

AUSTRALIA AND INDONESIA

The most recent expression of the strong relationship between Australia and Indonesia is the signing by both federal Governments of Australia and Indonesia of a free trade agreement between the two countries.

Indonesia is a growing market for Australian goods and services exporters. In 2017, total two-way trade in goods and services with Indonesia was worth \$16.4 billion, making Indonesia our 13th largest trading partner. IA-CEPA will provide Australian and Indonesian businesses an opportunity to expand and diversify this economic partnership.¹

Industry commentary on the agreement within the resources sector has been positive including Tania Constable, CEO Minerals Council of Australia:

“This is a good outcome for the Australian and Indonesian resources sectors.

The agreement’s provisions will create more scope for Australia’s world-leading mining services firms to partner with Indonesian businesses in developing that country’s extensive minerals and energy resources.

This will not only provide new export opportunities for Australia – it will also support economic growth and development in one of Australia’s nearest and most important neighbours.”¹

Indonesia is predicted to be one of the top five largest economies in the world by 2030². The trade agreement strengthens the economic and strategic ties between the two countries and will be an important and mutually beneficial relationship for the future.

LOCATION AND DEMOGRAPHICS

Sulawesi (previously known as Celebes) is one of the biggest islands in the Indonesian archipelago³ and the eleventh largest in the world⁴, covering an area of roughly 175,000 km². Located east of Borneo, the island is bordered by the Flores Sea, Banda Sea, Molucca Sea, Celebes Sea and Makassar Strait.

The island hosts a total population of approximately 17 million people; of which, almost 9 million reside in South Sulawesi province. This is significant when you consider its relative size to Australia, which currently has an approximate population of 25 million.



1 DFAT, 2019

2 PwC, 2017

3 Embassy of the Republic of Indonesia, 2019

4 Nugraha & Hall, 2018

BUSINESS AND REGULATORY ENVIRONMENT

The mining sector in Indonesia is regulated by national, provincial and regency (or municipal) government.

Indonesia as a whole has drastically improved their ease of doing business, jumping 47 positions over the last four years. Their current world ranking is 73, which places them ahead of the regional and world averages; and countries such as South Africa, Papua New Guinea and Ghana⁵. This is largely due to an increased focus on the implementation of key reforms by the Government of Indonesia (GoI).

Sulawesi is no exception, with South Sulawesi rated as one of the best performing provinces in Indonesia for overall competitiveness by the Asia Competitiveness Institute in 2017⁶. This index refers to their macroeconomic stability; financial, businesses, and manpower conditions; quality of life and infrastructure development; and their highest scoring indicator, the government and institutional setting⁶. This, coupled with excellent infrastructure, makes South Sulawesi the ideal location to conduct business.

Contract of Work Agreement

The Contract of Work (CoW) system was introduced under the 1967 Mining Law of Indonesia and was an agreement between the GoI and a foreign (PMA) company, as contractor, to carry out mining activities within the CoW area. The 1967 Mining Law was replaced by Law 4 of 2009 on Minerals and Coal (2009 Mining Law). The 2009 Mining Law recognises existing CoW's such that they will continue to be honoured by the GoI until their expiry, however, they were required to be adjusted to more closely align to prevailing regulations. This legal contract is in essence the equivalent of an Australian State Agreement and carries the same rigorous standards and shared commitment arrangements that companies are familiar with in the Australian resources sector.

Indonesian companies, and more modern agreements with foreign companies, now operate under a special mining operation and production business license (IUPK-OP). Given the extensive history of mining in Sulawesi, both the CoW and IUPK-OP systems are in operation.

The CoW renegotiation process was completed in 2018 and provided CoW companies with security of tenure and confirmation of their legal entitlement to explore and exploit mineral deposits within the CoW area. Once the renegotiated CoW agreements expire, each company will migrate to the IUPK-OP system, in accordance with the prevailing laws and regulations.

Environmental Approvals

The environmental approval process in Indonesia is comparable to the environmental protection approvals process that applies in Australia.

During the exploration and feasibility study phases, all mining companies are required to complete an

environmental impact analysis report (AMDAL). This is comprised of an Environmental Impact Statement (AMDAL) and the specified reporting obligations associated with an Environmental Management Plan and Monitoring Plan (RKL-RPL). Companies are required to complete the AMDAL in order to progress into the operational and production phase. Once this requirement is fulfilled, this then triggers the commencement of their monitoring and reporting obligations as detailed in the RKL-RPL.

CURRENT AND FUTURE ACTIVITY

According to historical records, Sulawesi has been a source of exploration and mining for more than 150 years, however, findings now suggest this could actually date back to over 1000 years ago⁷. Despite this rich history of mining, the island is still considered to be vastly under-explored in comparison to activities in other regions⁷.

There are a range of mineral deposits which have been discovered and successfully mined in Sulawesi, including gold, iron, nickel, cobalt, coal and copper. It is not surprising that this diversity in available mineral resources has attracted a number of multi-national corporations to the region, providing them with long-term mining opportunities.



⁵ The World Bank, 2019

⁶ Competitiveness, Trade, Liveability & Productivity in ASEAN Economies, 2017

⁷ van Leeuwen & Pieters, 2011

The US Geological Survey reflects Indonesia's mineral production for 2017 as follows:

Commodity	Tonnage ('000)
Bauxite	3,600
Alumina	1,500
Cement	66,000
Copper	650
Gold	80
Iodine	15
Nickel	400,000
Ammonia	5,000
Tin	50,000
Zirconium	120

The Indonesian government announced in early 2019 that they would be utilising the abundant reserves of nickel and cobalt in Sulawesi to produce lithium-ion batteries to support the manufacturing of electric vehicles⁸. This initiative will further boost their economy as they target becoming the largest lithium battery producer in the world⁸.

According to the GFMS Gold Survey 2018, Indonesia ranks seventh in the world for gold production, with an annual tonnage of 154.3⁹.

Top 10 Gold Mining Countries		
Rank	Country	Production (t)
1	China*	426.1
2	Australia	295.0
3	Russia	270.7
4	United States*	230.0
5	Canada*	175.8
6	Peru*	162.3
7	Indonesia*	154.3
8	South Africa	139.9
9	Mexico*	130.5
10	Ghana	101.7
	Rest of world	1,160.3
	World Total	3,246.6

*Free trade agreement with Australia in place

With a current spot gold price of AU\$1,849 /oz¹⁰, Indonesia is well placed to create future wealth through undiscovered gold deposits and is likely to be a very lucrative opportunity for new and existing mining companies operating in the area.

SUPPORTING INFRASTRUCTURE

Makassar, the capital of South Sulawesi, is home of a newly constructed state-owned container port¹¹, offering excellent facilitation of trade. The port connects with the Trans-Sulawesi rail network, which is operated and maintained under a public-private partnership arrangement, spanning almost 140 kilometres¹². Makassar port is the largest in Sulawesi, with an additional 13 smaller ports situated on the island.

South Sulawesi is well connected, with Makassar International Airport offering both a domestic and international flight service, with access to major airlines on a daily basis. The region is only a short distance by air (approximately 1.5 hours) from Denpasar airport, making the island highly accessible for business travellers.



Electricity provisions in Sulawesi are provided by the state-run company PLN. All villages on the island have access to a power network and the company actively engages with industry to ensure services are made available according to individual requirements¹³. Additionally, Sulawesi has been identified as having the potential for future hydropower sites which would generate a collective increase in capacity of 10,307 MW for the island¹⁴. In Australia, this would power almost 2,000 homes for an entire year and is therefore a valuable opportunity for the region.



8 ASEAN Today, 2019

9 GFMS, 2018

10 Kitco, 2019

11 Hamid, 2018

12 PwC, 2019

13 PLN, 2018

14 PwC, 2017

The quality infrastructure and services available in Sulawesi enable companies to conduct large-scale operations by connecting them to facilities and resources capable of supporting sizeable projects.

COMMUNITY ENGAGEMENT

The community members and residents of Sulawesi are often strong supporters of companies operating in the area due to the employment opportunities and social benefits that are generated from the projects.



Companies that act with integrity, are committed to honouring their corporate social responsibilities (CSR) and are willing to engage with their key stakeholders, are more likely to be embraced and supported by the local community.

There are many mutual benefits to be gained by seeking the best outcomes and ensuring a long-term sustainable future for all involved.

ABOUT NUSANTARA RESOURCES

Nusantara is an ASX-listed gold development company with its flagship project comprising the 1.1 million-ounce Ore Reserve and 2.0 million-ounce Mineral Resource Awak Mas Gold Project located in South Sulawesi, Indonesia. Discovered in 1988, the Project has over 135 km of drilling completed in over 1,100 holes.

The Project is 100% owned through a 7th Generation CoW with the Gol. The CoW was secured prior to the current Mining Law and has recently been amended by mutual agreement to align with the current law.

PT Masmino Dwi Area (Masmino), a wholly owned subsidiary of Nusantara, has sole rights to explore and exploit any mineral deposits within the project area until 2050. After this period, the operations under the CoW may be extended by the IUPK-OP in accordance with prevailing laws and regulations, which currently allows for an extension of 10 years and a further extension of 10 years.

In the 10th year after commercial production, Masmino is required to offer at least 51% of its share capital to willing Indonesian participants at fair market value according to international practice.

Nusantara's development strategy is for construction of a modern, low strip ratio open pit operation with ore processed by standard carbon-in-leach processing delivering high gold recoveries. Environmental approval has already been received for the Project, which is favourably located in non-forestry land close to established roads, ports, airports, and grid power.

Nusantara's second strategy is to grow the resource base and support a mining operation beyond the initial project life of 11 years. Multiple drill-ready targets have already been outlined extending from the three main deposits and in other areas of the 140km² CoW.

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