



Serving Cambodia since 1993

# Sciaroni & Associates

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25 November, 2010

The Directors  
Indochine Mining Ltd.  
Level 5 2 Bligh St  
Sydney NSW Australia 2000

## **Re: Independent Report on Indochine Group Mineral Licenses and Memorandum of Understandings (MOU) in Cambodia**

### **Purpose of this Report and Consent**

This report has been prepared by Sciaroni and Associates in relation to a proposed listing on the Australian Securities Exchange (ASX) of Indochine Mining Ltd. Indochine Resources Ltd & Indochine Resources (Cambodia) Ltd, Asia Pacific Gold & Copper Company Ltd (APGCC) & Asia Pacific Gold & Copper Company (Cambodia) Ltd are wholly owned subsidiaries of Indochine Mining Ltd (herein **after the “Indochine Group”**) and all consent to Sciaroni and Associates providing a copy of this report to the ASX.

### **Sciaroni and Associates**

Sciaroni and Associates, an investment firm, has had a long standing presence in Cambodia. The Senior Partner Bretton Sciaroni has been a law and investment advisor in Phnom Penh since 1993. Sciaroni has also served the Royal Government of Cambodia as a legal advisor since 1993. Sciaroni and Associates, is a founding member of the Cambodian Association for Mining and Exploration Companies and one of its associates sits on the executive committee. Sciaroni and Associates was involved in drafting and negotiating international standard agreements with the Royal Government of Cambodia and is the leading firm in assisting exploration companies in Cambodia.

### **Independence**

Sciaroni and Associates does not have any interests in the Indochine Group, its subsidiaries or the licenses considered in this report.

Sciaroni and Associates has only acted as its legal and investment counsel in Cambodia.

Sciaroni and Associates will charge for this report.

## **Responsibility for the information Contained in this Report**

Sciaroni and Associates can only verify the validity of the companies registered in Cambodia and the licenses and MOU obtained in Cambodia. We have no knowledge or information on the companies in the Indochine Group outside of Cambodia.

Sciaroni and Associates has made their own enquiries in relation to the licenses and MOUs. We have on file, all of these licenses and MOUs.

Sciaroni and Associates file this report on the basis of all known laws in Cambodia available to the public. However, it should be noted that to date there is no comprehensive and reliable system of law reporting in Cambodia and it is entirely feasible that laws and particularly administrative regulations are created without due notice being made to the public. However, we can also advise that nothing has come to our attention regarding unpublished laws or regulations that would affect this report. In providing this report we have relied on the current known laws and on the current customs and practices within the Royal Government institutions of which we are aware from other matters of a similar nature in which we have been involved.

Sciaroni and Associates takes no responsibility for any information that was provided to it by the Royal Government or by the Indochine Group.

## **Mining Regulatory Framework**

The law governing mining in Cambodia is the *Law on Management and Exploitation of Mineral Resources, Royal Kram No NS/RKM/0701/09* dated 13 July, 2001 and its implementing regulations. Implementing Sub decree and Prakas are as follows:

1. Sub-Decree No. 8 ANKr.BK on the Determination of Principles for all types of Investment in Mineral Resources dated 31 January 2005, as amended by Sub-Decree No. 113 ANKr.BK on Amendment of Article 1 of the Minerals Sub-Decree dated 29 September 2005 (together the *Minerals Sub-Decree*);
2. Prakas MIME No 340 on the Registration and Conditions to Issue, Extend, Transfer Rights of a Mineral License dated 25 May, 2004 (*Minerals Prakas*);
3. Sub decree on Environmental Impact Assessment Process dated 11 August 1999;
4. Prakas on the Management of Gemstone and Valuable Metal Businesses dated 10 September 1999 (the *Prakas on Metal Businesses*);
5. Law on creation of the Ministry of Industry, Mines and Energy, dated 24 January 1996;
6. Sub-Decree No. 35/ANK/BK on the Organization and Functioning of the Ministry of Industry, Mines and Energy dated 26 April 1999;

This law states that MIME will take into consideration a natural person or legal entity's (foreign or domestic) technical and financial capability. Furthermore, the law requires that the company be registered as a commercial enterprise with the Ministry of Commerce. (*Chapter 2, Article 6.*)

Indochine Resource Ltd registered in Australia and has been duly registered in Cambodia as Indochine Resources (Cambodia) Ltd with the Ministry of Commerce and with the Tax Department within the Ministry of Economy and Finance as required by Cambodian law.

Asia Pacific Gold & Copper Company Ltd registered in Australia has been duly registered in Cambodia as Asia Pacific Gold & Copper Company (Cambodia) Ltd with the Ministry of Commerce and with the Tax Department within the Ministry of Economy and Finance as required by Cambodian law.

It should be noted that MIME has a Prakas on royalty rates dated March 2009; however, it has not been approved by the Ministry of Economy and Finance (MoEF) which is responsible for setting the royalty rate. There is currently a discussion on an amendment to the tax laws which will include the effective tax rates for exploration and mining. The Non Tax Division of MoEF is currently working on a royalty rate for all minerals.

### **Mining Concessions**

The Royal Government concession (State land) is granted first with an MOU. If, however, the company after early exploration wishes to continue to explore, the concession will be granted and leased through an exploration and/or mining license.

Concession areas are granted by license and can be granted to companies both local and foreign as long as they are registered as a company in Cambodia. Available listing or maps of concession areas are not published. Granting of a concession is at the discretion of MIME.

There is no stated limitation on the size of a concession area.

It should be noted that the granting of the concession is not an absolute exclusive right to the concession. There have been some circumstances where some of the concession land is also held by an economic concession or the Royal Government may reserve the right to allow logging on the concession; this is done with notice to the company and a request to the company to allow the logging activity. Not in law as yet is a declaration by the Prime Minister Hun Sen that mining and exploration concessions will prevail over an economic concession.

### **Memorandum of Understanding**

An MOU is granted for six months and is issued for early exploration purposes but it can be extended. Asia Pacific Gold & Copper Company Ltd the Australian company has two MOUs for mineral exploration in Cambodia in the Kampong Thom & Kratie Provinces.

It is noted that the two MOUs held by Asia Pacific Gold & Copper Company Ltd expired on 4 August 2010. Current applications for extension of the MOUs are filed with MIME and await formal approval by the Ministry. We have been told by MIME that the concessions stated in the MOUs are being held for Asia Pacific Gold & Copper Company Ltd until such time as the

application process is completed. The application for the exploration license is in the name of the Asia Pacific Gold & Copper Company (Cambodia) Ltd as to comply with Cambodian law.

A performance security is required on all MOUs in the amount of Five Thousand US Dollars (\$5000.00) which is currently lodged on the Asia Pacific Gold & Copper Limited two MOUs will be held until the application for the new licenses is completed.

### **Exploration and Mining Licenses**

Under the Minerals Law, no person may undertake mineral exploration or exploitation in Cambodia without a relevant license issued by MIME, except for any owner or lawful occupant of private land who may use gravels, sand, rock or clay, but only within the owned land.

There are six categories of mineral resource licenses available:

1. artisanal mining licence;
2. pits and quarries mining licence;
3. gemstone mining licence;
4. mineral cutting licence;
5. mineral exploration licence; and
6. industrial mining licence.

Of these, [two] licenses are relevant to Indochine. These are an exploration license and industrial mining license.

### **Conditions of the Licenses**

Exploration Licenses are issued for a maximum of six (6) years but must be renewed every two years but may be extended for another two year term.

The company is required to place a performance security. This is the practice but is not found in any regulation.

Renewal requires the following:

1. a letter of proposal to renew the exploration licence;
2. a report on the results of the mineral exploration undertaken during the term of the exploration licence;

3. a report on the environmental protection issues in and around the mining areas, and the implementation of an environmental rehabilitation program certified by the Provincial/Municipal Department of Environment;
4. a report on the payment of official tax levies such as land lease payments and other relevant taxes by enclosing carbon copies of original tax documents; and
5. a mineral exploration plan and a vocational training program for the renewal periods

The license can be transferred or assigned with the permission of MIME but the new company will have to sign a new license.

Licenses can be suspended and revoked for breaches and have been revoked for lack of exploration on the concession.

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Current Exploration licenses & MOUs held by the “**Indochine Group**” in Cambodia are as follows:

1. Steung Ta Pok Area 1 Ratanakiri Province
2. Steung Ta Pok Area 2 Ratanakiri Province
3. Veang Khann Area Ratanakiri Province
4. Poug Peay Area Ratanakiri Province
5. Phnum Pros Area Ratanakiri Province
6. Kham Darang Area Ratanakiri Province
7. Stueng Kham Pha Area Ratanakiri Province
8. Preaek Lang Area Ratanakiri Province
9. Batak Area Ratanakiri Province
10. Kohpang Ratanakiri Province
11. Borkahm Area Ratanakiri Province
12. Kachok Area Stung Treng Province
13. Boeug Nging Kang Area Stung Treng Province
14. Ouchos Area Kratie/Kampong Thom Province
15. Preak Prasab Kratie/Kampong Thom Province

16. Sambour District MOU Kratie Province MOU

17. Santuk District MOU Kratie Kampong Thom Province

All of the licenses are up to date and valid and the statuses of the two MOUs are as above.

### **Terms and Conditions under the Current Agreements**

#### **Term**

Mineral Exploration is for six years with conditions. Exploration must begin within ninety days of the effective date of this agreement.

During the term of the exploration license period the contractor will need to submit a bankable feasibility study. The agreement does allow for a period for construction of the mine.

The construction period will commence within six months after there has been a decision to mine.

Industrial mining is for thirty years with the option for renewals every ten years but with conditions.

#### **Performance Security**

A performance security is required on all fifteen (15) licenses in the amount of Twenty Thousand US Dollars (\$ 20,000) which is to be paid within fifteen (15) days after the effective date. One half of this amount will be returned to the contractor if the contractor after one year has performed exploration works. The full amount will be returned upon the acceptance of the feasibility study by the MIME.

#### **Royalties**

There are two options for royalty payments:

Option one would be three (3%) percent for gold and three and half percent (3.5%) for other metallic minerals. The royalties are based on gross receipts from the sale of all minerals minus the deductions of smelting, refining, freight and transportation.

Option two would be two and half percent (2.5 %) for gold and other metallic mineral is to be determined. These royalty rates will be based on gross receipt.

#### **Concession/ Land Rental**

Year 1-2 Fifteen (\$15) US dollars per /sq km

Year 3-4 Thirty (\$30) US dollars per /sq km

Year 5 and beyond Forty (\$40) dollars per /sq km

**Taxes**

Taxes will be negotiated with MoEF in a separate agreement.

**Employment**

Each year the contractor will spend Ten Thousand US Dollars (\$10,000) for the education and training of the Ministry's employees. Foreign workers are allowed.

**Renewal**

The mineral exploration license shall be initially renewed up to a maximum of two (02) times for a term of two (02) years and then upon the written request of the contractor and shall be further renewed to cover the feasibility study period. The mineral exploration license shall be renewed provided that the contractor has fulfilled the following conditions as written in the contract:

- (a) *The Contractor has applied for an extension at least ninety (90) days prior to the expiration of current valid Mineral Exploration License;*
- (b) *Contractor has submitted the Ministry the following reports:*
  - 1- *Detailed reports on the result of Mineral Exploration done in the previous Exploration Period;*
  - 2- *Exploration work programs and a budget proposed for the next extension to the Exploration Period; and*
  - 3- *Training programs.*
- (c) *The Contractor has completely paid land rental, other taxes and duties, and other fees and charges, as stated in Chapter 6 of this Agreement, and submitted the Ministry all receipts or evidences indicating the fulfillment of such financial obligations; and*
- (d) *The Contractor has properly fulfilled other conditions as stated in this Agreement.*

**Withdrawal of Exploration License**

If a company does not meet the requirement stated in renewal and has not completed the requisite exploration the license can be revoked.

**Environment**

Environmental Impact Report is required.

**Disputes**

Disputes will be by negotiation, mediation and by ad hoc arbitration which will take place in Singapore using International Chamber of Commerce rules. The governing law is Cambodian law except where silent then the laws of New South Wales, Australia will be applied.

**Industrial Mining License**

A company after exploration and after the bankable feasibility period can apply for an industrial mining license.

Mining Licenses can be issued for thirty years but it must be renewed every ten years.

The license also contains a requirement to hire Cambodians and the company must submit a budget for training Cambodians.

The license only covers one mineral and the company must gain permission to mine another mineral on the concession.

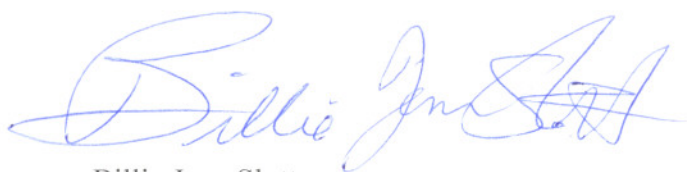
### **Foreign Ownership**

The law allows a foreign company to apply and obtain a mineral license. The Royal Government does not require that a company have a joint venture with a Cambodian. Cambodia allows for repatriation of funds.

### **Litigation**

Sciaroni and Associates is not aware on any litigation involving the “**Indochine Group**”, however, there is no reliable system of researching litigation in Cambodia.

If we can be of further assistance please do not hesitate to contact us.



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