

Nusantara Resources

NUS

LOW COST GOLD DEVELOPMENT + EXPLORATION

Capital Structure

ASX Code: NUS

Shares	97.5 m.
Options	37.4 m. Av \$0.42
Price	\$ 0.345
Market Cap	\$ 34 m.
Cash (est Dec '17)	\$ 10 m.

Valuation

Awak Mas Summary

CAPEX US\$m.	\$170	m.
Mine life	10	12 years
Mined Tonnes	23.5	28.5 mt
Grade	1.42	1.42 g/t Au
Production	0.96	1.16 Moz
Oz pa ~	96	96 Koz pa
C1 cash cost	574	577 US\$/oz
Post tax NPV	\$148	\$184 US\$m.
Diluted NPV/share	\$0.67	\$0.83 A\$/shr

Source: Strachan Corporate

Board

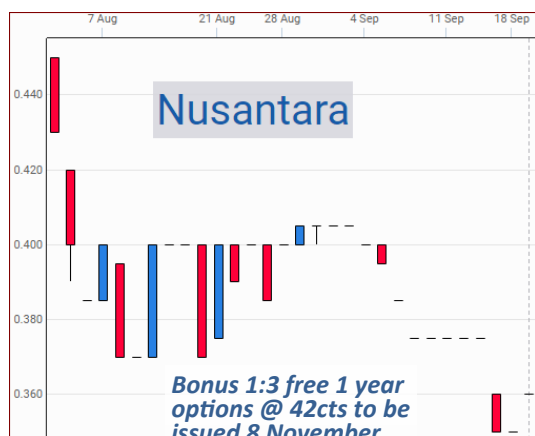
Martin Pyle	Chairman
Mike Spreadborough	Managing Director
Boyke Abidin	Director Indonesia
Rob Hogarth	Non-Exec Director
Craig Smyth	Chief Financial Officer

Opinion

Nusantara has an opportunity to develop a ~100Koz pa gold mine in Sulawesi with an initial 10 year project life plus exploration potential that has potential to substantially expand mine life.

Early financial metrics reveal that the stock is considerably undervalued for this relatively low cost development with a value range of 67-78 cents per share. Updated gold Resources and initial Reserves estimates, along with further clarity on expected CAPEX and OPEX and fiscal terms should make way for share price appreciation.

Peter Strachan



Investment Drivers

- ♦ **RISKED VALUATION:** Strachan Corporate finds that at a gold price of US\$1,300 per ounce, an estimated mined inventory of 1.08 moz of gold at the Awak Mas Gold project should deliver a geared NPV8 of US\$148 million or US\$138 per ounce of gold mined over a 10 year project life. Expansion of mined mineralisation to 1.3 moz would lift the estimated NPV8 to US\$184 million, translating into an NPV of A\$0.83 per share on an expanded share base post-funding.
- ♦ **SIMPLE MINING & METALLURGY:** Strachan estimates a cash cost of less than US\$580 per ounce with total costs of around US\$810 (A\$1,013) per ounce. This is made possible through low cost, low waste to ore ratio mining and standard gold recovery of 89% to 91%, made commercial through low cost access to skills and grid power.
- ♦ **1.74 MOZ RESOURCE + EXPLORATION UPSIDE:** The company is spending \$5 million on a drilling campaign designed to bring identified mineralisation into Resource category while expanding potential Ore Reserves by reconfiguring planned open pits. **This work has potential to lift Resources over 2 moz while Ore Reserves increase to 1.3moz of gold.**
- ♦ **STANDARD INDONESIAN CoW:** The company's CoW does not require divestment, however the government has advised a desire to negotiate a 51% divestment requirement for all CoWs at fair value beyond 6 years of the project's life.
- ♦ **NEWS FLOW:** Nusantara has commenced a drilling programme that will run until the end of 2017. Results from this work will feed into an upgraded Mineral Resource and ultimately an Ore Reserve and Definitive Feasibility Study by mid-2018, ahead of a decision to proceed and formal financing arrangements.

Project location



Source: NUS

Summary

Nusantara is the 100% owner of the Awak Mas Gold Project in Sulawesi, Indonesia. The company is updating earlier preliminary feasibility work undertaken by the project's previous owner One Asia, with the aim of completing a Definitive Feasibility Study (DFS) by mid 2018 so that a ~96Koz pa gold mine can be funded and built by early 2020.

1.74 moz Resource

Drilling to boost Resource to >2moz

Access to low cost power improves viability

Early mining of high grade ore enhances payback

Feasibility work underway along with drilling to expand Resource

Awak Mas

The company is spending about \$5 million to upgrade Inferred Resource mineralisation and expand known areas of mineralisation to support preparation of an Ore Reserve estimate in H1 '18. This work targets a 0.3 to 0.5 moz expansion of gold Resources, with potential for much of that mineralisation to report into an Ore Reserve category. Since early evaluation of the project was completed, the site has gained access to low cost grid power, which will substantially lower operating costs.

The project benefits from a low waste to ore mining ratio, access to low cost power, solid understanding of mineralisation from over 124 kilometres of drilling and relatively affordable labour costs.

Project economics are enhanced by an ability to access about 1.5 mt of Resource grading 2.5 g/t Au in the early months of operation, thus boosting early payback cash flow ahead of treating Reserve grade of closer to 1.41 g/t Au over project life.

The company estimates that the project is expected to cost less than US\$170 million to construct and it will deliver gold at an all-in sustaining cost of less than US\$700/oz (A\$875/oz).

WORK UNDERWAY

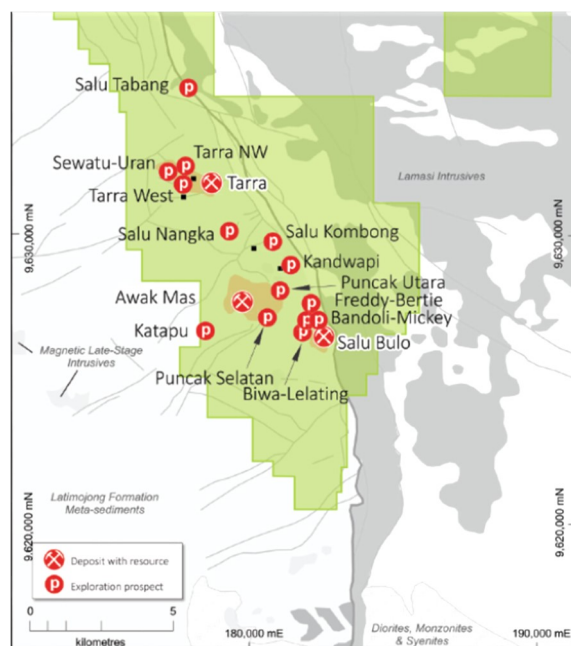
The company is presently reworking and updating feasibility study inputs ahead of a financial commitment to proceed, which is expected by the September quarter of 2018. In the meantime a 10,000 metre drilling programme, budgeted to cost \$5 million will continue until the end of 2017. Work is aimed at boosting Mineral resources and outlining mineralisation that would support expanded open pits, leading to an Ore Reserve estimation by mid-2018. Mineralisation is typically orientated in two separate directions. Higher grade sub-vertical feeder zones are cross-cut by lower grade areas where mineralised fluids have extruded into the host rock along favourable sedimentary plains.

Understanding this geometry is a key component to designing an optimum open pit shell shape to capture a maximum of ore grade material. The current exploration programme will drill within and adjacent to the known mineralisation to boost the Mineral Resource while also targeting known high grade zones that might add to early higher grade mineralisation.

The project is on track to begin production late in H1 2020.

MINING

Although the majority of the project's gold mineralisation is hosted by the Awak Mas deposit, the project is envisaged as sourcing ore from multiple open pits for operational redundancy and ore blending. An overall waste to ore ratio of 3.5:1 should



Standard open pit mining techniques

keep mining cost low with conventional excavator and truck operation delivering to a central, run of mine pad.

About 1.4 mt of mineralisation is identified at the Salu Bulu deposit, which should deliver higher grade feed at around 2.5 g/t Au over the first six–twelve months of operation, boosting early operating cash flow.

PROCESSING

Ore will be crushed and ground through a primary crusher and then sequential SAG and ball mills to a quite coarse grind size of 80% passing 180 microns, followed by gravity gold recovery, gold flotation and CIL processing of the float overflow, representing about 8% of mass pull, after fine grinding to recover 88% to 91% of feed gold.

PLANT AND LEGALS

The company has signed an MOU for the supply low cost grid power. The mine location is well connected via road to ports at Palopo and Belopa and by air via daily flights from Palopo to Makassar. Water sources for processing are adequate.

The project is located on land where mining is permitted and is subject to a Contract of Work which is now in the Construct Phase. Arrangements for a graduated royalty rate and staged divestment are yet to be finalised with the government.

Drilling now following up high grade gold intercepts not in mineral Resource

EXPLORATION APPEAL

Mineralisation is known along an 8 kilometre corridor from the higher grade Salu Bulu Resource in the south, beyond the Tarra Resource in the north and west towards the Awak Mas mineralisation.

Previous work has revealed drilling results of 19 metres grading 2.2 g/t Au and trenching results of 5 metres grading 1.7 g/t Au at the Kandeapi prospect while the Salu Kombong prospect has shown widths of 12 to 15 metres grading 1.2 and up to 2.5 g/t Au.

Best of all, at the north of the Tarra deposit a 39 metres trench showed 2.8 g/t Au and trenching adjacent to the Awak Mas deposit revealed 20 metres grading 4.15 g/t and 35 metres grading 3.25 g/t Au.

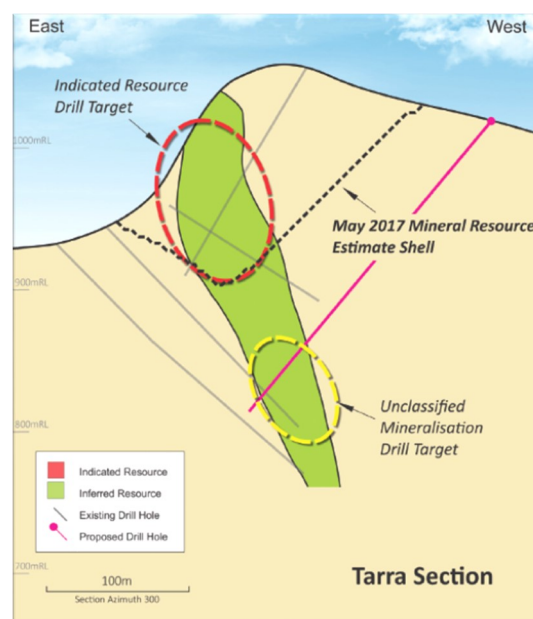
Exploration drilling is focused on targets near the Awak Mas, Salu Bulu and Tarra deposits.

Extension work holds potential to significantly reshape planned open pits to capture much more mineralisation at Awak Mas while repetitions of the higher grade mineralisation is being tested at and around the Salu Bulu deposit.

Early work at Tarra is aimed at deeper mineralisation that could add significantly to Resources and expand the planned open pit design.

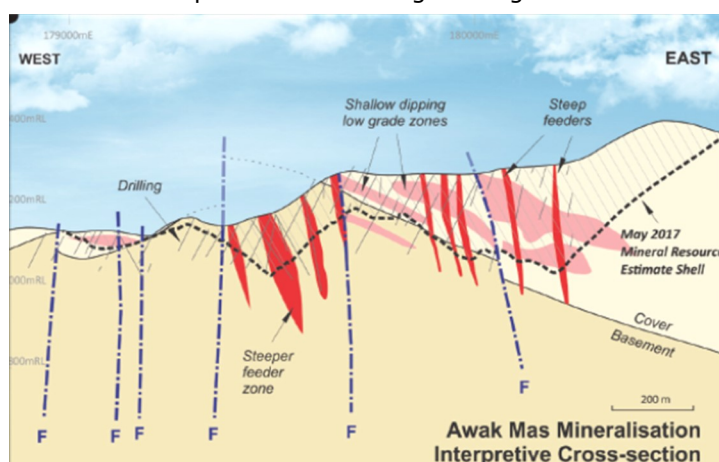
At Awak Mas, drilling will follow up unclassified mineralisation within current pit shells as well as higher grade feeder zones at depth while extending lower grade mineralisation to the east.

Drilling at Awak Mas will continue through the December quarter '17 with up to three rigs contracted to follow mineralisation down plunge and in identified parallel zones, with significant potential to expand Resources and improve open pit geometry.

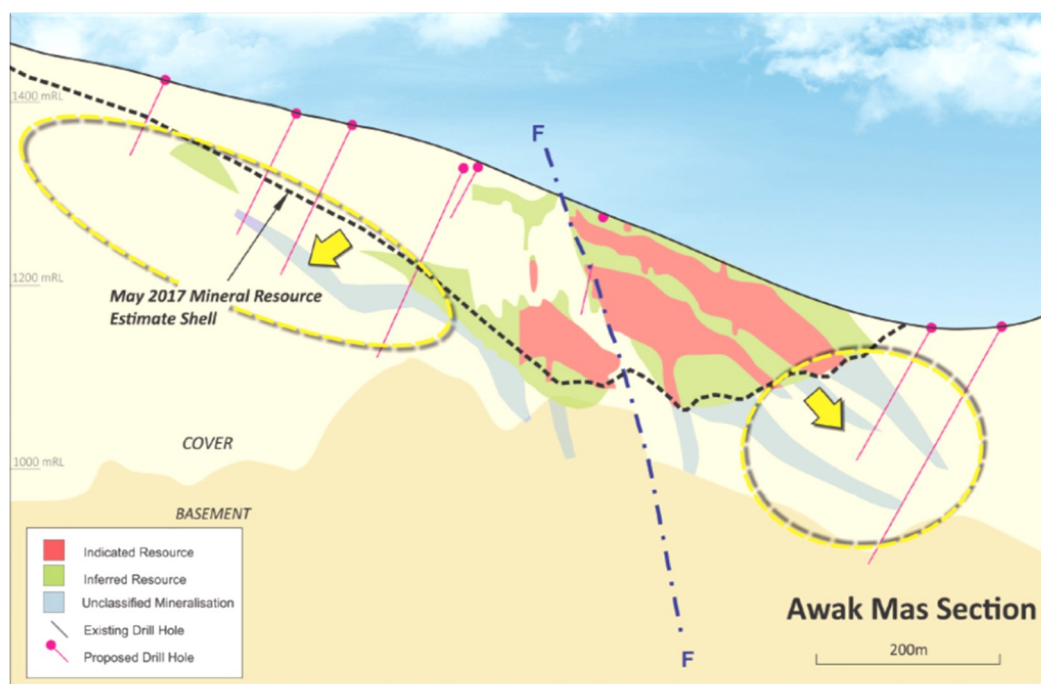


Source: Nusantara

Drilling is aimed at extending Awak Mas mineralisation to the east



Source: Nusantara



Source: Nusantara

Valuation

The project offers low cost of operation resulting from:

- ◆ A low waste to ore ratio of about 3.5:1
- ◆ Conventional open pit mining
- ◆ An ability to achieve ~90% gold recovery at a coarse grind size
- ◆ Simple metallurgical process
- ◆ Access to low cost power at ~ US\$0.1 per KWh
- ◆ Access to high quality skills at a moderate rate

Geared NPV8 of A\$185 v. current market capitalisation of A\$35m

Nusantara is applying cash to drilling and feasibility work, so in effect this is not cash that can be deducted from its market capitalisation to produce an EV. With a market capitalisation of ~US\$28 million, the company trades a market value of just A\$20/oz (US\$16/oz) of Resources which might translate into an EV of US\$24/oz of Reserves, if 60% of the Mineral Resource reports to Ore Reserves.

Discounted cash flow analysis & discounted forecast eps analysis finds fair value at between A\$0.67 & A\$ 0.78 per share

A cash flow analysis of development at Awak Mas, based on a 30/70 equity – debt split with new equity issued at the current market price, demonstrates an NPV per share of at least A\$0.67 per share.

Valuing projected earnings of A\$0.13 per share in the first full year of operation in 2021 on a PER of 8 times indicates fair value of \$0.78 per share after discounted by 8% per annum back to 2017.

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Risks

COMMODITY PRICING: The gold price is volatile and may move up or down. This risk can be managed by hedging projected sales.

POLITICAL RISK: Indonesian regulation is well administered, though aspects of project divestment and taxation may change

SOCIAL & ENVIRONMENTAL: The project is located away from currently protected sites and Sulawesi hosts several mining and processing operations.

TECHNICAL: Studies of mining and metallurgical processing over the Awak Mas Gold Project have not identified areas of technical concern

The right skills & experience

Leadership

Chairman Martin Pyle

Martin is a Geologist with over 30 years of experience in the mining industry, equity capital markets and project financing as a senior executive and company Director. He is a former Director of successful gold developer, Gold Road Resources

Managing Director Mike Spreadborough

Mike is a Mining Engineer with many years experience in project development and construction as well as technical evaluation and operations as Chief Operating Officer for Sandfire and Ivanhoe and GM Coastal Operations for Rio Tinto and GM of Olympic Dam.

Non Executive Director Rob Hogarth

Rob is an Accountant and commercial manager with experience formerly ran the office of KPMG in Jakarta.

President Director Indonesia Boyke Abidin

Boyke is an Indonesian with a Commerce degree earned in London. He has wide mining and government experience as well as working with communities and other stakeholder in Indonesia for Sumatra Copper & Gold and other operations.

Chief Finance Officer Craig Smyth

Craig is CEO of the Lion Selection Group and previously worked with Cooper & Lybrand, Credit Suisse First Boston in London and with ANZ Investment Bank.

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