

INDONESIA'S ECONOMY

Indonesia is forecast to have 5.3% annual growth on real Gross Domestic Product for the next two years¹. By 2030, the country is anticipated to be ranked the fifth largest economy in the world and fourth by 2050². Therefore, it makes sense for countries such as Australia to strengthen their ties with this rapidly expanding economy, through business partnerships and investments.

The Economic Freedom Index measures the rule of law; government size; regulatory efficiency; and open markets.³ In 2019, Indonesia had an overall score of 65.8 out of a possible 100 points and a world ranking of 56. This is an improvement of 1.6 points on their previous score and classifies them as a moderately free country. This is significantly higher than countries such as Papua New Guinea, South Africa, Ghana, India and Brazil.

Country	Rank	Score
Moderately Free		
Indonesia	56	65.8
Mostly unfree		
Papua New Guinea	101	58.4
South Africa	102	58.3
Ghana	109	57.5
India	129	55.2
Brazil	150	51.9

SOVEREIGN CREDIT RATING

Sovereign credit ratings evaluate the risk of investing in a particular country. The higher a rating, the lower the associated risk. Indonesia currently has an overall stable sovereign rating⁴. Moody's upgraded their rating in 2018 to Baa2 due to the strength of Indonesia's fiscal and monetary policies. Their investment credit rating according to global standards is reasonably high when compared to countries with similar mining activities.

Country	S&P	OECD	Fitch	Moody's
Indonesia	BBB-	3	BBB	Baa2
India	BBB-	3	BBB-	(P)Baa2
Brazil	BB-	5	BB-	Ba2
Papua New Guinea	B+	6	N/A	B2
South Africa	BB	4	BB+	Baa3

RISK CLASSIFICATIONS

Political Risk

The political risk when conducting export transactions with Indonesia is considered to be a low to moderate risk, unlike Papua New Guinea which has a much higher risk classification⁵.

Country	Short Term score	Long Term score
Indonesia	2	3
India	2	3
South Africa	3	4
Brazil	2	5
Ghana	4	5
Papua New Guinea	5	5

The Marsh Political Risk Map 2018, which is formulated using BMI Research data, rates the political, economic and operational risk for countries throughout the world. The higher a country ranks out of 100, the lower the level of risk. Following is a summary of the risk assessment scores for Indonesia and some comparable countries:

Country	Category/Score
Australia	70-79
Indonesia	60-69
India	60-69
Brazil	50-59
Papua New Guinea	<49

Indonesia ranks only one category below Australia and significantly higher than the likes of Papua New Guinea. This confirms that Indonesia is a moderately stable country with regards to political risk.

Commercial Risk

Credendo's country risk ratings for commercial risk focuses on three indicators:

1. Economic and financial;
2. Payment due to debtor default; and
3. Institutional context (corruption etc.)

Country	Grade
Indonesia	B
India	B
South Africa	C
Brazil	C
Ghana	C
Papua New Guinea	C

A = low, B = normal and C = above-average

Indonesia has the second most favourable score that countries can be awarded in relation to commercial risk⁵. This suggests that it is an area of considerable strength for the country.

Political Violence Risk

The political violence risk takes into consideration the risk of war, terrorism and political violence damage on a scale of one to seven (one being the lowest risk)⁵.

¹ World Bank, 2019

² PwC, 2017

³ Heritage Foundation, 2019

⁴ Bank of Indonesia, 2019

⁵ Credendo, 2019

Indonesia has a score of three for political violence risk, which is a low to moderate risk category.

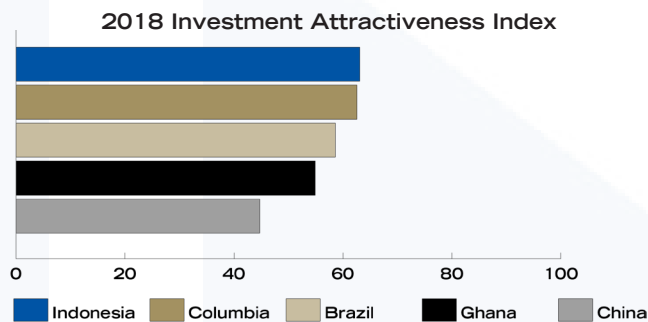
Country	Score
Papua New Guinea	4
India	4
South Africa	3
Indonesia	3
Brazil	2
Ghana	2

1 = lowest risk, 7 = highest risk

INVESTMENT ATTRACTIVENESS

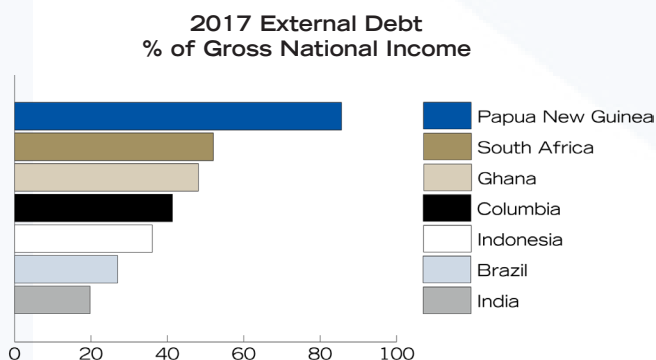
The Fraser Institute Annual Survey of mining companies produces the Investment Attractiveness Index which consists of the Policy Perception Index and the Best Practices Mineral Potential Index.

According to the 2018 survey, Indonesia moved up 12 places to be ranked 47 out of 83 for investment attractiveness⁶. This places them ahead of countries such as Columbia (48th) Brazil (58th), Ghana (68th) and China (78th)⁶.



EXTERNAL DEBT

The total external debt to gross national income index indicates the amount of debt that is owed to non-residents. As of 2017, Indonesia had approximately 36 per cent of their gross national income in external debt¹. This is much lower than some countries; for instance, Papua New Guinea had almost 86 per cent of their gross national income in external debt for the same year¹.

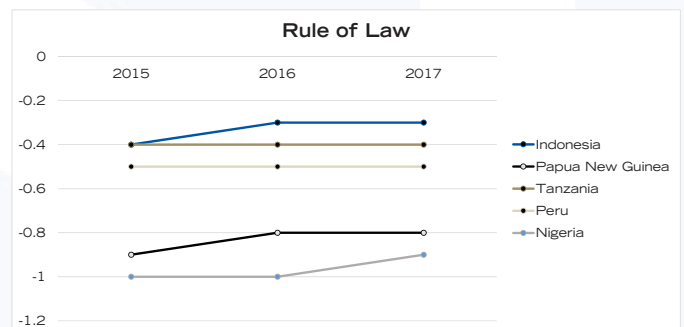


RULE OF LAW

The civil law system in Indonesia has been based upon the Roman-Dutch standard⁷. In 2017, the Australian and Indonesian governments entered into a four year cooperation agreement, Australia-Indonesia Partnership for Justice Phase II (AIP J II) to further develop the rule of law and security standards in Indonesia⁸. The five key objectives identified for this partnership were:

1. Embed transparency, accountability and anti-corruption reforms
2. Improve the investigation of transnational crimes
3. Reduction of violent conflict
4. Cross-collaboration of agencies to ensure rights and the rule of law is upheld
5. Greater promotion of access and equality by legal agencies

The World Governance Rule of Law indicator assesses the level of confidence and extent to which the laws of society are obeyed¹. A score of 2.5 is considered to be a strong rule of law, while a score of -2.5 is a weak rule of law¹. Indonesia currently has a score of -0.3 which is a moderate rule of law¹. This is a significantly better score than countries such as Papua New Guinea and Nigeria who have a reasonably weak rule of law.



With the introduction of the rule of law reforms, it is anticipated that Indonesia will further improve their score for this index over the duration of the partnership agreement.

PERCEPTION GAP

We acknowledge that in the past there have been instances where the level of corruption in Indonesia has caused a great deal of reluctance in doing business with the country. This perception still exists today.

The fact is, Indonesia has made significant progress in overcoming this issue and the statistics reflect the hard work that has been undertaken to eradicate corruption.

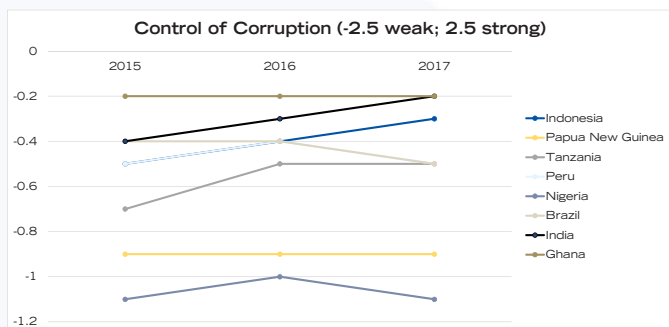
The World Governance Control of Corruption index indicates the degree to which a country is perceived to use public power for personal gain¹. Indonesia has a moderate control of corruption which continues to improve with every year, unlike some countries such as Brazil and Nigeria,

⁶ Fraser Institute, 2019

⁷ University of Melbourne, 2019

⁸ Department of Foreign Affairs and Trade, 2017

who have a declining control of corruption¹.



In 2002, Indonesia established a corruption eradication commission called the Komisi Pemberantasan Korupsi (KPK) which is an independent state institution⁹. The elected members of the commission hold their position for a four-year term, after which time, they may be re-elected for a maximum of one year⁹. The KPK is responsible for the prevention, monitoring and governance of corruption matters within the country. Since the commission was introduced, there has been a steady increase in the total number of prosecutions (151 in 2018) made by the commission, suggesting a greater control of corruption has been achieved⁹.

As with the rule of law, the introduction of the AIP J II is likely to continue to result in greater control of corruption and therefore ongoing improvement in their rating for this index.

EASE OF DOING BUSINESS

The World Bank Doing Business is a global indicator that measures the ability to start a business; obtain a business location; access finance; daily operational functions; and the security of the operational environment¹.

Country	Rank	Score
Indonesia	73	67.96
India	77	67.23
South Africa	82	66.03
Papua New Guinea	108	60.12
Brazil	109	60.01
Ghana	114	59.22

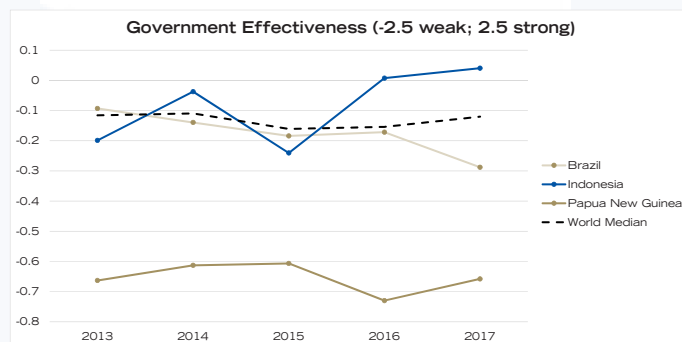
Indonesia is currently ranked 73 out of 190 countries globally, placing them ahead of many comparable countries such as India, South Africa, Papua New Guinea, Brazil and Ghana¹.

Indonesia has been heavily focused on improving the ease of doing business by implementing a range of reforms. Since 2008, the country has introduced 38 reforms which the World Bank has recognised as improving the ease of doing business¹. This continued effort saw the country rise 19 places in one year in 2018 for the Ease of Doing Business index.

GOVERNMENT EFFECTIVENESS

The World Bank Government Effectiveness global indicator measures how the government is perceived in relation to quality of services and its credibility.

Indonesia has had substantial improvement in this area and as of 2017, they were well above the world median and significantly higher than countries such as Papua New Guinea.



This marked improvement in perceptions of government effectiveness is to be expected given the country is establishing itself as one of the largest economies in the world, with remarkable growth and reform.

MARKET & EXCHANGE RATE STABILITY

The global financial market has naturally put pressure on emerging markets such as Indonesia, however, there has been decisive action taken by the government to stabilise the moderate impact on the Rupiah.

In late 2018, the World Bank confirmed that Indonesia was in a far greater position of strength today, in comparison to the state of the country back in 1997 or even 2013¹⁰. This is largely due to robust fundamentals and an acceptable policy response mechanism¹⁰. Today the country operates with a flexible exchange rate; a modest deflation; and a lower transfer rate for value of each dollar of profit¹⁰. Together these elements have resulted in an automatic reduction in the account deficit of the country¹⁰.

Additionally, the overall account deficit (2.3%) is significantly lower than the level in 1997 (2.7%) and 2013 (2.9%)¹⁰. In fact, it is considered to be one of the lowest of any emerging or advanced economy¹⁰.

CONCLUSION

Despite perceptions that Indonesia carries great sovereign risk, the reality is very different.

Indonesia has accepted that change was required and they have implemented many reforms and established international partnerships as a means to further develop their country and economy.

This ongoing development will continue to improve the ease of doing business with Indonesia and offer further opportunities for countries such as Australia, to strengthen their existing ties and create mutual benefits.

⁹ Komisi Pemberantasan Korupsi, n.d.

¹⁰ World Bank, 2018

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 GoI. 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.

DISCLAIMER

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