



Economic Development: Partnership with the Royal Thai Government

At the half-way point in the fifteen-year plan to reach the UN Millennium Development Goals, there is growing recognition that the Mining Industry can make a significant contribution to poverty alleviation, and is a stepping stone towards economic development for the betterment of neighboring communities. Under the United Nations Development Programme (UNDP) promotion of “*sustainable human development*”, enacted by “*assisting countries to build their capacity to design and carry out development programs in poverty eradication, employment creation and sustainable livelihoods, the empowerment of women, and the protection and regeneration of the environment, giving first priority to poverty eradication* (Nooten, Sustainable Development and Nonrenewable Resources).” To achieve this, the UNDP has supported mineral resource development activities for example, in the discovery of Argentina’s Baja la Alumbrera copper deposit. The foundation of Mineral projects in the Northeast, including our own gold deposit, has its roots in a Government led initiative by various foreign governments in joint venture with Thailand’s then Department of Mineral Resources (DMR). Initial findings published by the USGS by H.S.Jacobson and Others has progressed the development of the Loei region.

Bringing online gold production at Tungcum Ltd

As a holder of a Mining Concession, dated 5 November B.E. 2534 (1991), from the Royal Thai Government, we take our duties as a partner earnestly. The unwavering commitment of our shareholders, employees and management team has brought operations online, creating direct economic benefits for the Thai nation.

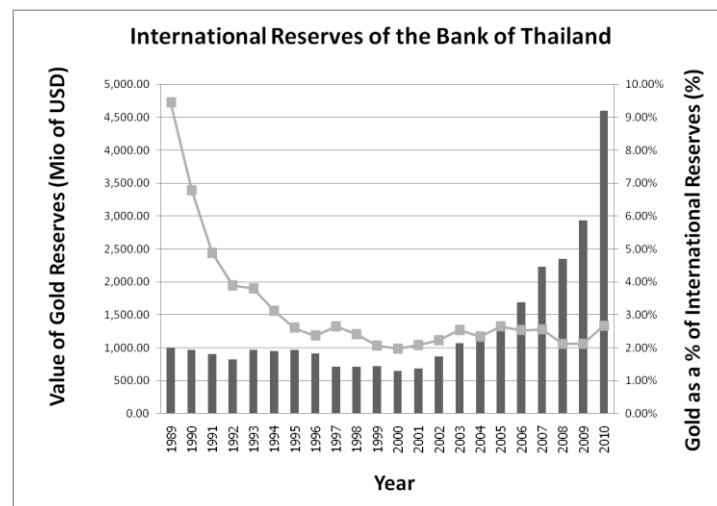
Block	Location	Area	Bidder	JV Parties (1989)	JV Parties (now)	Status
1	Loei-Nongkai-UdonThani	253,930	Phakam Exploration & Mining	Padaeng*	n/a	No progress
2	Loei-Nongkai-Udon Thani	472,148	Phatong Exploration & Mining	Padaeng*	n/a	No progress
3	Loei	460,540	Puthep	(i) Padaeng (ii) CRA, Australia (involving NWC, JPM) (iii) Sumitomo	Padaeng Pan Aust	Feasibility since 2006, pending EHIA
4	Loei	335,672	Tungkum	(i) Sintana Resources (involving NWC, JPM) (ii) Niugini Mining (withdrawn) (iii) Tongkah Harbour	Tongkah Harbour PLC	In production 2 licenses, Original plant built & two expansions completed



Of the 4 blocks on offer, only our firm has managed to bring production on-line, thereby generating Royalties and Production Share for the Ministry of Finance. Over Thai Baht One Billion has been invested on plant, machinery and equipment alone, to build a modern day processing facility with two subsequent plant expansions to increase our capability to handle all types of Ore. Our shareholders have yet to receive a dividend from these endeavors, but we remain committed to a venture which has spanned over a decade; we are determined to uphold the original arrangements stipulated under the original Concession Agreement.

Development from a National perspective

We have in the Ministry of Finance, a shareholder that represents the Government, and the long standing partnership was founded not just on the intent to share a percentage of the production with the Ministry. Under the Concession Agreement, Clause 10, Tungkom would export gold doré bullion for refinement, in accordance with the London metal Market Standards, to 99.99% purity. Further, the Government has first option to purchase the refined product (“location swap” procedure), otherwise TKL could have the gold sold on the international market directly or through the refinery. We export gold only when this option is not exercised. Gold is not just any other commodity, and it is increasingly viewed by Central Banks as an alternate currency with the risks confronting the Western world. Should the Ministry of Finance decide to purchase the Gold from Tungkom Ltd rather than from the international market, the Nation saves on foreign exchange. By purchasing a domestic source of Gold, there is no need to buy gold in a foreign currency, for example in USD, and so there will be no drain on its foreign exchange reserves of USD.



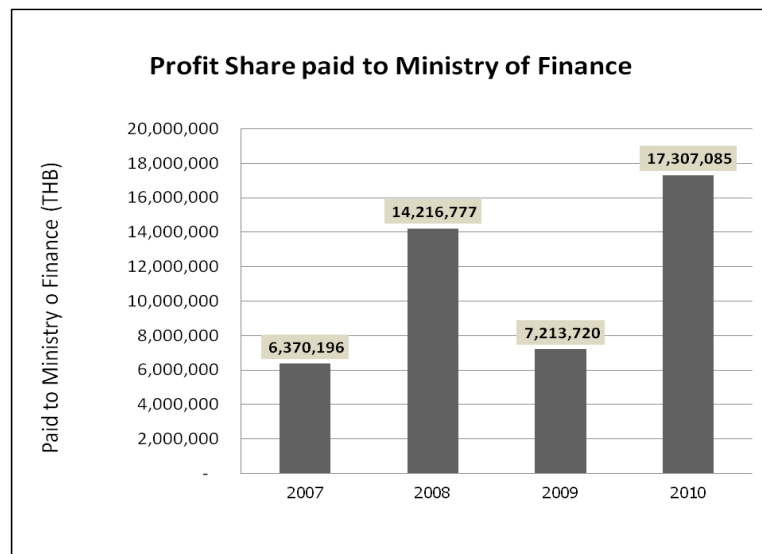
The Bank of Thailand holds its International Reserves a diversified portfolio including:

- Gold
- SDRs
- Reserve position in the IMF
- Foreign currency reserves



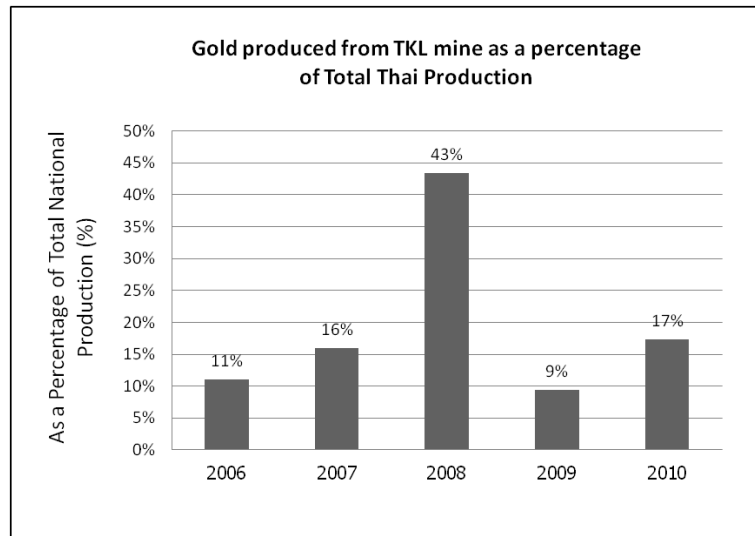
Since the original bidding for the Original Concession Agreement in 1989, the value of Gold held by the Bank of Thailand has increased from USD 993 Million all the way to USD 4,599 Million in 2010. There was no significant movement in the value of its Gold portfolio throughout the 1990's, mirroring the trend of Central Banks around the world which started to dispose its holdings contributing to its low prices. As Gold prices have entered a bull market in the past decade (2001 to 2010), the value has soared 570%. However, as a percentage of its diversified portfolio of International Reserves, this is has fallen from 9.45% in 1999 to 2.67% in 2010. The continued debasement of the USD has recently changed the attitude of Central Bank's towards Gold holdings. In a Reuters article dated 3rd August 2011, it was reported *Emerging world buys \$10 bln in gold as West wobbles. International Monetary Fund data for June on Wednesday showed Thailand bought gold for the second time this year, raising its reserves by nearly 19 tonnes to over 127 tonnes,* as it seeks to diversify its holdings of American dollars. Without the gold mining industry, Central Banks will not be supplied with their physical holdings of gold bullion.

Furthermore, we directly contribute to the Nation's revenues. Under the Concession Agreement, Tungkhong Ltd agreed to share 1.5% of its Production with the Ministry of Finance (MOF). Over the four period (2006- 2010), Tungkhong Ltd has paid THB 45 million directly to the MOF.



A Diversified Economy: Tungkhong Gold supply

Tungkhong Ltd is only one of two major Gold producers in Thailand, however we are the only majority Thai owned entity. Peak production was achieved during 2008 after a plant expansion coincided with the access to the T1-8 easy to mine oxide ore. During that year, we supplied nearly half of the Nation's gold. During 2010, we produced 17% of total gold production. All of the Gold and Copper produced by Tungkhong Ltd is exported, valuing THB 947 Mio in 2010.

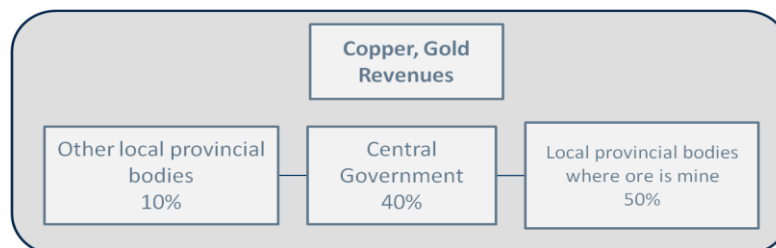


Gold produced from Tungkhum mine operations as a percentage of Total Thai Production

Source for figures: <http://www1.dpim.go.th/dpimdoc/stat/index.php>

Economic Development at the Local level

The role that “*mineral resources play an important role in the economic and social development of Thailand*” is enshrined in the Minerals Law of Thailand.



Distribution of Royalties paid under the Minerals Act

Our operations pay royalties on gold, copper and silver production, calculated on the value of each commodity at the point of transport. The royalty rate was amended to a progressive rate system by the Government in 2007, stepping up from 2% to 20% depending on the prevailing Thai gold price.

We operate in Wangsaphung District, within the Loei Province. As such, the royalties are distributed:

- 40 % to central govt
- 20 % to the Or Bor Jor (Provincial administration), where the ore was mined ie. Loei
- 20% to the Or Bor Tor(District administration), where the ore was mined ie. Wangsaphung



- 10 % to the other districts within the province where the ore was mined ie. other Or Bor Tor in Loei
- 10 % to all other districts outside of the province where the ore was mined ie. other Or Bor Tor in all Thailand.

In summary, 50% of royalties are retained at the Loei Provincial level and 40% is kept with the Central Government (see Figure). The Mineral Act (1967) grants DPIM to collect Royalties on behalf of the State, which amounted to THB 82.9 Million in 2010. Of this, THB 33.2 Mio was retained under the Central Government, whereas THB 41.43 Million was distributed to the Local bodies where the Ore was mined. Specifically, THB 16.6 Million went towards the Loei Or Bor Jor and the equivalent amount was paid to the Wangsapung Or Bor Jor.

