



Country Risk in Mining (Myanmar)

October 2012



DISCLAIMER

This presentation is not to be distributed without explicit approval from CLC Asia and APS Ventures ('CLC Asia').

It is based on publicly available information and interviews with our sources in the industry. All estimates or projections regarding the operational performance or business, in the general meaning of the word, contained in this document include subjective data and analyses which are inherently uncertain.

The information contained herein cannot be construed as warranties or representations. Recipients of the document are invited to verify the accuracy of the following information for themselves. Accordingly, CLC Asia does not guarantee, either expressly or implicitly, that this information is exact or complete. CLC Asia and its employees shall not be subject to any direct or indirect liability arising from the information contained in the document.

This material may have been used during an oral presentation and is not a complete record of the discussion.

October 2012

CONTENTS

1. Introduction to CLC Asia

2. Country risk defined

3. Key risks examined

4. Mitigation

About CLC Asia



CLC Asia provides bespoke industry and political related advisory services to investors in Asia. Our services cover four key areas:

Market and industry analysis

We provide in-depth market studies and initial non-financial due diligence for potential investments in Asia. Our work goes beyond 'off the shelf' studies to give clients a clear picture of a target company, as well as relevant market dynamics and structure, key players and companies, industry trends and market outlook.

Political risk analysis

Utilising our unique network of contacts and key decision makers, we offer clients comprehensive assessments of political risk events which may arise in a market. These events can include corruption, bureaucratic blockages, poor stakeholder relations, government and policy shifts, terrorism and security, legal and regulatory irregularities, religious and health related concerns.

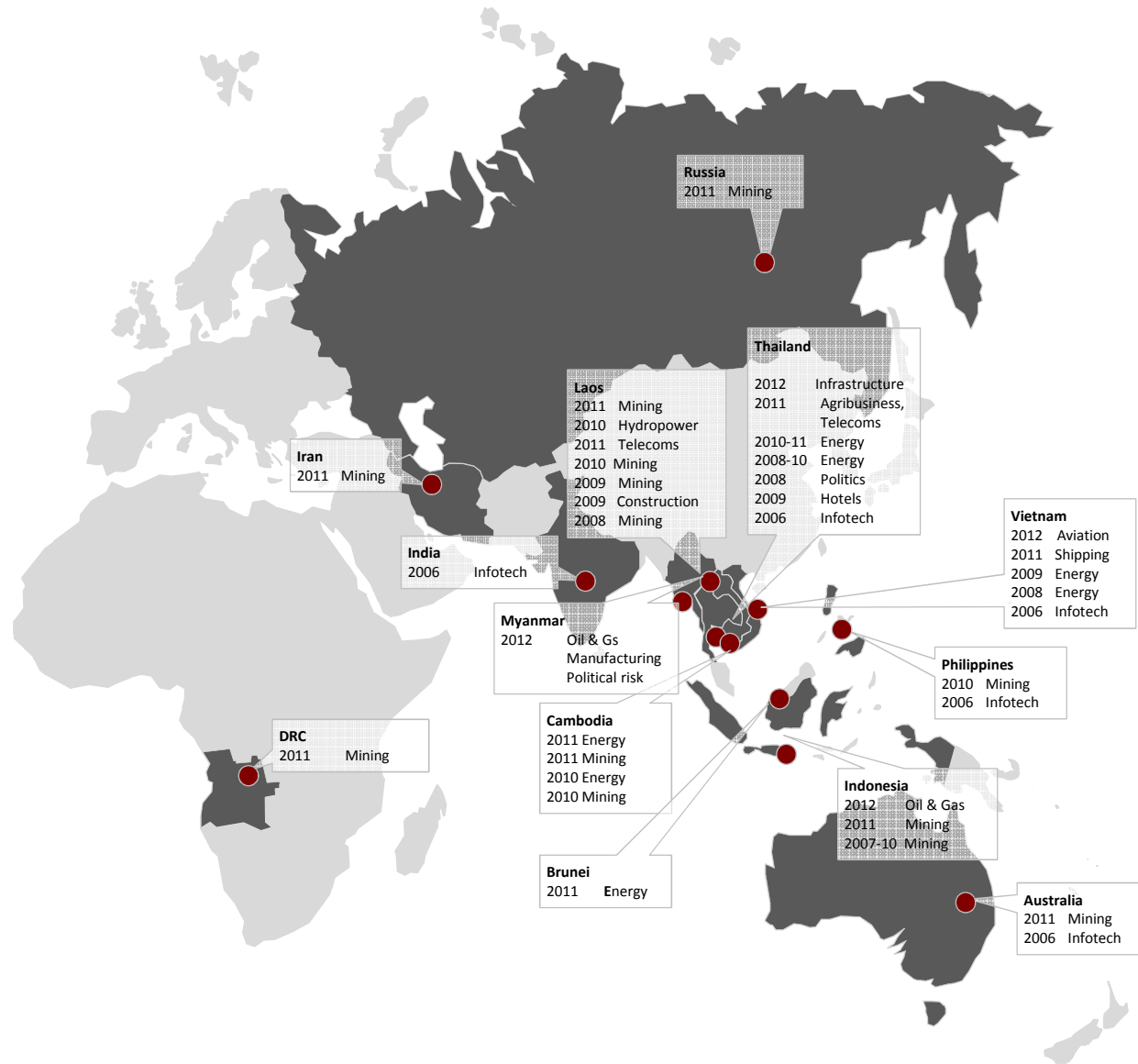
Government relations & communications

The principals of CLC Asia have significant experience advising governments and state owned entities in the region. We can help private sector clients refine their message to government clients in a way which best communicates our clients' business as well as assisting in stakeholder relationship matters.

Policy advisory

As policy advisors who have worked in the heart of government, we provide our clients with clear and informed background and interpretation on government strategy and policies, helping our clients align their commercial objectives with policy realities and frameworks.

Country risk - core focus on Asia



Exceptional Pan-Asian coverage with AWR Lloyd



AWR Lloyd

CLC Asia is the political and market intelligence arm of AWR Lloyd.

AWR Lloyd is an independent and specialized corporate finance firm with an exclusive focus on the energy, mining and metals industries in the Asia-Pacific region.

Our aim is to use modern corporate finance techniques, industry expertise and a good dose of creative thinking to help our clients build and maximize shareholder value in a sustainable way.

AWR Lloyd's client base includes a number of dynamic companies listed on stock exchanges in Asia and Australia. We have developed a particular reputation for helping growth-oriented natural resources companies in the region realize their full potential.

INDUSTRY FOCUS



OIL
Upstream, midstream, downstream, trading



GAS
Upstream, midstream, downstream, LNG...



COAL
Mining, logistics, infrastructure, trading



POWER
SPPs, IPPs, energy storage



GREEN
Solar, wind, bio-fuels, carbon credits



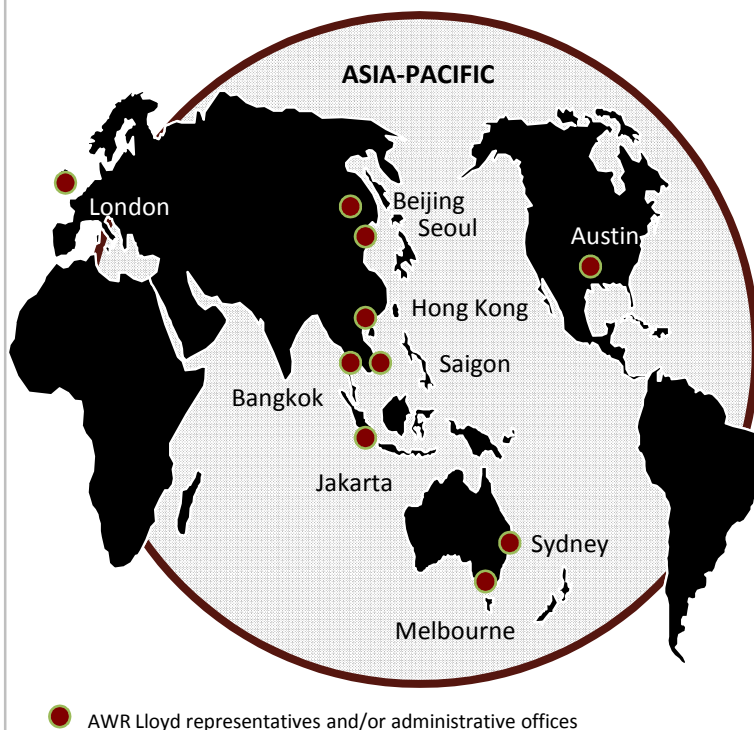
IRON & STEEL
Iron ore, ferro-alloys, steelmaking, mills



OTHER MINING
Non-ferrous, industrial minerals, precious

GEOGRAPHIC FOCUS

AWR Lloyd has been active in the Asia-Pacific region for over a decade. The firm's Partners each have between 15 and 30 years experience in industry strategy consulting, investment banking and investment in the Asia-Pacific region.



SERVICE FOCUS

FINANCIAL ADVISORY

- Mergers and acquisitions
- Equity capital placement
- IPO and listing strategy
- Project finance advisory

STRATEGY CONSULTING

- Corporate strategy
- Growth strategy
- Financial strategy
- Fair value analysis
- Investor relations strategy

COMMERCIAL ADVISORY

- Pre-feasibility studies
- Feasibility studies
- Market studies
- Industry research
- Commodity and energy procurement advisory
- Energy storage lease advisory

Who we are



Chris Larkin:
FOUNDER
AND
MANAGING
DIRECTOR

*Bases: Bangkok
and Melbourne*

Chris is the founder of CLC Asia. He has over 13 years experience working for both government and private sector clients in Asia, Australia and the UK. His previous experience includes working as a privatization and regulatory advisor for the Thai Ministry of Finance.

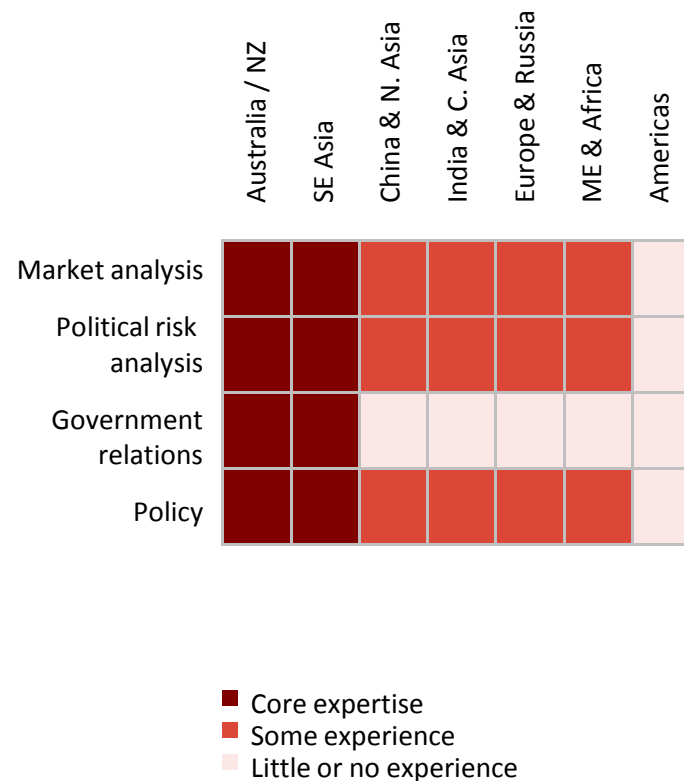
After beginning his career in Australia, Chris moved to Thailand where he became an internal advisor to the Thai government on privatisation and economic regulatory policy, working on the privatisations of PTT and Airports of Thailand, as well as working with a variety of State Owned Enterprises.

Since moving to the private sector, Chris has advised a number of private sector clients on market entry, policy and political risk issues, focusing on the mining and oil and gas sectors. He has also performed both financial and non-financial M&A due diligence on a number of entities across Asia as well as helping leading energy companies on their IR strategy.

Chris has an Honours degree in Economics and a Masters of Public Policy and Management from Monash University, Australia, as well as having completed a Minerals Economics course from the University of Melbourne.

Chris is fluent in English and Thai and has dual Australian and Thai citizenship. He is married with two children.

Expertise matrix: Chris Larkin



CONTENTS

1. Introduction to CLC Asia

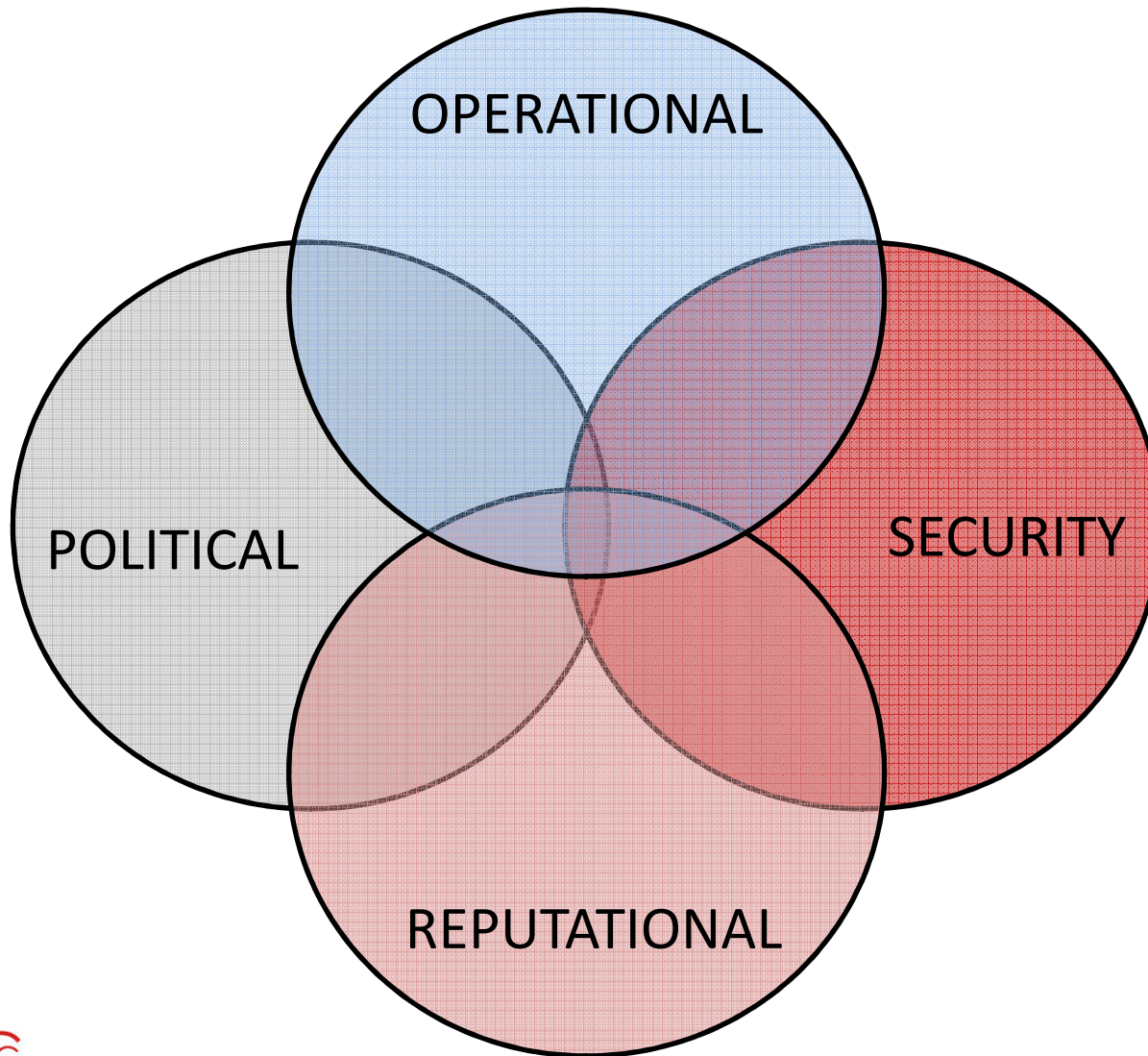
2. Country risk defined

3. Key risks examined

4. Mitigation

Country risk – what do we mean?

Four key areas of risk we generally look at



HIGH LEVEL RISKS

'Nice to know' in normal circumstances.

But in the case of Myanmar, recent developments make it essential

PROJECT LEVEL RISKS

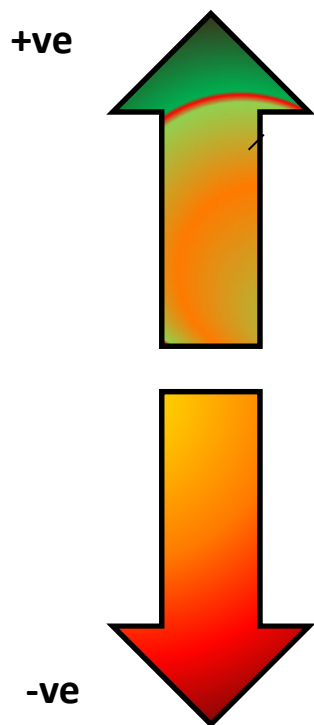
Critically important – but in the domestic context, somewhat more difficult to discern trends at present given lack of substantive track record

CONTENTS

1. Introduction to CLC Asia
2. Country risk defined
- 3. Key risks examined**
4. Mitigation

Taking the pulse

Myanmar is still 'early days' for all investors, let alone those focused on mining. Overall perception is things are getting better, but still a long way to go



- Progress towards new mining regulations
- Reforms in other areas – Telecoms, tariffs, export duties, central bank reform
- President Thien Sien seen by many as a genuine reformist
- Media seen to be much less restrictive

- Question mark over the capacity of government to keep up with economic liberalisation and the new responsibilities that come with it.

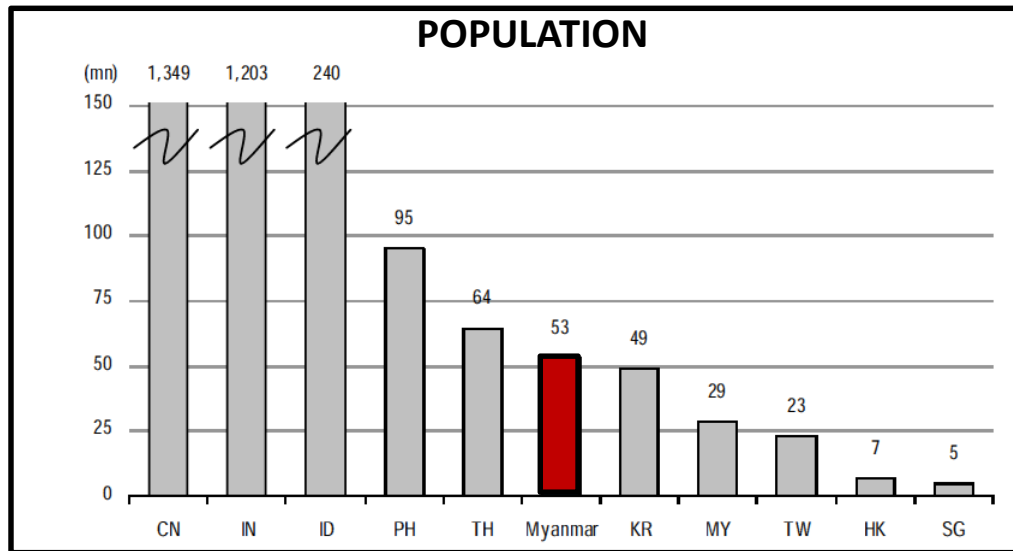
- Ongoing tensions amongst ethnic minorities – how to solve?
- Low rankings on transparency and graft indicators

Wait and see

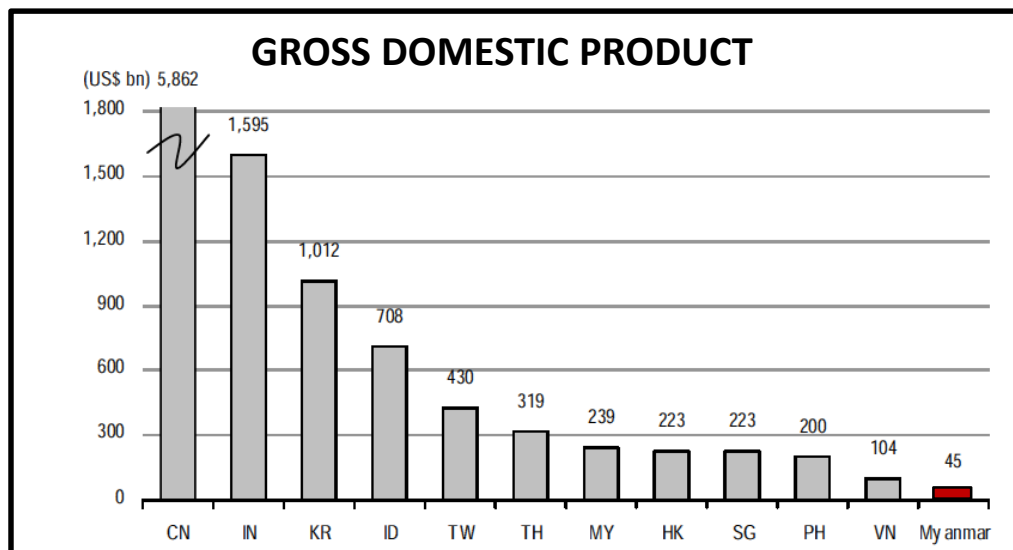


- Political reforms – what next?
- Suspension of infrastructure projects by government a sign of things to come?

Reality check – some recent economic figures (1)



Mid-ranking population size in the Asian context....

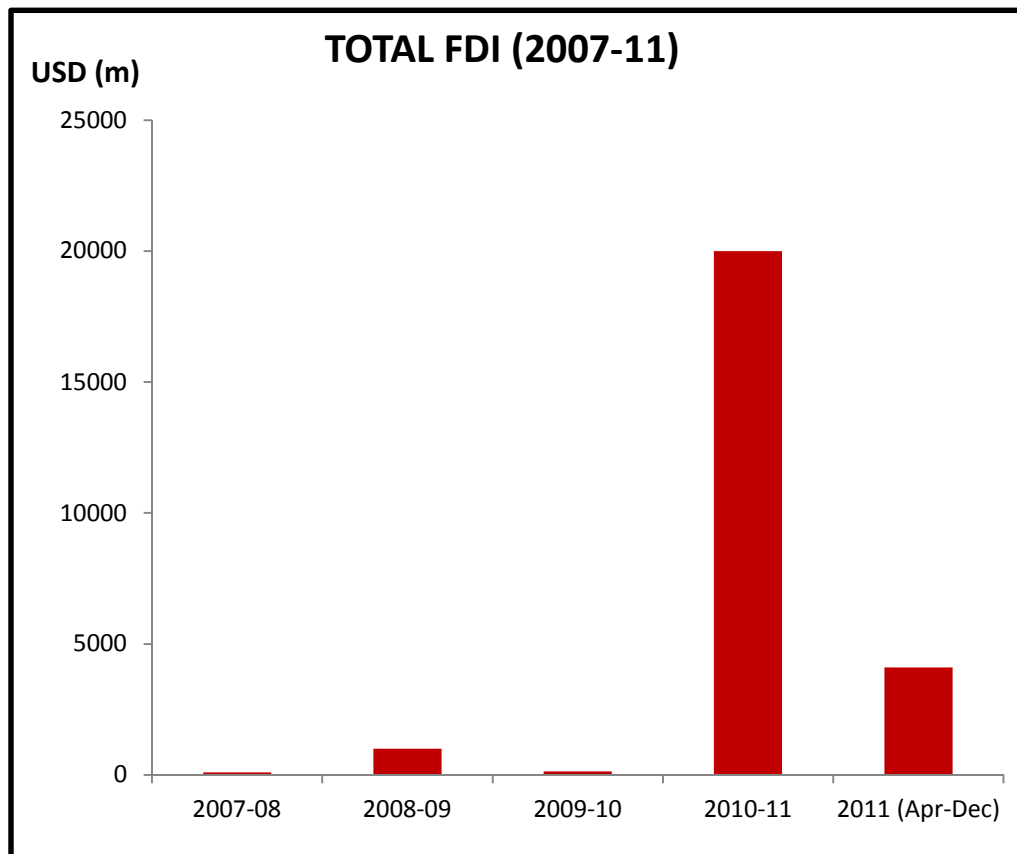


....but a tiny GDP.

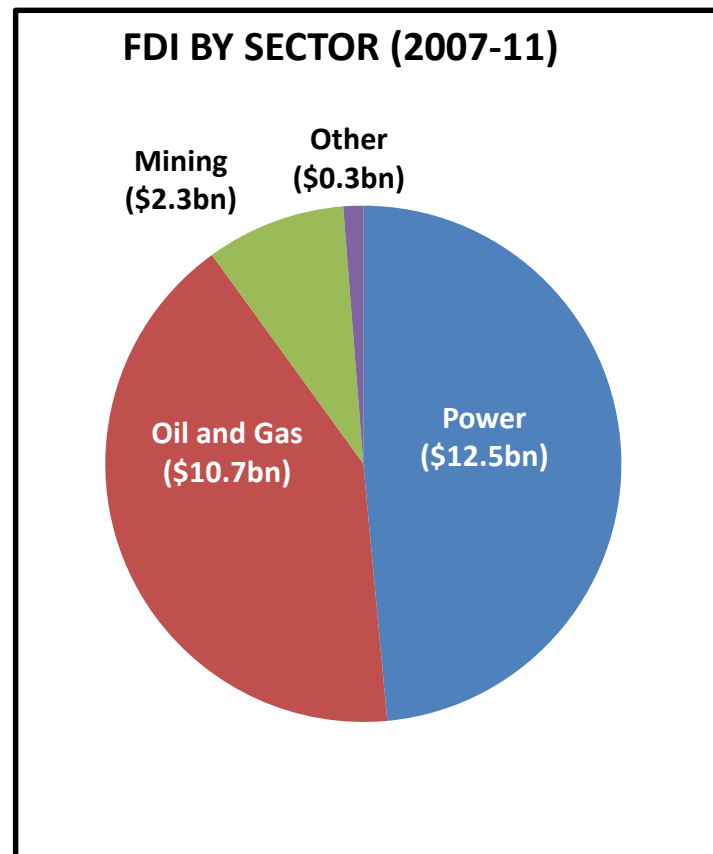
On a per capital GDPs on a PPP basis – Myanmar is poor by African standards, and ranks only slightly higher than Afghanistan using this scale

Reality check – some recent economic figures (2)

We are still talking about an economy (government and society) with a lot of catching up to do



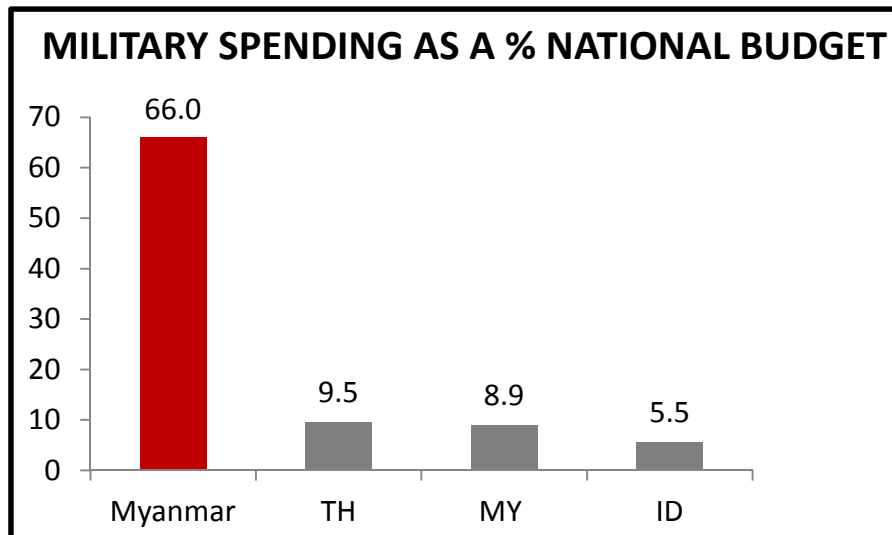
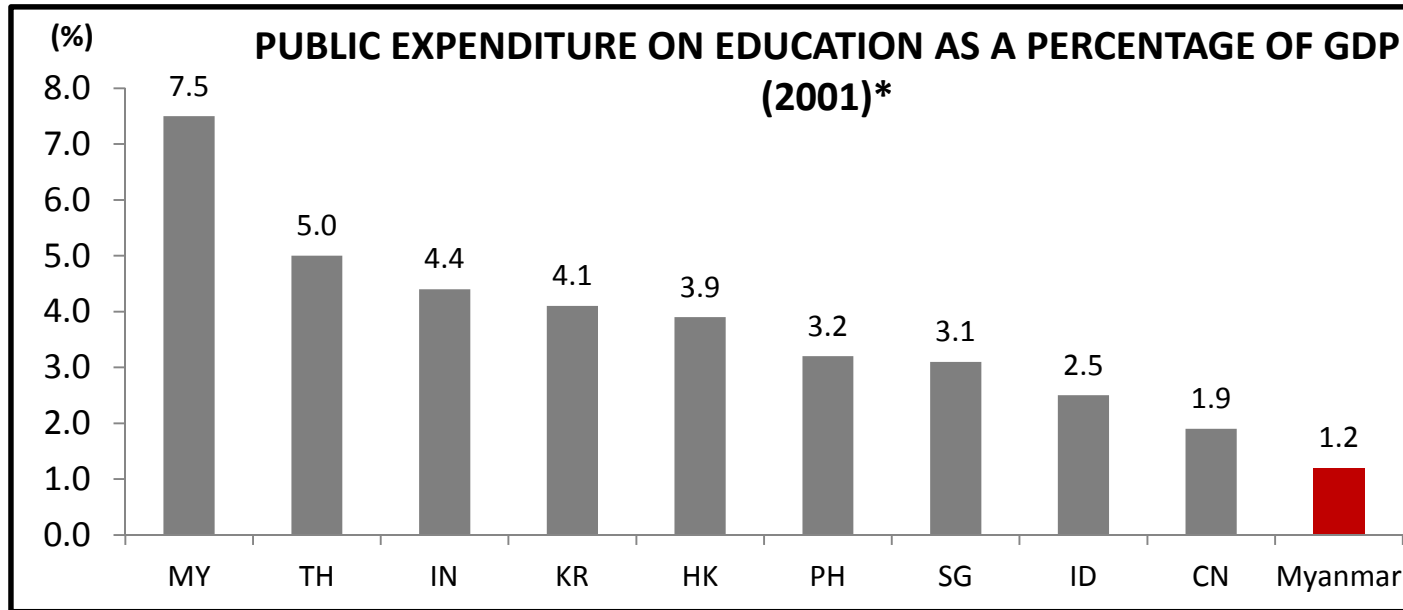
Prior to 1990, almost no FDI into the country. Between 1990 and 2007 FDI averaged \$240m per annum



Mining investment accounted for 9% of all FDI flows



Indicative of budgetary priorities?



Historical structural imbalances in fiscal priorities in comparison to other Asian contemporaries....

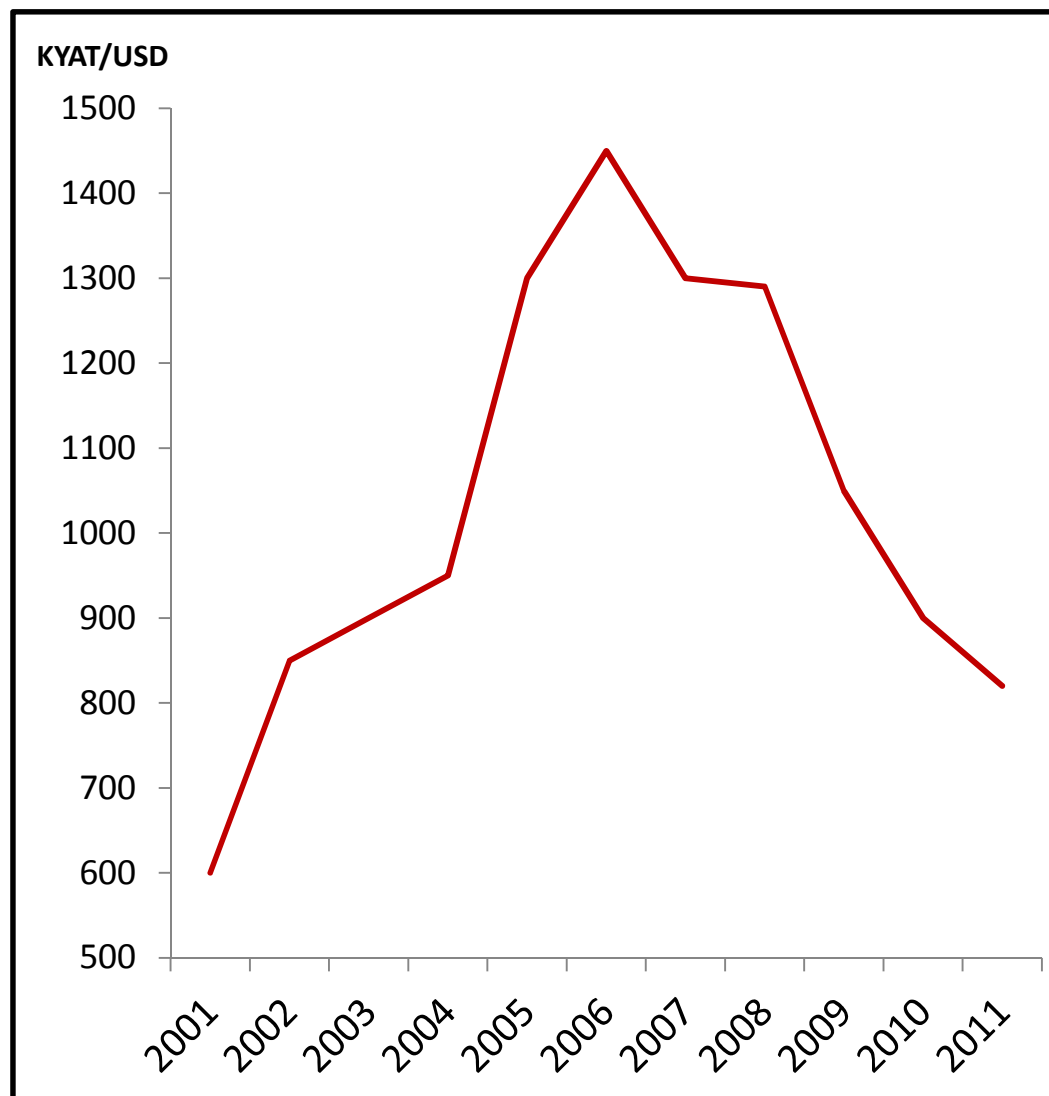
....Can military spending be an upside 'peace dividend' from reduced ethnic tensions?

Source: World Bank and Harvard Ash Centre.
*Data for China (1999) and India (2000)

Implications of economics on country risk?

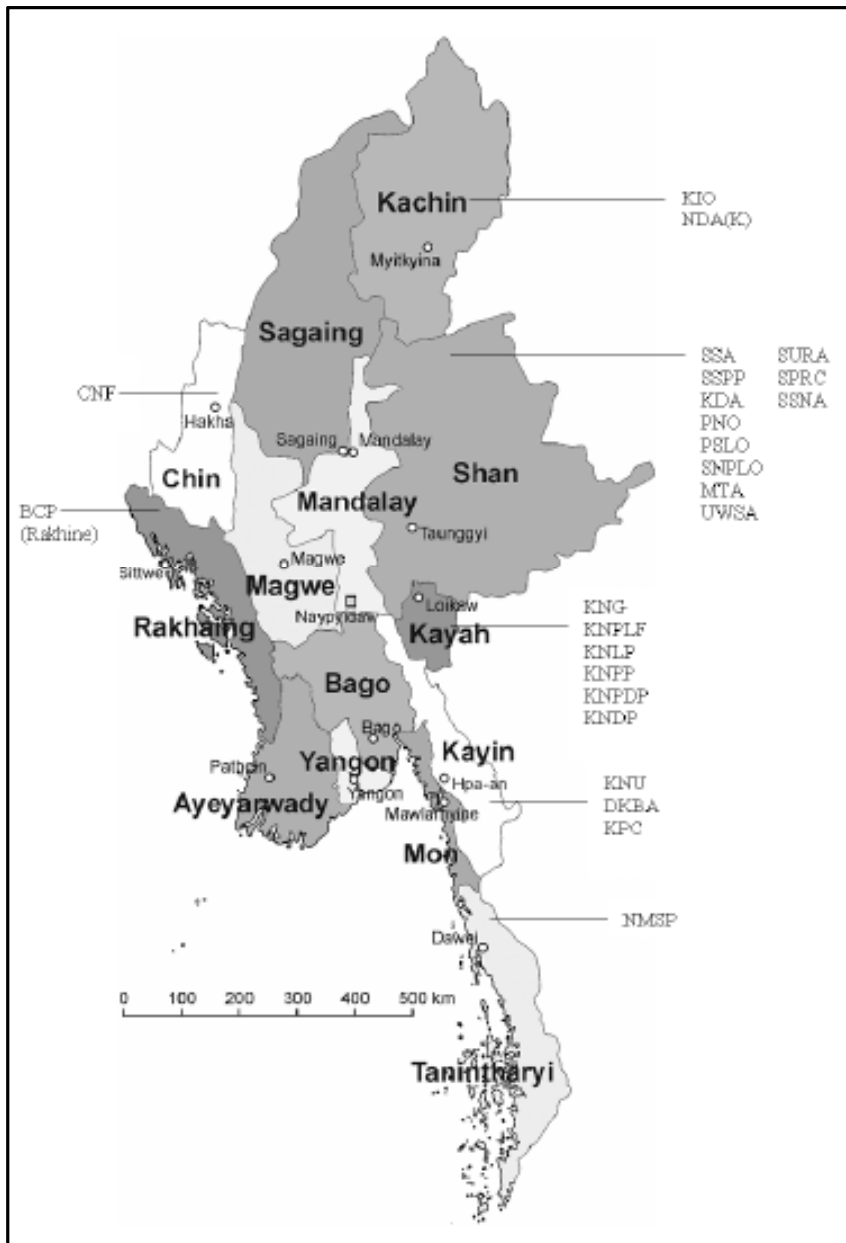
Small economic base + **Decades of under-investment in infrastructure** + **Constrained human capital** = **Many speed-humps ahead in all four areas of country risk**

Dutch disease?



- *Managed float since April 2012*
- *Kyat has strengthened nearly 80% in the past 5 years*
- *Gas receipts, sales of SOE's and relatively high local interest rates*
- *Relatively weak export sector*
- *New investment to exacerbate 'Dutch disease'?*
- *Combined with high inflation (9.9% in 2010) there are concerning implications for socio-economic stability elsewhere if other parts of the economy do not see the windfalls of open markets*

Security: Mapping of ethnic armies



- *One of the most ethnically diverse countries in the world*
- *Long history of ethnic conflict. Complex, and specific to each area*
- *Chin and Kachin in particular at present are hot spots*
- *The overwhelming view was that the issue of ethnic insurgencies remains the most difficult and unpredictable matter in Myanmar*
- *Despite the current ceasefire with the Karen rebels, and ongoing 'peace talks', there remain conflict areas and areas where there is a legacy of conflict will likely overlap prospective mining areas*

Reputation – and ways to lose it....

Reputational issues

- Forced Labour
- Land confiscations and displacements
- Unfair actions towards minorities
- Workers rights and safety
- Environmental damage

- *NGO's and other agencies are increasingly pro-active in their approach*
- *Great fear amongst those we have spoken to is that new developments will go hand in hand with these issues*
- *NGO's target those perceived to be associated with breaches of human rights, as well as governments which host those companies*
- *As industry grows, community opposition to mining likely to grow as well. Have we already seen this in Myanmar?*

IVANHOE

M I N E S
NEW HORIZONS



MiningWatch Canada
Mines Alerte

CASE STUDY

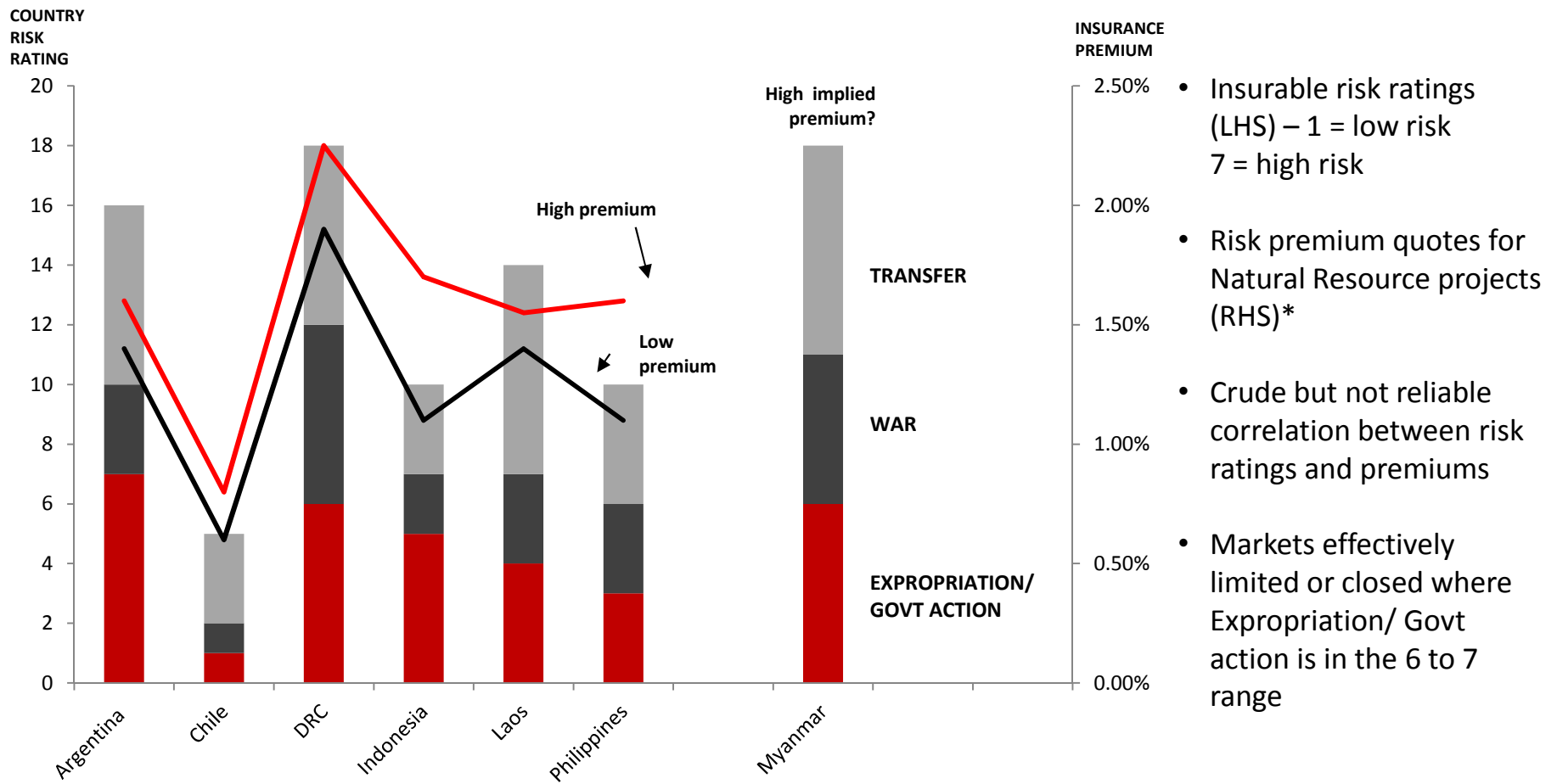
Well known campaign by 'Mining Watch' Canada against alleged breaches of human rights and environmental best practices by Ivanhoe Mines.

CONTENTS

1. Introduction to CLC Asia
2. Country risk defined
3. Key risks examined
- 4. Mitigation**

Indicative breakdown of political risk insurance premiums* (selected countries)

Given the lack of actuarial foundation, pricing country risk is often more art than science... However, Myanmar risk does rank as high as the DRC at present with implied premiums at the upper end



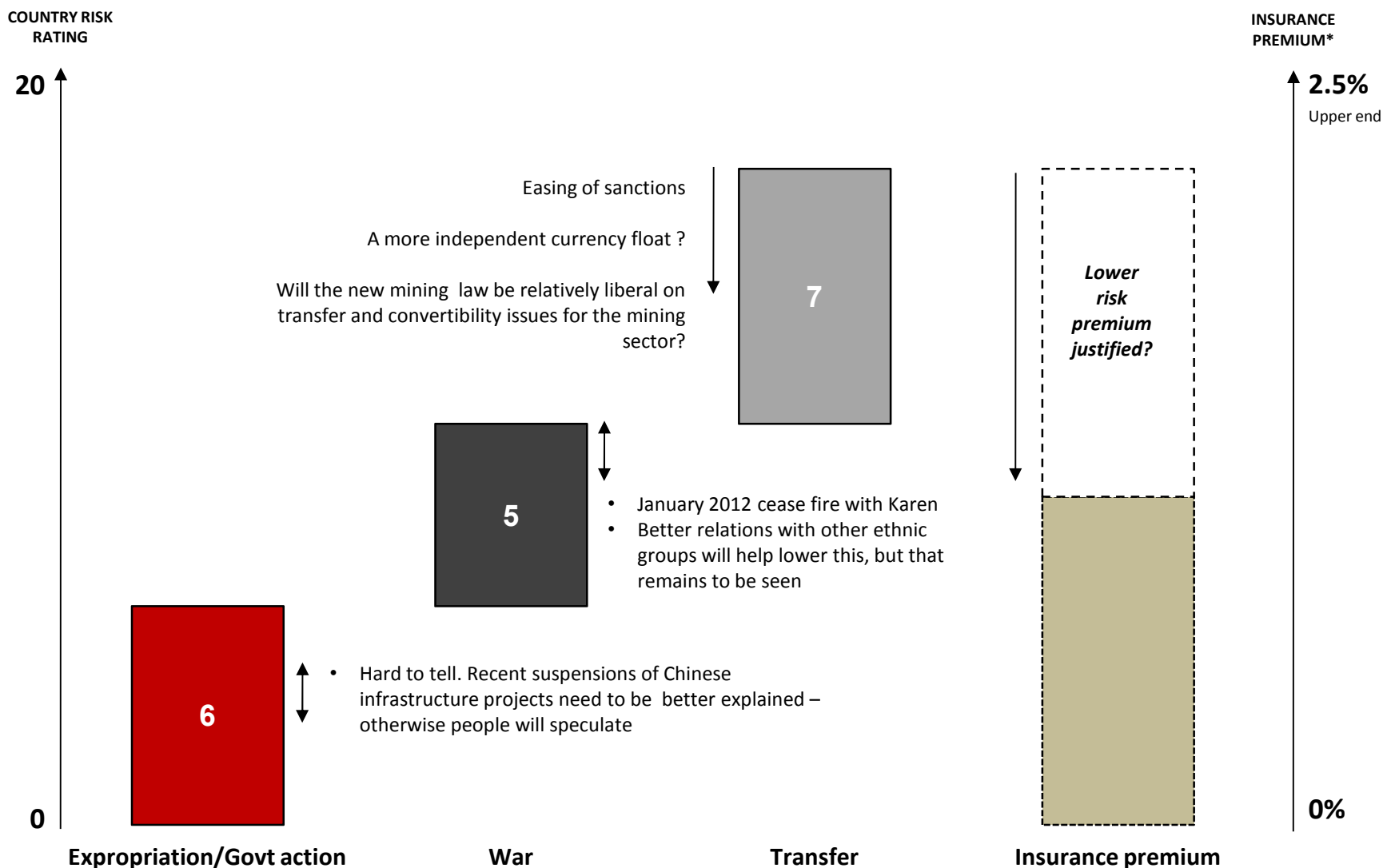
- Insurable risk ratings (LHS) – 1 = low risk
7 = high risk
- Risk premium quotes for Natural Resource projects (RHS)*
- Crude but not reliable correlation between risk ratings and premiums
- Markets effectively limited or closed where Expropriation/ Govt action is in the 6 to 7 range

Source: Belgian national export credit agency, CLC Asia research

*Resources sector (mining, oil and gas) on a 5 year project financing basis. Creditworthy sponsor and project, robust security package (including offshore receipts for lenders' benefit).

Downward pressure on ratings - and ultimately insurance premium?

But government capacity to facilitate events will determine how fast premiums drop



Source: Belgian national export credit agency, CLC Asia research

Country risk mitigation - a conceptual framework

Second mover advantage

- 1st mover – worth it?
- Teething problems will always happen. Best let them happen to others first?
- Come in and pick up projects with potential, which can no longer be developed under local steam

Localisation

- Localise your operations as fast as possible to avoid being victim from flare-ups of resource nationalism down the track.
 - Management
 - Contractors
 - Corporate Identity

Corruption

- Corruption begets corruption
- Word spreads about easy targets
- Business is often just as difficult no matter who your “connections” are, just in different ways
- Inappropriate gains easily reversed

Government relations

- Support government counterparts in regulatory capacity building exercises
- Lack of government capacity may provide superior negotiation position in the beginning, but risks government pushing back at later points
- Avoid government being overwhelmed and then subsequent backlash

Corporate Social Responsibility

- Take CSR seriously. Tendency in the west to pay lip service to the concept.
- In developing countries, it is essential that mining companies are also providing tangible benefits to the local communities whether they be infrastructure, education and health.

CONTACT



Please contact:

Christopher Larkin
Managing Director

c/o AWR Lloyd offices
87/1 All Seasons Place, Capital Tower, 26th Floor,
Wireless Rd.,
Lumpinee, Pathumwan, Bangkok, 10330
Thailand

t: +66 81 866 1002 (Thailand)
t: +61 402 859 269 (Australia)
e: chris@clc-asia.com
e: enquiries@clc-asia.com

www.clc-asia.com

For more information on AWR Lloyd

Please contact:

Alexander Wood
Managing Partner and CEO

Email: wood@awrlloyd.com
Mobile: + 66 81 984 7828

Doug Kinsella
Partner and COO

Email: douq.kinsella@awrlloyd.com
Mobile: + 66 81 984 7828

THAILAND

Alexander Wood: (wood@awrlloyd.com)
Managing Partner

87/1 All Seasons Place, Capital Tower,
26th Floor, Witthayu Rd.,
Lumpinee, Pathumwan,
Bangkok, 10330 Thailand
Tel: +66 2 685 3838
Fax: +66 2 654 3511

INDONESIA

Arran Marshall (arran@awrlloyd.com)
Head of Country - Indonesia

Menara Batavia 14th Floor,
Jalan K.H Mas Mansyur, KAV 126
Jakarta 10220, Indonesia
Tel: + 62 21 572 2366
Fax: +62 21 572 2358

USA

Hal Kaiser (kaiser@awrlloyd.com)
Partner – North Asia & North America

106 East 6th Street,
Austin, Texas 78701 USA.
Tel: + 1 512 322 5381
Fax: + 1 512 322 5301

VIETNAM

Van Nguyen (van@awrlloyd.com)
Senior Manager

Unit 2906, Saigon Trade Center,
37 Ton Duc Thang St.,
Ben Nghe Ward, Dist. 1,
Ho Chi Minh City, Vietnam.
Tel: +84 8 3911 7206
Fax: +84 8 3911 7208

CHINA

Joan Xia (joan@awrlloyd.com)
Partner - Greater China

A2-1506, Phoenix Town,
Jia 5, Shu Guang Xi Li, Chaoyang District,
Beijing, PC 100028, China
Tel: +86 10 8440 5244

KOREA

Sam Koh (sam.koh@awrlloyd.com)
Vice President, Business Development

41st Floor, Gangnam Finance Center
737 Yeoksam 1-dong, Gangnam-gu,
Seoul 135-984, Korea
Tel: + 82 2 2008 4570
Fax: + 82 2 2008 4555