

Diverging fortunes

Mining industries across Southeast Asia are facing a variety of challenges

Quan Dang, Deidre Hargood, Chris Larkin
CLC Asia and AWR Lloyd

Many of the countries in Southeast Asia are rich in mineral reserves and have the potential to develop into major mining economies.

While their larger and more developed Asian neighbours have historically claimed the limelight, the International Monetary Fund tips Southeast Asia's economy to grow by 7.9% in 2013 – much higher than the mere 2% growth expected in advanced economies.

Mining in Laos, Cambodia, Thailand or Vietnam does, however, present a range of different challenges – both for domestic and foreign investors.

Laos

Laos' mining industry continues to experience strong growth, with an average of 14%/y increase over the last five years.

The mining industry is a large contributor to the economy, although with lower mining revenues and grants the World Bank expects its revenue growth to slow for 2013.

Most mining companies are working in joint ventures, with the remainder either wholly locally owned or foreign-owned.

The vast majority of mining projects are in the exploration phase, with about a third of all mining companies involved in mining operations and processing. It is expected that this number will increase in the near future.

The moratorium on any new mining investments continues, but the government still allows land surveys and assessments along with the transferring or selling of mining licences. The government continues to take on the challenge of providing transparency in the mining industry as it works through the large task of reviewing existing concessions.

Mining and exploration

Silver and gold production continues to contribute to PanAust Ltd's growth trend. The company's Phu Kham's operations produced 16,092oz of gold and 69,773oz of silver during the quarter ending June 2013, with total sales of 17,054oz of gold and 69,529oz of silver at US\$1,377/oz of gold and US\$20.50/oz of silver during the quarter.

PanAust's Ban Houayxai gold and silver production increased to 28,712oz of gold in the June quarter, 11% higher than the previous quarter. According to a revised life-of-mine plan for Ban Houayxai, gold production in 2013 is expected to reach 110,000oz or around 10% higher than the previous year.

PanAust is expecting to produce 160,000-175,000oz of gold for the whole year from both Phu Kham and Ban Houayxai.

For silver, the company plans to produce



Photo: PanAust



Photo: MMG



Photo: PanAust



Photo: PanAust

Above, clockwise from top left: the Ban Houayxai gold-silver operation process plant; MMG Sepon project; the Phu Kham copper-gold open pit; a truck hauling ore in the open pit at the Phu Kham

“Most mining companies in Laos are working in joint ventures, with the remainder either wholly locally owned or foreign-owned”

between 1.1-1.2Moz by the end of 2013 from both operations.

The strong performance is also reflected in its copper production figures. In 2012, Phu Kham produced 63,285t of copper in concentrate. In the 2013 June quarter, the operation produced 15,483t of copper, which was 13% higher than the previous quarter.

Total copper sales accounted for 14,597t of copper for US\$3.24/lb (US\$7,144/t). PanAust is planning to produce between 62,000t and 65,000t of copper for 2013.

PanAust continues to investigate the feasibility of several other sites for gold, silver and copper. It is carrying out a prefeasibility study for the Phonsavan copper-gold project, which contains 5-7Mt mining for 20,000-25,000t/y of copper concentrate.

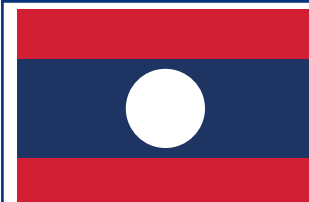
The company completed a study for gold, silver and copper mineralisation at the Long Chieng Track deposit, which is rich in gold and silver at its upper zone, and gold and silver together with base metal at its lower zone. It also continues to explore the potential of Nam Ve, Nam San and Haul Road sites for copper, silver and gold.

Ord River Resources Ltd, a gold and base metals miner, announced that it will divest of and exit its Sarco bauxite and aluminium project in Laos.

Sarco is refocusing resources to its Australia-based gold resource explorations, is seeking to develop an alternative plan and will likely require assistance to raise funds for the capital investment needed to develop the project.

Despite Kingsgate Consolidated Ltd's decision to scale back on exploratory activities elsewhere, primary exploratory activities continued in Laos for the June quarter, 2013. Exploration concentrated on ground geophysics and geological mapping that successfully identified mineralisation with peak gold in soil assays lying in close proximity to the quartz veins at the Sayabouly project.

Fast facts: Laos



- ▼ **Capital:** Vientiane
- ▼ **Population:** 6.6 million
- ▼ **Real GDP growth:** 8.3% (2012 est)
- ▼ **Currency:** Lao kip

Focus: Southeast Asia



Left to right: The Victory Monument in Vientiane, Laos; a road close to Brighton Mining's operations in Cambodia



Argonaut Resources NL continues with its Century Thrust joint venture with Aurum Resources Pty Ltd at the Century concession in northern Laos. The project is now at an advanced stage of exploration, with encouraging high-grade gold intersections.

Argonaut recently announced it had withdrawn its application to the Laos government to extend the Xekong mineral exploration and reconnaissance agreement in southern Laos, of which Argonaut has a 65% share.

This decision came about because it was felt that the obtainable renewal terms were not aligned with the project's stage of development.

Chinalco Yunnan Copper Australia Ltd (CYU) has approved its withdrawal from Laos after determining that its site does not meet CYU's requirements for a commercial copper deposit. Instead the company says it will focus its activities on projects in Cambodia and China.

MMG Ltd had a record year for copper in 2012, producing 86,295t, an increase of 9% from 2011 at its Sepon copper-gold mine. This result showed that Sepon is consistently operating above the original design capacity of 80,000t/y of copper cathode, partly due to continuing productivity improvements that have been implemented.

The 2013 September quarter continues this trend, with copper cathode production exceeding nameplate capacity for the sixth consecutive quarter, while gold production was lower during this quarter.

Cambodia

Cambodia continues to make very slow progress towards realising its mining potential. A report released in March 2013 by the country's Ministry of Industry, Mines and Energy stated that all of the registered 91 companies working in Cambodia, whether foreign-owned or domestic, are still working at the exploration stage.

Just over 15% of these companies are licensed to conduct mining projects, primarily in gold. However, with recent reports of mining deaths at Preah Mear, one of the country's well-known gold mining areas, it is clear that there continues to be a great deal of illegal artisanal mining in Cambodia.

In response to the recent deaths, the Cambodian government announced it is planning to draft a law designed to govern safety standards in the mining industry. This would be the first significant amendment since 2005 to the 2001 Law on Management and Exploitation of Mineral Resources.

Mining and exploration

Perth-based miner Renaissance Minerals Ltd has been investigating gold exploration assets in Cambodia since 2010.

This year saw a significant step for the company with a new JORC-compliant statement showing indicated and inferred resource of 15.6Mt at 2.4g/t Au for 1.2Moz from its 100%-owned Okvau gold deposit.

Broken down, the indicated resource is 15.2Mt at 2.3g/t Au for 1.11Moz and 0.5Mt at 5.9g/t Au for 0.1Moz in the inferred resource category.

After Renaissance finished its initial drilling programme in 2012, the resource increased by 65% and achieved 33% improvement in gold grade, all within 12 months of acquiring the project.

Being a small part of the project area, the Okvau deposit illustrates the potential of the unexplored region of this project in Cambodia. The project seems to be more attractive than ever with its high grade and significant scale. In 2012, the company completed a combination of infill and extensional drilling to provide better delineation of high-grade gold zones.

Renaissance is looking to build up a multi-million ounce gold project at Okvau. The company has been carrying out a 25,000m reverse-circulation drilling programme over the whole area around the Okvau deposit.

All Solutions (Cambodia) Company Ltd is privately owned. It works in partnership with Chinese gold miner Canxiang Mining. In January 2013, the company succeeded in acquiring a 78km² sub-section of the Angkor Oyadao region, located close to Vietnam, for US\$2.4 million from Canadian-based exploration junior, Angkor Gold Corp.

Angkor, with its focus on exploration to attract buyers and retain a stake, also recently sold 222km² of the remaining Oyadao territory for US\$1.2 million in January to Mesco Gold, a subsidiary of India's Mesco Steel Pty Ltd.

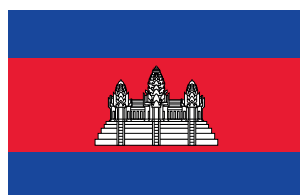
The initial drilling programme examined the deposit laterally and at depth. Samples indicated 8.11g/t Au, 6.49g/t Ag, 0.12% Cu, 1.04% Pb and 0.47% Zn from 89.25m to 95.55m.

Indochine Mining Ltd's subsidiary Indochine Resources is both reducing its exposure in Cambodia and raising capital by selling a large chunk of its share of the Ratanakiri gold project located in the far northeast of the country. It has sold an 85% shareholding to Capital Mining Ltd.

Brighton Mining Group Ltd continues with its

"Cambodia continues to make very slow progress towards realising its mining potential"

Fast facts: Cambodia



- ▼ **Capital:** Phnom Penh
- ▼ **Population:** 14.9 million
- ▼ **Real GDP growth:** 6.5% (2012 est)
- ▼ **Currency:** Cambodian riel

Focus: Southeast Asia



Photos: Brighton Mining

Left: Brighton Mining Group workers inspect rock samples

exploration programme. It has had some positive results in its Kang Roland North concession, located in the north of the country, with 4.67g/t Au and 4.63g/t Au from 223 sample holes in two main survey areas.

The company is planning to spend approximately US\$1.4 million on further exploration activities at Antrong and Kang Roland until June 2014.

Thailand

Softening coal prices and exchange-rate losses have caused the Thailand-domiciled Banpu Public Company Ltd (Banpu PCL) to implement cost-cutting measures and operational improvements. This has resulted in increased coal production volumes and has also gone some way to reducing the impact on Banpu profits.

The average selling price for coal fell 17% from US\$89.74/t in 2012's June quarter to US\$74.46/t in this year's June quarter. Along with Banpu's exposure to foreign exchange losses of US\$14 million, this resulted in a 32% net profit reduction for 2013's June quarter and a 68% reduction from the same quarter last year for the company.

According to Banpu's chief executive, Chanin Vongkusolkrit, the market's coal price should begin to recover gradually by the beginning of next year. It is expected that the increase in coal price will then be stable since there will continue to be excess coal supply continuing into 2014.

Indonesia and Australia coal operations reached a total production and sales volume of 10.71Mt, an increase of 0.81Mt, or 8%, from the same period last year. Vongkusolkrit stated that the China coal business also contributed significant equity income, mainly from the Gaohe mine.

Banpu is looking for more opportunities to invest in the power business in addition to its Hongsa coal-fired power project in Laos, which is now 62% complete, and expected to start commercial opera-

Right: Chanin Vongkusolkrit, chief executive of Banpu PCL



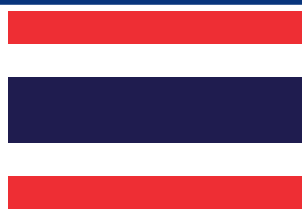
Photo: Bloomberg News

tion in the September quarter of 2015.

According to Vongkusolkrit, Hongsa will significantly help increase Banpu's income from the power business. It will also lift the proportion of enterprise value stemming from the power business to more than 30%.

"Australia-based Matsa Resources Ltd has several exploration interests in Thailand, including copper, iron and gold projects"

Fast facts: Thailand



- ▼ **Capital:** Bangkok
- ▼ **Population:** 66.8 million
- ▼ **Real GDP growth:** 6.4% (2012 est)
- ▼ **Currency:** Thai baht

Other projects

Australia-based gold miner Kingsgate Consolidated Ltd has reacted to the massive 20% drop in gold prices and is working on ways to protect itself against further drops. The company has pushed back the start-up date of its Bowdens silver mine in Australia to 2016 in an attempt to conserve money and has decided to fast-track the listing of its Thai assets, primarily Akara Resources Public Company Ltd (formerly Akara Mining Ltd) on the Thai Stock Exchange (SET).

Kingsgate is planning to list Akara once the conditions are suitable. If the initial public offering (IPO) proceeds, Kingsgate will retain a 49% interest in Akara.

Kingsgate continues to support the Chartee gold project management on commercial terms pursuant to a long-term management agreement with Akara. An IPO will help Kingsgate fund other projects such as the Bowdens silver mine in New South Wales.

Akara operates the Chatree gold mine in central Thailand, which reported a 50% quarter-on-quarter increase in production for the period to end-September.

Kingsgate forecasts the Chatree mine to produce 120,000-130,000oz of gold in the year to end-June 30, 2014.

Kingsgate is exploring areas close to Chartee, most notably the Chokdee and Suwon reserves. The company's market capitalisation is US\$255 million.

Australia-based Matsa Resources Ltd has several exploration interests in Thailand, including copper, iron and gold projects.

Matsa has put in applications for 124 special prospecting leases (SPL), but continues to wait for the granting process to be finalised by the Thai government. There is no indication provided for any timing or granting of applications.

Tongkah Harbour PCL continues to experience difficulties in Thailand and has failed to submit its 2012 quarterly reports or its 2012 annual report to the SET.

► **Continues on page 22**

Below, left to right: Akara operates the Chatree gold mine in central Thailand; a gold pour at the Chatree plant



Photos: Kingsgate Consolidated



Focus: Southeast Asia



Fast facts: Vietnam



- ▼ **Capital:** Hanoi
- ▼ **Population:** 88.8 million
- ▼ **Real GDP growth:** 5.25% (2012 est)
- ▼ **Currency:** Vietnamese dong

Top to bottom: examining core samples; quartz crackle veinlets



Photos: Axiom Mining

► Continues from page 19

Recently, Tungkhum, a subsidiary of Tongkah, announced that it will pull out of gold mining at its Loei site in Thailand over the next five years and will focus instead on mining exploration in Laos.

Vietnam

With gross domestic product (GDP) growth rate at 5.25% in 2012, Vietnam is experiencing its slowest GDP rate in two decades, lagging just behind regional competitors such as the Philippines and Indonesia.

Mining has been particularly hard hit with lower coal and bauxite prices affecting its largest miner – state-owned Vinacomin.

Mining legislation and taxation continue to be updated, with the most recent change relating to mineral taxation.

The Ministry of Finance issued Circular No 44/2013/TT-BTC on September 6, 2013, stating that export taxes on apatite ores apart from manganese ore and concentrates will increase from 30–40%.

In order to soften the blow of poor performance in the coal sector, the government also decreased the coal export tax from 13% to 10% from September 1, 2013, while the mining tax on iron ore will increase from 10% to 13%, on titanium from 11% to 16% and on gold from 15% to 22%.



ASIAN RESOURCES & INFRASTRUCTURE SPECIALISTS

- Energy, mining, metals, soft commodities and infrastructure expertise
- Depth and breadth of experience and networks in the Asia-Pacific region
- Independent advisory services: corporate finance, strategy, industry studies

Corporate Finance Transactions | Strategy Consulting | Special Industry & Project Studies
Thailand - Vietnam - Hong Kong - South Korea - Indonesia - Australia - North America

Contact: inquiries@awrlloyd.com



AWR Lloyd

www.awrlloyd.com

Focus: Southeast Asia



Photo: Hanoi's Panorama & Skyline Gallery

Coal

Vinacomin is the major coal producer in Vietnam, controlling most of the coalmines, which are concentrated in the northern area of Quang Ninh province and the Red River Delta basin. Coal sales decreased 13% in the last nine months compared with the same period last year.

Vinacomin is planning to reduce its coal inventory by selling 39-41Mt of coal until the end of the year. It produces approximately 40-45Mt/y of coal and exports 25% of this production. However, it is widely expected that Vietnam will become a net importer of coal by 2014 due to the demands of new coal-fired thermal plants in the country, of which 71 are planned to be operational by 2030.

Bauxite

Vietnam has one of the larger bauxite reserves in the world, sitting behind only Guinea and Australia. However, the bauxite industry is experiencing difficulties, the most recent example being the suspension of a key port project that was due to be the country's main port for exporting bauxite.

Increases in foreign currency exchange rates and a decrease in alumina prices have led to increased spending and have persuaded the government to run the two bauxite plants at low capacity until 2015 and to delay the construction of any further bauxite plants.

Gold

Gold miner Besra Gold Inc, formerly known as Olympus Pacific Minerals, runs two gold mines in central Vietnam – Phuoc Son and Bong Mieu. Besra is involved in a dispute with the Vietnamese government over US\$12 million worth of export duties. The issue is based on whether certain gold exports made in 2011 and 2012 by Besra were less than 99.99% pure gold and therefore should incur 10% tax.

Besra strongly disputes this and says the gold was officially approved before leaving Vietnam and approved as being within normal industry range in Switzerland. This dispute comes on the back of Besra only recently resuming its Phuoc Son operation in central Vietnam after community opposition to its operations, and, as Besra alleges, an act of vandalism leading to the dumping of 775kg of tailings in the local watershed.

Although the suspension in operations affected

Hanoi city

“Vietnam has one of the larger bauxite reserves in the world, sitting behind only Guinea and Australia”

Besra, the company still expects to achieve its production guidance of between 60,000oz and 65,000oz of gold for the 2014 June year-end.

Titanium

According to estimates, the total titanium-zircon volume and resource in Vietnam is 664Mt. This is a significant resource for Vietnam, particularly when worldwide titanium reserves are estimated at 1,400Mt, creating the potential for Vietnam to become a leading titanium miner.

Nguyen Thuong Dat, vice-president of the Vietnam Titanium Association, stated that the Vietnamese government expects to increase processing capacity from 65,000t of titanium in 2013 to 850,000t in 2015.

Vietnam-based private equity firm Masan Group Corp has an interest in the Nui Phao tungsten project.

Masan Resources, a unit of Masan Group Corp, signed a joint-venture agreement with HC Starck GmbH in July 2013 to process 100% of tungsten concentrate mined at the Nui Phao deposit. During the 2013 June quarter, Nui Phao began to produce tungsten and copper concentrate and achieved its first product sales.

Toronto-based Asian Mineral Resources Ltd (AMR) recently announced its first production at the Ban Phuc nickel project. This has moved AMR to producer status. Production is expected to ramp up to 6,600t/y of nickel, 3,300t/y of copper and 200t/y of cobalt contained concentrate.

Australian-based Axiom Mining Ltd is focusing on its two main prospects the Quang Tri gold project and the Quant Binh gold project.

Axiom undertook geochemistry work during the latter half of the wet season at Quang Tri and prepared further work for an additional drilling programme.

Axiom is trying to re-activate the Quang Binh licence. If it goes to plan, the company will move to implement its strategy of introducing in-country investors to produce shareholder value.

Triple Plate Junction plc (TPJ) is planning to move out of Vietnam in order to focus on its other projects in Papua New Guinea. TPJ's efforts in Vietnam were focused on the Pu Sam Cap gold-copper project in Vietnam's northwest Lai Chau province. TPJ's exploration director has taken up his option of acquiring 70% of the Pu Sam Cap gold project. ▼

Deidre Hargood and Chris Larkin are from CLC Asia, a government relations and corporate advisory firm in Bangkok. Quan Dang is an analyst at AWR Lloyd's Vietnam office. AWR Lloyd is an independent, specialised corporate advisory firm focused on the mining, metals and energy sectors in the Asia Pacific region. CLC Asia is part of the AWR Lloyd group of companies