Letter of Reform to Mr Paul Biya
President of the Republic of Cameroon

Subject: Metrics of Success for the Mbalam Iron Ore Project

Mr. President,

The Mbalam iron ore project, in the East Region of Cameroon, is developed mainly by CamIron SA, a mining company registered under Cameroonian Law on 27 April 2005, with 90% controlled by Sundance Resources Ltd. (*the information is drawn from www.sundanceresources.com.au*), an Australian company listed on the Australian Securities Exchange (ASX) under the SDL code and part of the S&P ASX 200 reference index. In order to have a more consequential mineral resources base, the same company also controls 85% share capital in CongoIron SA, a mining company under Congolese Law.

On 4 October 2011, an agreement was signed for the acquisition of 100% Sundance Resources shares by Hanlong (Africa) Mining Investment Limited (Hanlong), implying 90% of CamIron and 85% of CongoIron. By this agreement, Hanlong has committed to purchase, in cash, 100% of Sundance shares at AUD 0.57 each, i.e., a valuation of AUD 1.65 billion for a company that had (i) market capitalisation of about AUD 350 million in June 2010, and (ii) total assets of AUD 204.4 million as of 30 June 2011, including 135 million of investment for the development of the Project (AUD 1 = CFAF 491 on 14/11/2011). This valuation represents a substantial and very attractive premium for investors of this Australian company.

Considering the size of the proposed investment, i.e., USD 7.829 billion (available estimates excluding financial charges) to be completed in two (2) phases, i.e., USD 4.686 billion in the initial phase (final feasibility study) and USD 3.143 billion in Phase 2 (pre-feasibility study), the Mbalam iron ore Project stands as the largest investment project ever undertaken in Cameroon (USD 1 = CFAF 480 on 14/11/2011). In view of its effective implementation, the Agreement of 4 October 2011, which aims at a takeover by a giant private Chinese company, is a positive indicator. This Letter of Reform is therefore necessitated because the stakes are high and potential implications of this Agreement are a cause for concern. The objective, in all modesty, is to recommend to you some metrics required to balance and optimise the interests of Cameroon in order to allow the financing and implementation of this giant project reflecting your "Politics of Great achievements" in a palpable manner. To this end, three (3) items are addressed: (i) *a synoptic presentation of the project, (ii) the stakes and implications of the Agreement between Sundance and Hanlong, and (iii) the metrics to be considered in the negotiation of a balanced mining agreement between CamIron SA and the Government of Cameroon.*

1. Synoptic presentation of the Mbalam iron ore project

1.1. Description of the project. The Mbalam iron ore project consists in producing 35 million of *hematite* (*Direct Shipping Or-DSO*) of 63.6% average grade iron during the first 10 (ten) years (phase 1) and 35 million tons per year of itabirite hematite concentrates of 66% average grade iron during the following 15 (fifteen) years (phase 2), representing a total production of 875 million tonnes in 25 (twenty-five) years, from mineral resources from Cameroon and Congo.

Phase 1 of the Mbalam Project, for which a final feasibility study was conducted (published in April 2011), to produce 35 million DSO per year includes: (i) the initial development of 2 (two) main high quality hematite mines at Mbarga (Cameroon) and Nabeba (Congo), (ii) a processing plant and associated infrastructure at Mbalam, (iii) the construction of a railway system with 510 km of rail, 3 (three) locomotives and 190 wagons, used to transport iron ore from the factory to the coast of Cameroon with a 70 km rail link with Nabeba in Congo, (iv) the construction of a deep-sea ore terminal (- 25 meters) at Lolabe (Kribi deep-sea port) able to accommodate bulk carriers of iron ore up to 300,000 DWT. The indicated and presumed high quality mineral hematite to be considered in Phase 1 are estimated, in accordance with the JORC Code (Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves) at 521.7 million tons of 60.7% average grade iron, including 202.5 million tons in Cameroon (Mbarga and Metzimevin) and 319.2 million tons in Congo (Nabeba). Probable ore reserves are estimated at 352,300,000 tons of 62.4% average grade iron by 15 November 2011.

While drawing from Phase 1, Phase 2 of the Mbalam project, for which a pre-feasibility study was carried out (published in April 2011) to produce 35 million tons of itabirite concentrates a year, including 4 million tonnes of pellets, further comprises, as from the 11th year (i) an enrichment plant to produce the concentrate, and (ii) a pellet production plant and associated infrastructure, including a hydroelectric facility capable of supplying the necessary 350 MW of electricity. The indicated and presumed itabirite hematite minerals to consider in Phase 2 are estimated at 2.325 billion tonnes of 38% average grade iron at Mbarga in Cameroon. Additional mineral resources will also be explored in Congo.

1.2 Life cycle, cost of investment and operating costs of the project.

The life cycle of the project includes the ongoing phase of the legal and financial arrangements that may end with the financial closing in 2012, the construction phase of a projected duration of 36 (thirty six) months, and then the operation phase. The legal and financial arrangements as well as the construction of Phase 2 of the project should be done so that continuity of production is guaranteed from the 11th year.

The initial investment cost of the Mbalam project (phase 1), excluding financing expenses, is estimated at USD 4.686 billion (actual prices in December 2010), broken down into (i) mines, processing plant and associated infrastructure, USD 0.914 billion, (ii) railway, USD 2.019 billion, (iii) port terminal, USD 0.537 billion, and (iv) EPCM, project owner charges and contingencies at USD 1.214 billion. The investment cost for Phase 2 of the project, excluding financing expenses, is estimated at USD 3.143 billion (prefeasibility study), broken down into (i) enrichment plant and associated infrastructure, including energy at USD 1.908 billion, (ii) pellet production plant at USD 0.400 billion, and (iii) EPCM, project owner charges and contingencies at USD 0.835 billion.

Cash operating expenses, excluding mining royalties (tax ad valorem) of the Project are estimated in Phase 1 at USD 21.20 per tonne of DSO produced. In phase 2, the cash operating expenses, excluding mining royalties, are estimated at USD 40 per tonne of itabirite concentrate produced and USD 20 per ton of pellets.

1.3. Funding and commercial viability of the project to investors. The project, combining the two (2) phases, is expected to generate total revenues in nominal value of USD 99 billion in 25 years, or an annual average of USD 3.96 billion. *The internal rate of return* (IRR) of the Project after tax and debt leverage position is estimated at 27.4%. *The net present value* (NPV) of project with a discount rate of 12.5% is estimated at USD 4.3 billion. The payback period of initial investment cost in phase 1 is three (3) years. These estimates are based on the Mbalam Project feasibility studies integrating the two (2) phases. They were made on the basis of the following assumptions (i) financing at 100% from own resources (*excluding leveraged debt*), of the initial investment cost (USD 4.686 billion), and (ii) financing the investment cost of Phase 2 by the cash flow generated in phase 1, representing USD 3.143 billion.

In addition, this very comfortable commercial viability of the project is obtained under the assumption of the signing of favourable mining agreements with the Governments of Cameroon and Congo. Such an assumption in this case includes (i) *a mining royalty rate of 2.5%, (ii) 10% of the social capital is allocated to the Government at no cost, (iii) a concessional tax treatment in Cameroon and Congo, and (iv) a full exemption from customs duties for the life of the Project*.

2. Stakes and implications of the agreement between Sundance et Hanlong

By paying, in cash, the purchase price of 100% of Sundance shares on 2 May 2012 (date of closing of the transaction) by 23,915 current shareholders of the company, including a few Cameroonians, control of the Mbalam Iron Ore Project will actually pass into the hands of Hanlong, a 100% subsidiary of one of the largest private Chinese companies, **Sichuan Hanlong Group Co., Ltd**. Its founder and Chairman of the Board of Directors is Mr Liu Han whom you received in audience in Beijing, China, on 21 July 2011. Sichuan Hanlong Group has over 30 subsidiaries in various industries with total assets exceeding 20 billion Yuan, an annual turnover of more than 16 billion Yuan and a total of over 12,000 employees worldwide (Cny 1 = CFAF 75 on 11/14/2011).

The difference between the real assets of Sundance (AUD 204.4 million on 30 June 2011) and the purchase price of 100% of the shares of this company (AUD 1.65 billion less the valuation of 520,957,708 shares already held by Hanlong at AUD 0.57 each, that is, AUD 296.95 million) will be disbursed by Hanlong as a major strategic investment. This difference is in fact the capital gain expected by the shareholders of Sundance. This capital gain is derived from the valuation of their underlying assets, that is, 90% of CamIron SA shares and 85% CongoIron SA shares, corresponding to the control of the *Mbalam iron ore project*. For this capital gain to be effectively pocketed by Sundance shareholders and for Hanlong to take control of the Project on 2 May 2012, the two partners have agreed to close ranks to negotiate and sign favourable mining agreements with the governments of Cameroon and Congo, no later than 28 February 2012. The offensive of the 2 (two) companies should be very strong in the coming weeks.

3. Metric to consider in negotiating a balanced mining agreement between CamIron SA and the Government of Cameroon

The hematite and itabirite minerals (Mbarga and Metzimevin) belong to the State of Cameroon. For the exploitation of these national minerals to be profitable, equitable and predictable, the distribution of their economic value should be balanced between the State, local communities and investors. Our diagnosis is that the assumptions used in the project feasibility studies as well as certain provisions of the "Framework Agreement on the exploitation of the Mbalam iron ore deposits", signed on 18 December 2008 between the Prime Minister of Cameroon and the CamIron SA Board Chairman, does not seem to be balanced and fair. In this context, only 5 (five) highest priority metrics are recommended to you to ensure the economic stability of the mining agreement being negotiated between the Government of Cameroon and CamIron SA.

3.1. Cameroon's participation in the capital of CamIron SA. There are 3 (three) levels of power for the administration and management CamIron SA: (i) the blocking minority of extraordinary decisions (34%), (ii) a simple majority control of ordinary decisions (51%), and (iii) a qualified majority or of control of ordinary and extraordinary decisions (67%). The Framework Agreement of 18 December 2008 provides that the acquisition of shareholdings by of the Government of Cameroon in the capital of CamIron SA is limited to 25%. This ratio seems unfair and unacceptable in terms of the balance of interests. The 3 (three) levels of power in the Project cannot be concentrated by Sundance or Hanlong. The metric required in terms of balance is a minimum of 34% of State shareholdings in the capital of the project company. This metric has implications for the equitable distribution of the economic value of the project.

3.2. Mining royalty rate. Mining royalties or ad valorem tax or royalty is the instrument whose purpose is to collect the mining revenue, i.e., the remuneration accruing of right to the owner of mineral resources. *The review of international best practices in this area indicates the range of rates varying between 2% and 4%.* The Framework Agreement of 18 December 2008 envisages 2.5% for un-enriched iron ore and 2% for enriched iron ore. The level of financial profitability of the project indicates that the mining revenue is substantial. *Sticking to the rate of 2.5%, which is required by the Cameroon Mining Code, is an irreducible minimum*. But it would have been more judicious to retain a rate up to the upper limit of the range.

3.3.Rate of corporation tax. The Framework Agreement of 18 December 2008 is silent on this metric. If we can understand an exemption from corporation tax during the construction or investment phase, the rate of corporation tax in the operating phase should not be below the lower limit of the range indicated by the best international practices in this area. This rate varies between 25% and 30%. This range is already below the current rate of corporation tax which is 38.5%.

3.4. Interest rates of tax on dividends (Ircm). The Framework Agreement of 18 December 2008 provides for the right to repatriate dividends from taxation exempt from withholding tax. This provision seems totally unacceptable in terms of the balance of interests. International best practices in this area reveal a tax on dividends from 25% to 30% with a withholding tax of 15% for non-residents. The tax on income from movable capital (IRCM) in Cameroon currently stands at 16.5% for residents and 25% for non-residents.

3.5. Development Impact Analysis. In a bid to have a clear and precise assessment of the direct, indirect and induced economic and social impact of the Project on the national economy, the local community and the Cameroonian society, a development impact assessment should be required. This study will be an appropriate instrument for dialogue with stakeholders, in particular when submitting the draft bill authorising the government to sign the mining agreement with CamIron SA to the National Assembly. *Dialogue between the governments of Cameroon and Congo is also essential in the context of regional integration against the coalition of 2 (two) multinational companies, Sundance and Hanlong*.

Yours faithfully,

Babissakana, PMP
Financial Engineer
Project Management Professional (PMP®)
Chairman and CEO, Prescriptor®

Yaounde, November 16, 2011