Nusantara puts Indonesia back in spotlight

Contract of Work ownership provides Nusantara with certainty over tenure in Indonesia

Australian mining representation in Indonesia has been scarce, with the country's intrepid miners and explorers gravitating towards hotspots in Africa and Latin America when considering offshore opportunities in the past decade.

Issues and challenges in developing economies in such regions are well-known, however, Indonesia's reputation as a mining jurisdiction has been tarnished to the extent investors have been steeled to take on risk anywhere else but the South East Asian country.

"It is patchy," Nusantara Resources Ltd chairman Martin Pyle said in relation to investor interest in Indonesian mining projects.

"It was always expected that a lot of the investors would shy away from Indonesia because of past issues. We went far and wide talking to investors, particularly focusing on investors who have had some positive experience there or who are experienced with sovereign risk issues.

"Some of the bigger sophisticated investors take a diversified portfolio approach and can handle the individual risk of any particular sovereign nation within a whole portfolio. We have never suggested to anyone that you put all your eggs in the one basket, but as a diversified part of the portfolio and a very fertile province exploration-wise, Indonesia is regarded universally as being that. It's a great play."

A PFS has demonstrated potential for open pit production of 100,000 ozpa gold for 10 years at low AISC from Awak Mas, Sulawesi

Pyle's bullishness and enthusiasm for Indonesia has only been fuelled by the support proposed new float Nusantara has received.

The company has gathered subscriptions and firm commitments in excess of $15 million, thereby meeting one of the conditions of the IPO offer (closed July 18).

A maximum subscription of $20 million through the issue of 47.6 million new shares was stated in the IPO.

A subsidiary of Hong Kong stock exchange giant Zhaojin Mining Industry Company Ltd has backed Nusantara via a

$1.5 million investment, following the cornerstone commitments of Lion Selection Group of $4.5 million and Australian Super with $3.9 million.

Strong financial support thus far reflects the potential for Nusantara to develop the Awak Mas gold project in the near term.

In mid-July, a supplementary prospectus noting the Contract of Work held by Nusantara had been granted, upgrading to construction phase by the Indonesian Government.

"We have gone to length to do the due diligence in the prospectus review to demonstrate the ownership structures," Pyle said. "We have legal reports from Australian and Indonesian lawyers signing off on that. More importantly, from the practical perspective the Indonesian Government is delivering on its obligations. We recently submitted our EIS last year and that was approved several months ago.

"There is strong evidence of respect for title by the Indonesian Government and it is giving us the appropriate pathway to production when we meet our hurdles and obligations."

Through a PFS, previous owners demonstrated potential for an open pit mine to produce 100,000 ozpa gold over 10 years at Awak Mas, Sulawesi. The project has an EIS approved and permitting for development well advanced.

A resource of 1.74 moz gold prepared by Cube Consulting and audited by CSA Global is what Nusantara will be working from upon listing.

Exploration has occurred intermittently in the region over the past 20 years, with gold mineralisation confirmed by trenching or diamond drilling at another 10 prospects.

Nusantara chairman Martin Pyle, managing director Mike Spreadborough, chief financial officer Craig Smyth, One Asia managing director Adrian Rollke and executive director Boyke Abidin

Pyle said there was limited follow-up on these prospects and Nusantara would spend part of the IPO proceeds on further testing.

"We call these brownfields exploration targets because there is known mineralisation. We will be drilling underneath those surface outcrops from trenching results or along strike in those diamond holes in hope of extending the mineralisation and proving additional resources," Pyle said.

"We have three pit shells and in and around those we have unclassified mineralisation and hopefully with infill drilling some of that mineralisation will get reclassified such that it can be incorporated into feasibility studies and thus into development."

The bulk of the IPO funds will be used to complete a DFS in the next 12 months.

Pyle said soon after DFS completion a development decision would be made with an eye to production in 2020.

"Zhaojin Mining is a large gold company producing some 600,000 ozpa gold and they are a $2.5 billion company," he said. "Companies like that clearly have the balance sheet and expertise to assist us with a development decision, so we are confident that if our feasibility study ticks the boxes – and we expect it will – we will have good quality partners such as Zhaojin to take the project into construction and development."

– Mark Andrews

Simple metallurgy, access to infrastructure and potential to produce 100,000 ozpa gold makes the Awak Mas project in Sulawesi an attractive proposition.

Proposed new float Nusantara Resources Ltd appears to have the right ingredients to entice investors, however, convincing people of the surety of investment in Indonesia is the challenge.

Australian company Intrepid Mines Ltd encountered an ownership dispute over the Tujuh Bukit copper-gold project in 2014, resulting in the company exiting Indonesia and walking away with $US80 million cash.

More recently, London-based Churchill Mining plc's efforts to claim in excess of $US1 billion damages from the Indonesian Government after the expropriation over rights at the East Kutai coal mine has raised more red flags about mining investments in the country.

The International Centre for Settlement of Investment Disputes (ICSID) dismissed Churchill's request for damages and ordered the former to pay $US9.5 million in costs and arbitration tribunal fees.

Churchill believes there are grounds to have the ruling annulled and is pursuing the matter further.

Nusantara chairman Martin Pyle told **Paydirt** that such "high profile" failures should be looked at in detail before assumptions are made about investing in Indonesia.

"There have been some high profile failures such as Intrepid and Churchill which are two very notable examples," he said.

"It is important to recognise that both of those were companies that were reported to earn an interest in Indonesian projects by buying into IUPs, which was the permitting system held by Indonesian companies. Those Indonesian companies failed to deliver on their contractual negotiations. In the case of Churchill, it was proven in the international tribunal in the Hague that the documents that the Indonesian party used to secure the IUP were fraudulent.

"The difference with our projects is that we own a Contract of Work 100%-owned from the Indonesian Government, a bit like the State Agreements in Western Australia which are far more robust titles."