require a mineral sector developer to 'carry out operations with due diligence, efficiency and economy and in accordance with good technical engineering practices generally used in the mining industry.

The Environment Act imposes two contingencies on mineral sector developments. First, the Environment Act requires a mineral sector developer to obtain a Development Consent from the Director of the Environment and Conservation Division before it is allowed to carry out a 'prescribed development'. The Environment Act sets up a second contingency for mineral sector developments which requires a mine to be licensed.

4.5 Taxation

The current mining tax regime comprises of a number of pieces of generic legislation. There is currently no sector-specific tax policy. The primary legislative instruments having a bearing on the sector: Income Tax Act, Sales Tax Act, Goods Tax Act, Customs and Excise Act and Stamp Duties Act.

Income Tax: Income tax is charged by assessment on the total income (excluding exempted income) derived by any person (individuals, corporations or body of persons excluding partnership). In ascertaining the total income chargeable with tax, certain specific and general categories of expenditure are allowed as deductions.

Goods Tax: Goods tax is charged on the sale value of goods manufactured in the Solomon Islands and goods imported into the Solomon Islands for home consumption. The sale value of goods manufactured in the Solomon Islands is generally the wholesale price of the goods. The sale value of goods imported for home consumption in the Solomon Islands is 130% of the sum of the cost, insurance and freight (CIF value) plus customs duty payable.

Sales Tax: Sales tax is a tax on the supply of certain prescribed goods and services. Tax is charged on the goods and services by the vendor at the time of supply/sale and is subsequently remitted to the Commissioner.

Royalties: MMA requires mining lease holders to pay royalties, but does not prescribe specific royalty rates. Instead, MMA and the Customs and Excise Act provide that the Minister for Mines may set the royalty rate on a case-by-case basis, in consultation with the Minister for Finance. According to the Agreement signed with the Solomon Islands sole operational mine, Gold Ridge, the royalty rate was set at 1.5% of gross revenue from the sale of gold and silver. The MMA permits the Minister for Mines, on application from a mining lease holder, to defer or wholly or partly remit royalty payments.

Import duties: The Customs and Excise Act provides for the levy of import duties. Some imports which are classified as input to manufacturing are granted a generic partial exemption, while some specified imports receive a full exemption. The Minister of Finance has discretion to grant ad hoc exemptions.

Export duties: Export duties are levied by virtue of the Customs and Excise Act, and apply to the export of natural resources. This can be contrasted with the export of manufactured goods, which instead are covered by the goods tax provisions set out in the Goods Tax Act. The Customs and Excise Act applies a 15% duty to the export of minerals. The MMA mandates that mining lease holders are liable to pay export duties. MMA states that the Comptroller of Customs and Excise must take into consideration the royalties paid in respect of the minerals being exported in determining the applicable export duty in a given case.

5. DETERMINATION OF THE RECONCILIATION SCOPE

Our work included a general understanding of the extractive sector in the Solomon Islands. We consulted Government Agencies and companies in order to collect relevant information on the size of the extractive sector in the Solomon Islands and its contribution to government revenues.

There were no operational activities carried out by extractive companies during the reconciliation period in the oil and gas sector. The Solomon Islands has no indigenous sources of natural gas or oil and has no oil refining facilities. Therefore, only the mining sector is covered by this report.

We have taken into account all the available information presented to us during our fieldwork.

5.1 Payment Flows

For the determination of significant payment streams, we consulted Government Agencies which received payments from the extractive sector. Below are the details of these payment flows based on disclosures made by Government Agencies.

5.1.1 Specific payments related to extractive sector

All specific payments relating to the mining sector as identified in the Mines and Minerals Act have been included in the scope of reconciliation irrespective of the materiality threshold.

The specific flows retained in the reconciliation scope are listed below:

Type of Tax	Legal Reference	Description
Royalties	GRML Agreement	GRML to pay the Government royalty equal to 1.5% of Gross Value of all gold and silver from mining area under the license
Mining License Fees		
Prospecting License Fees		
Gold Dealers License Fees		
Alluvial License Fees	Mines & Minerals Act	Various fees paid by mining companies for application or renewal of license
Special Site License Fees		
Road Access License Fees		
Building Materials License Fees		

The Mines and Minerals Act does not have provisions for any payments relating to production entitlement and signature, discovery or production bonuses.

5.1.2 Common law taxes

All payments identified in the primary legislative instruments which have a bearing on the mining sector have been included in the scope of reconciliation irrespective of the materiality threshold:

Inland Revenue Division/Ministry of Finance & Treasury

Type of Tax	Legal Reference	Description
Tax on profit/Turnover tax	Income Tax Act	Tax charged on profits earned each financial year
Provisional Tax	Income Tax Act	Tax pre-paid each quarter based on previous years profit
Additional Profit Tax	GRML Agreement	Tax levied on Mining Company
Property Tax	GRML Agreement	Tax charged on real property
PAYE	Income Tax Act	Tax deducted from employee salary
Withholding Tax	Income Tax Act	Tax on: contracting/subcontracting/royalties/interest/interest/professional services/mgt services/rent/lease
Sales Tax	Sales Tax Act	Tax charged on sale of good/services by vendor
Goods Tax	Goods Tax Act	Tax charged on sale value of goods manufactured in SI for home consumption. Sale value of goods is generally the wholesale price of the goods
Stamp Duties	Stamp Duty Act	Tax levied on documents. The major ones are: sale or transfer of properties, businesses, shares and other forms of property mortgages/lease agreements

Ministry of Commerce, Industries, Labour and Immigration

Type of Tax	Legal Reference	Description
Company Registration Fees	Companies Act	Fees paid by mining companies for registration
Residence Permit Fees	Immigration Act	Fees paid by mining companies for entry & residence permits
Work Permit Fees	Labour Act	Fees paid by mining companies for application for work permits

Customs & Excise Division/Ministry of Finance & Treasury

Type of Tax	Legal Reference	Description
Export Duties	Customs Act	Export duty is levied on specified goods exported from Solomon Islands
Import Duties	Customs Act	Import duty is levied on specified goods imported into the Solomon Islands
Goods Tax	Goods Tax Act	Fees paid by mining companies for application for work permits

Solomon Islands National Provident Fund

Type of Tax	Legal Reference	Description
NPF Contributions	SINPF Act	Employee through employer deduction from salary pay contributions to NPF

Provincial Governments

Type of Tax	Legal Reference	Description
Taxes, Fees & other payments to Provincial Governments	Provincial Government Act/Ordinances	Business fees and other fees paid to Provincial Governments

5.1.3 Other payment flows and information

Were included in the reporting templates through a unilateral declaration of extractive companies the following categories of payments and other information:

- others taxes and fees; and
- social payments

During our analysis of the extractive sector, we did not come across any other type of revenue streams collected by government entities such as the sale of the state's share of production, in-kind payments, Infrastructure provisions and barter arrangements.

i) Others taxes and fees

This category includes all other taxes and fees not listed elsewhere on the SIEITI reporting template. This category has been included in order to avoid any misunderstandings from the reporting entities and to facilitate the reconciliation work.

ii) Social payments

These payments consist of all discretionary social contributions as well as those mandated by law or contract with the government, made by mining companies to promote local development and to finance social projects in accordance with point 4.1 of EITI Standard. It encourages MSGs to apply a high standard of transparency to social payments and transfers, the parties involved in the transactions and the materiality of these payments and transfers to other benefit streams, including the recognition that these payments may be reported even though it is not possible to reconcile them.

These contributions can be made in cash or in-kind:

Type of Tax	Legal Reference	Description
Corporate Social Responsibility - Cash payments	-	Monetary payments relating to contributions made by extractive companies to promote local development and to finance social projects. They include inter alia health, infrastructure, social infrastructure, road infrastructure, and other projects and donation for local communities
Corporate Social Responsibility in-kind payments	-	Monetary payments relating to contributions made by extractive companies to promote local development and to finance social projects. They include inter alia health, infrastructure, social infrastructure, road infrastructure, and other projects and donations for local communities

5.1.4 Volume and Value of produced and exported minerals

In order to comply with the new EITI Rules, the volume and value of exports were disclosed by the extractive companies and Government Agencies for the current reconciliation exercise. As a result a separate section in the reporting template was created to be filled in by the reporting entities. However, GRML, the only fully fledged mining company has closed its operations and is unable to provide the required data for the 2014 reconciliation.

5.1.5 Subnational transfers

According to the Agreement signed between the Government and Gold Ridge Mining Company Limited, the Government shall establish funds to receive payments of royalties for the benefit of the Gold Ridge landowners (80%) and the Provincial Government (20%). An account in the name of GRML Landowners Special Trust Fund Account No: 0220-003 was opened with the Central Bank of Solomon Islands.

Type of Tax	Legal Reference	Description
Transfers to Landowners	GRML Agreement	Government shall establish account to receive payments to benefit GRML Land owners (80% of royalties collected)
Transfers to Provincial Gov't	GRML Agreement	The Government shall establish accounts to receive payments of royalties to benefit Government (20% of royalties collected)

5.2 Extractive Companies

5.2.1 Materiality threshold

The information provided to us during the inception phase was limited to the payments received by MoFT, MMERE, IRD and CED. We set out in the table below the tax collection per Government Agency from each company:

Company	IRD (MoFT)	2014		Amount (SBD'm)	
		MoFT	CED (MoFT)	Total	%
Axiom Mining Limited	160,393	108,799	1,229,364	1,498,556	0.5%
SMM Solomon Limited	4,744,125	-	-	4,744,125	1.6%
GRML	37,000,868	40,065,393	204,878,200	281,944,461	94.5%
Others	-	4,032,306	6,036,608	10,068,914	3.4%
Total	41,905,386	44,206,498	212,144,172	298,256,056	100.0%

5.2.2 Extractive companies proposed for the 2014 reconciliation exercise

It was endorsed by the SIEINSG that only two (2) mining companies will be selected for the reconciliation exercise. These companies are listed below:

No.	Companies
1	Axiom Mining Limited
2	SMM Mining Limited

On 20 July 2015, the SIEINSG held a meeting and decided to exclude SMM Mining Limited and Gold Ride Mining Limited from the reconciliation scope due to the following reasons:

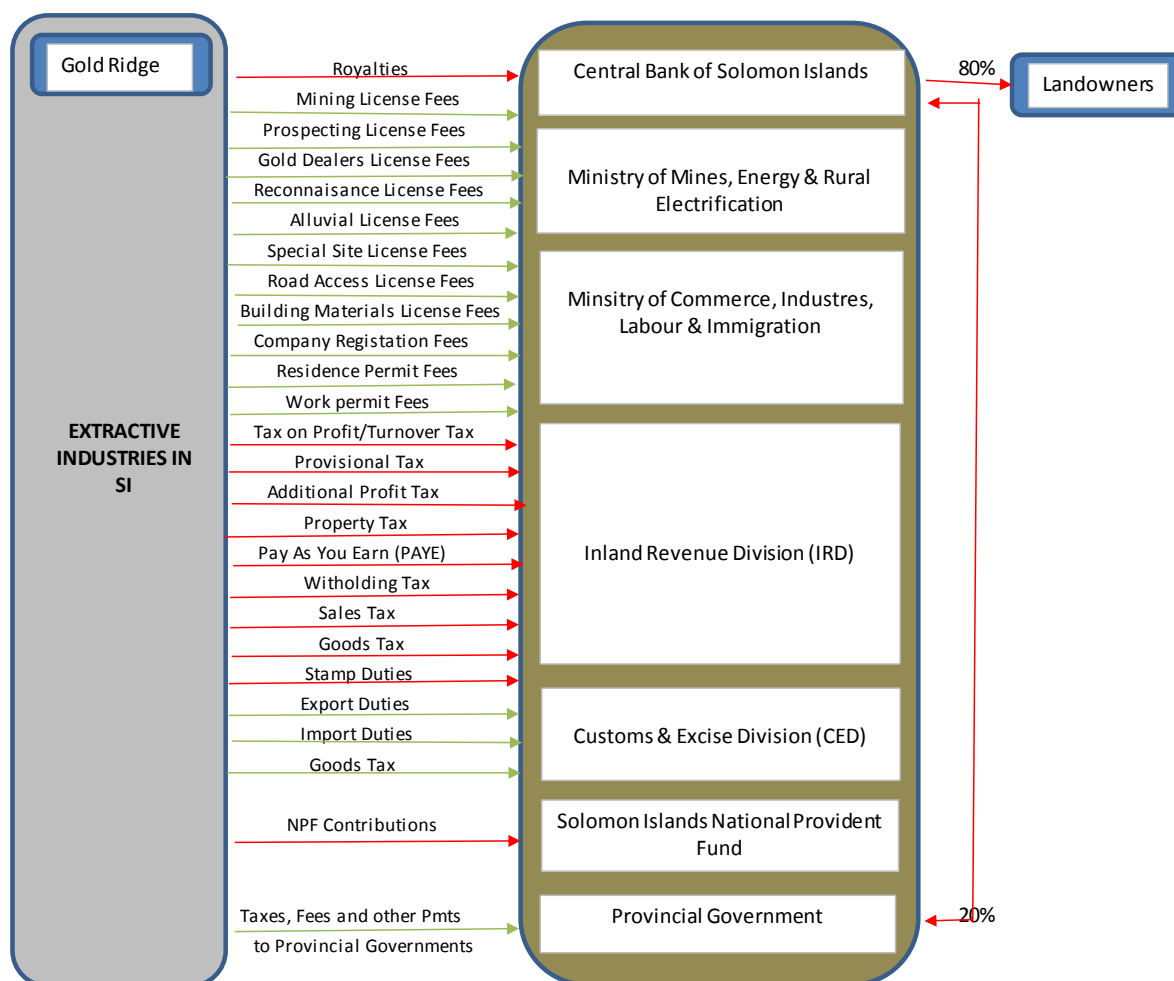
- GRML is unable to participate since it has closed its operations in Solomon Islands;
- SMM Solomon Limited has decided to participate after a meeting between Management and Independent Administrator and National Secretariat Officer on 30th August 2014.

5.3 Government Agencies

The Government Agencies which involved in the reconciliation exercise for 2014 are as follows:

Central Agencies	
1	Ministry of Finance & Treasury (MoFT)
2	Inland Revenue Division (IRD)
3	Customs and Excise Division (CED)
4	Ministry of Mines, Energy and Rural Electrification (MMERE)
5	Ministry of Commerce, Industries, Labour & Immigration (MCILI)
6	Central Bank of Solomon Islands
7	Solomon Islands National Provident Fund
Provincial Government	
8	Central
9	Choiseul
10	Guadalcanal
11	Isabel
12	Makira Ulawa
13	Renell & Bellona
14	Temotu
15	Western

5.4 Flow Chart of Payment Flows



6. RECONCILIATION RESULTS

We present below detailed results of our reconciliation exercise, as well as differences noted between amounts paid by extractive companies and amounts received by Government Agencies. We have highlighted the amounts initially reported and the adjustments made following our reconciliation work, as well as the final amounts and unreconciled differences. However our reconciliation report was prepared based on unilateral disclosure by Government Agencies and related entities only and not from extractive companies.

6.1. Reporting on extractive companies by Government Agencies

The tables below summarise the receipts of payments made by the various Government Agencies. However, we were unable to do a full reconciliation because templates from Axiom Mining Limited and SMM Solomon Limited were not submitted to us.

Figures collected form Government Agencies were as listed below:

Nos. Company		Templates Lodged (SBD'm)			Adjustment (SBD'm)		
		Company	Gov't	Diff	Company	Gov't	Diff
1	Axiom Mining Ltd		1,499			1,499	1,499
2	SMM Solomon Ltd		4,744			4,744	4,744
	Total	-	6,243	-	-	6,243	6,243

Reconciliation by Revenue Stream

Nos.	Tax	Templates Lodged (SBD'm)			Final Results *SBD'm)		
		Company	Gov't	Diff	Company	Gov't	Diff
	MMERE/MoFT/CBSI		2,769		2,769	2,769	2,769
1	Royalties		2,768		2,768		2,768
2	Mining License fees						
3	Prospecting License fees						
4	Gold Dealers License		0.3		0.3		0.3
5	Reconnaissance License						
6	Alluvial license fees						
7	Special site license fee						
8	Road Access Fee						
9	Building Materials License fees						
	MCILI - MoFT		-		-	-	-
10	Registration fees						
11	Residence permit fee						
12	Work permit fees						
	IRD - MoFT		83,309		83,309	83,309	83,309
13	Tax on profit/Turnover						
14	Provisional Tax						
15	Additional Profit Tax						
16	Property Taxes						
17	PAYE		39,097		39,097		39,097
18	Withholding		44,212		44,212		44,212
19	Sales Tax						
20	Goods Tax						
21	Stamp Duties						
	CED - MoFT		238,283		238,283	238,283	238,283
22	Export Duties		238,283		238,283		238,283
23	Import Duties						
24	Goods Tax						
	SINPF		6,304		6,304	6,304	6,304
25	NPF Contributions		6,304		6,304		6,304
	Provincial Gov't		287		287	287	287
26	Taxes, Fees, and other payments to Provincial Gov't		287		287		287
	Gov't Agencies		4002		4002	4002	4002
27	Other taxes, fees, and other payments to Gov't		4002		4002		4002
	Total		334,953		334,953	334,953	334,953

Note: Export related payments for GRML for 2014 was SBD232, 2 million. It was found that GRML has been using different names distorting that data supplied by the MoFT.

6.3 Reconciliation Adjustment

It was not possible to do the reconciliation adjustments since we were unable to get the templates from both Axiom Mining Limited and SMM Solomon Limited to do the reconciliation.

6.4 Unreconciled Difference

We were unable to collect templates from Axiom Mining Limited and SMM Solomon Limited to do the reconciliation for 2014. All data received were unilateral disclosure from Government Agencies.

7. REPORTED DATA

7.1 Analysis of Government Revenue

7.1.1 Analyses of payments by companies' contribution

The analysis of Government revenues by companies' contribution indicates that the 3 companies contributed approximately 10% of the total Government revenues in 2014 and St Barbara Mining Ltd (GRML) accounts for around 95% of the country's extractive revenues for the same period.

The list of payments by company contributions is shown in the table below:

Company	Government Revenues	% of Total Payment
Axiom Mining Limitd	1,498,566	0.5%
SMM Solomons Limited	4,744,125	1.6%
Others	10,068,914	3.4%
Others - GRML	281,944,460	94.5%
Total Extractive Sector	298,256,065	100.0%

7.1.2 Analysis of payments by flows contribution

The analysis of the payments by flow contribution shows that the TOP 5 taxes contributed up to 74% of the total Government extractive revenues. We also note that Export Duties accounts for a significant portion of total government revenue.

The list of payment flows is shown in the table below:

Tax	Government Revenues	% of Total Payment
Pay As You Earn (PAYE)	39,096,809	12%
NPF Contributions	6,303,791	2%
Import Duties		
Withholding Tax	44,212,133	13%
Good Tax		
Export Duties	238,282,858	71%
Royalties	2,768,423	1%
Provisional Tax		
Prospecting License Fees		
Taxes, Fees and other payments made to Provincial Government	286,767	0%
Goods Tax (CED)		
Sales Tax		
Residence Permits Fees		
Work Permits Fees		
Other Taxes, Fees and other payments made to Government	4,002,306	1%
Gold Dealers License Fees	30,000	0%
Pax on Profit/Tunrover		
Building Materials License Fees		
Registration Fees		
Stamp Duties		
Total Extractive Sector	334,983,087	100%

7.1.3 Analysis of revenue by Government Agencies

In 2014, CED collected the largest value of receipts included in the reconciliation followed by the IRD as shown in the table below:

Government Agencies	Government Revenues	% of Total Payment
Inland Revenue Division	83,308,942	25%
Customs & Excise Division	238,282,858	71%
National Provident Fund	6,303,791	2%
Central Bank of Solomon Islands	2,768,423	1%
Minsitry of Mines, Energy and Rural Eelectrification	4,032,306	1%
Provincial Government	286,767	0%
Minsitry of Commerce, Industries, Labour and Immigration		
Total Extractive Sector	334,983,087	100%

7.1.4 Unilateral disclosure of revenues by Government Agencies

As required by the TOR, Government Agencies were requested to disclose unilaterally the revenue streams collected from companies not included in the scope of reconciliation in accordance with option of the EITI Standard. The contribution of the extractive companies, not included in the scope of reconciliation is shown in the table below:

Tax	Government Revenue (SBD)
Other Companies Disclosed Unilaterally	
PAYE	41,033,174
NPF	6,303,791
Withholding Tax	46,102,001
Taxes, fees and Other payments	950,361
Provisional Tax	
Export Duties	238,282,858
Prospecting License Fees	
Work Permits Fees	
Gold Dealers License Fees	30,000
Goods Tax	
Building Materials License Fees	
Registration Fees	
Import Duties	
Stamp Duties	
Total Extractive Sector	332,702,185

7.2 Social Payments

Companies were requested to report social payments and transfers made during 2014. We set out in the table below the amounts reported by the extractive companies⁵:

Nos.	Company	Cash Payments	In-Kind Payments	Total(SBD)
1	SMM Solomon Limited	700,000		700,000
	Total	700,000		700,000

The social payment made by SMM Solomon Limited in 2014 was related to donations to the National Disaster Management Office (NDMO) to assist during the April floods in Honiara.

SMM Solomon Limited also fund projects established under their social responsibility program in communities they operate including giving assistance to government and related entities. The company has invested in health, environment and education and they have on-going programs and projects in these three areas. To date, the company has spent well over SBD1 million in school fees and scholarships.

During the period of reconciliation, neither the state nor the Provincial Governments or SOEs in which the state is a shareholder invests in any mining companies or activities.

⁵ SMM Solomon Limited CSR Report 2014.

7.3 Production Declared by CBSI

The companies and Governments Agencies were requested to report volumes of production and exports and annual amounts of products exported during 2014. We have only obtained the volumes of production from CBSI. We set out in the table below the volumes of produced Gold and Silver as reported by CBSI:

Company	Gold (oz)	Silver (oz)
St Barbara Mining Limited (GRML)	210	-
Total	210.00	-

The Gold Ridge Mining Limited has ceased exporting of gold in the second quarter of 2014.

7.4 Subnational Transfers

According to the Agreement signed between the Government and the Solomon Islands' sole operational mine (Gold Ridge); the Government shall establish funds to receive payments of royalties for the benefit of the Gold Ridge landowners (80%) and the Provincial Government (20%).

Below is a summary of the payment into and out of the GRML Special Trust Account No:0220-003, opened with the Central Bank of Solomon Islands.

Description	Deposits	Payments
Royalty Deposit/Payment	5,385,768	1,669,817
Royalty Deposit/Payment	12,967,314	8,579,241
Royalty Deposit/Payment	8,591,961	6,316,364
Royalty Deposit/Payment	2,768,423	10,127,396
Total	29,713,466	26,692,817
Remaining Balance		3,020,649
Total Payments by GRML	29,713,466	29,713,466

For 2014, royalty payment of around SBD2.8 was transferred to CBSI and SBD10.1 million was paid out in November 2014.

8. MINING LICENSE PROCESS

In 2014, there were no changes to any mining policies and the mining and licenses approval process was the same like it was in previous years. The three types of mining licenses available to the large-scale operators are: Reconnaissance Permits, Prospecting License and Mining License. The issuance process for the three licenses are as specified by the Mines and Minerals Act 1996 and Mines and Minerals (Amendment) Regulations 1999.

As part of field work we conducted interviews with various staff of the MMERE. This process includes interviews with the Deputy Director of Mines and the Inspectorate staff. We have also spent time to review applications forms, minutes of Board meeting, Agreement between Applicant and Landowners and Process of transmitting the license to the Provincial Secretary of the Province.

Below is a summary of some of the areas that we have raised with the MMERE.

- Some Agreements were not provided by MMERE for confidentiality reasons
- Some applications were not properly signed by the Director of Mines indicating poor administration of the Minerals application and approval process and system.
- The Approval Process is prone to political influence bypassing the Minerals Board as the body responsible for approval of licenses.

Physical review of some of the files and reports revealed that there are gaps in the mining license issuance process which needs to be addressed (see Annex 3 for Mining License Issuance Process).

9. RECOMMENDATION

There are some challenges encountered during the course of collection and compilation of this report. It was obvious that the extractive companies have been reluctantly to submit data and information to the National Secretariat Office affecting the timely collection, analysis and compilation of the Reconciliation Report for 2014. There is a need to consider implementing workable, applicable and relevant interventions to assist in improving the systems and process that form part of the data collection process, and reporting by companies, government authorities and related agencies that are part of the extractive industries sector.

The following are the recommendations:

9.1 Lack of EITI Database

It appeared that to date the SIEITI Secretariat is having problems with the collection of data from extractive companies. The lateness in the compilation of the Reconciliation Report for 2014 was the result of the delay in submission of data by extractive companies or the lack of available data to enable timely collection and compilation of data and report.

We recommend that the SIEITI Secretariat pursue installation of their database and system to allow the storage of data from extractive companies and Government Agencies to submit

data of companies operating in the extractive sector this is intended to enable easy access to data for ease of easy data collection and timely compilation for future reconciliation work.

9.2 Lack of Commitment by Participating Companies

There was lack of commitment by participating companies affecting the timely collection of data:

Reporting Entities

There was no preparation by the two selected companies of documents for the Administrator. They have not been able to furnish the required information to the Administrator even after reminders and consultations with the National Secretariat Office.

We recommend that the SIEITI formally make recommendation to the Minister of Finance to consider making the submission of data and templates a compulsory exercise that must be done by the extractive companies each fiscal year. Such process should be supported by guidelines stating requirements including penalties for non-compliance.

9.3 Lack of understanding and commitment on EITI principles by some stakeholders

We note that some stakeholders that involved in the reconciliation process (extractive companies and Government Agencies) do not have a good understanding and knowledge of EITI, its international significance and Solomon Islands' membership. Certain stakeholders do not understand the SIEITI Reconciliation report for the year 2013.

We recommend that as a matter of urgency, SIEITI look into hosting a conference/workshop for representatives from extractive companies, related government agencies and stakeholders to be informed of the roles of SIEITI in Solomon Islands. Maybe this will assist to provide information and understanding of the important role of SIEITI.

12.5 Communication enhancement

The SIEITI Secretariat website is now ready for use but the delay in its launching will slow down the need to inform the public of the important role played by the EITI in Solomon Islands.

We recommend that the SIEITI prioritise the development of the website including a portal in which all data and documents are published in order to enable better dissemination and to a wider audience. It is worth noting that website is at its final stage of completion.

10. ANNEXES

Annex 1: List of Organisations and Individuals Consulted

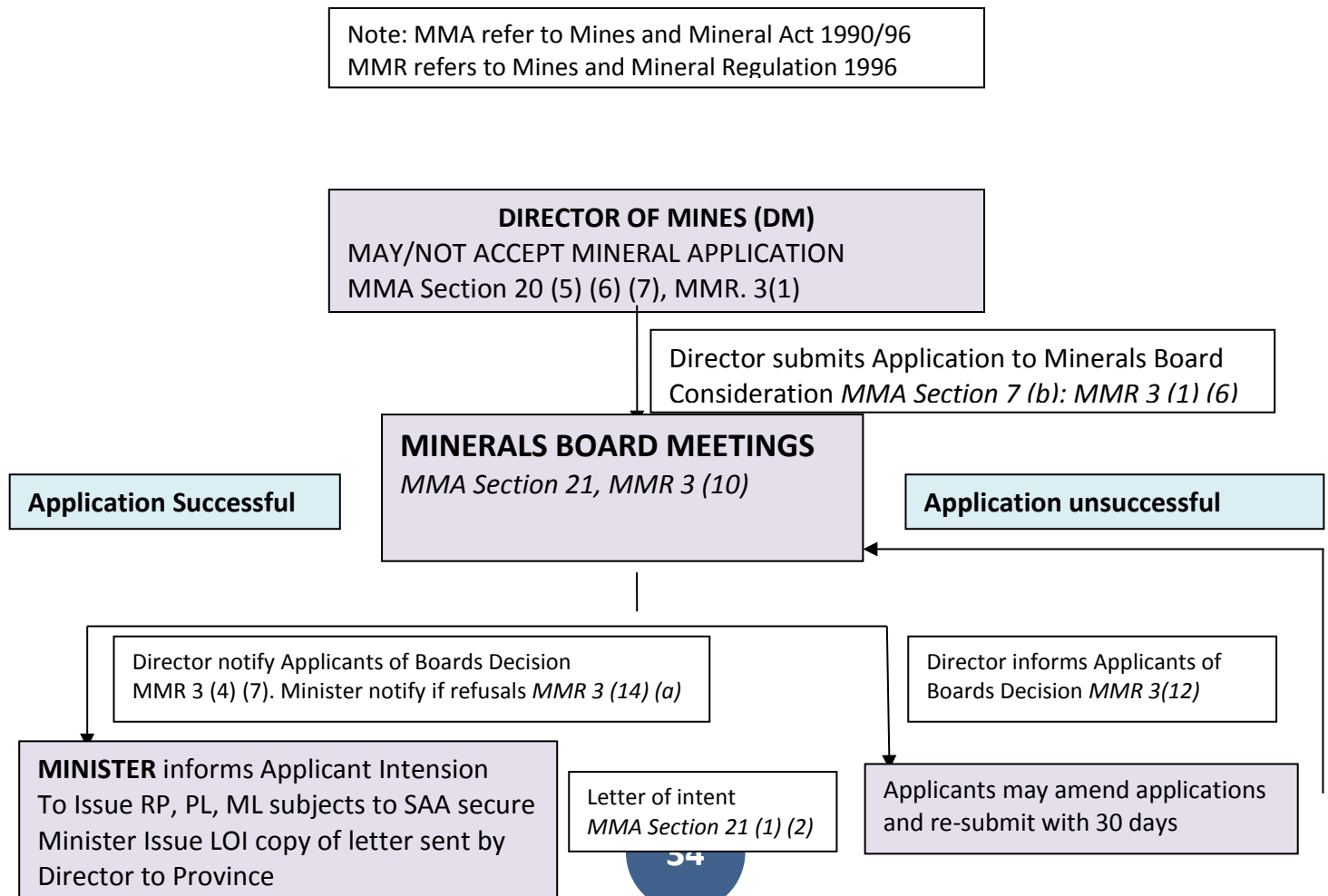
Name	Position	Organisation
Government		
IRD	Commissioner of Tax	Inland Revenue Division
Nathan Kama	Comptroller of Customs	Customs Excise Division
Douglas Sade	Financial Analyst	MoFT
Government Agencies		
Robert Cohen	Acting Auditor General	Auditor Generals Office
Related Entities		
Michael Kikiolo	Senior Officer Economics	Central Bank Bank of SI
Judy Anii	Banking Officer	Central Bank of SI
Extractive Companies		
Philip Tagini	General Manager	Axiom Mining Limited
Lonsdale	Public Relations	
XXX		
		Axiom Mining Limited
Other Offices		
Michael wate	General Manager	SINPF

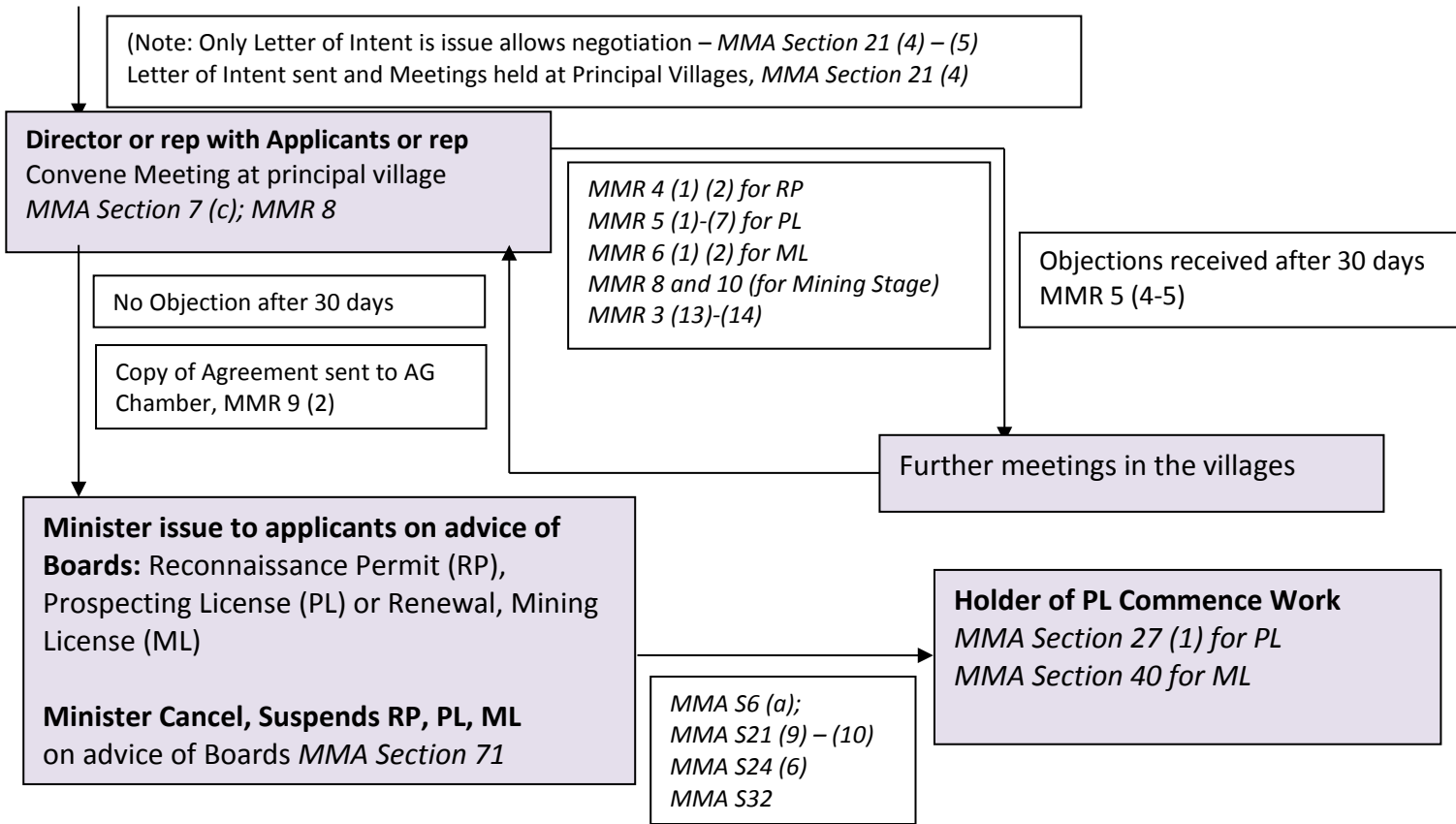
Annex 2: List of Mining Companies paying taxes below the materiality threshold

No	Other Companies	No	Other Exporters
1	Asia Pacific Investment & Development Ltd. (APID)		
2	Nautilus Minerals (SI) Ltd (off shore prospecting)		
3	Bluewater Minerals (SI) Ltd (offshore prospecting)		
4	Australian Resources Management Pty Ltd		
5	Guadalcanal Exploration Management Pty Ltd		
6	Solomon Commodities Ltd		
7	Solomon Resources Ltd		
8	World Link Gold & Copper Ltd		
9	Solomon Islands Gold Pty Ltd		
10	SIPIC - Solomon Islands Property Pty Ltd		
12	Solomon Bauxite Ltd		
14	Au Capital Mining Ltd		
15	Linc Corporation Ltd		
16	Kentor Energy Pty Ltd		
17	World Link Resources Limited		
18	Solomon Alluvial Mining Ltd		
19	Richmont Mining Ltd		
20	Kustom Mining Company Ltd		
21	Phonix International Limited		
22	Grand Peak Solomon Limited		
23	PT Mega Bintang Borneo Ltd		
24	Highland Mining Limited		
25	Sol-Sing Ming Enterprise Ltd		
26	Tymnah Mineral Resources Pty Limited		
27	Gold Ridge, ST Barbara Mining Company		
28	World Mineral Ltd		
29	Golden Solomon Resources Ltd		

Annex 3: Mineral Applications Procedure

MINERAL APPLICATION PROCEDURES





EXPLORATION/MINING TENEMENT MAP OF SOLOMON ISLANDS AS OF 23 OCTOBER 2015

