

## Nusantara Resources

## NUS

2 MOZ OF GOLD RESOURCE & RISING – FEASIBILITY BY MID-YEAR

### Capital Structure

ASX Code: NUS	
Shares (est)	97.5 m.
Options	37.4 m. Av \$0.42
Price	\$ 0.285
Market Cap	\$ 28 m.
Cash (est Mar '18)	\$ 5 m.
EV/Resource	\$ 11.4 \$/oz
EV/Reserve (est)	\$ 17.5 \$/oz

### Valuation

Awak Mas Summary			
CAPEX US\$m.	\$170		m.
Mine life	10	12	years
Mined Tonnes	23.5	28.5	mt
Grade	1.43	1.42	g/t Au
Production	0.99	1.19	Moz
oz pa ~	99	100	Koz pa
C1 cash cost	555	558	US\$/oz
Post tax NPV	\$172	\$210	US\$m.
Diluted NPV/share	\$0.68	\$0.85	A\$/shr

Source: Strachan Corporate

### Board

Martin Pyle	Chairman
Mike Spreadborough	Managing Director
Boyke Abidin	Executive Director
Rob Hogarth	Non-Exec Director
Robin Widdup	Non-Exec Director
Derek Humphry	Chief Financial Officer

### Opinion

Local financial support is expected to be attracted by an updated DFS, meeting Indonesian domestic equity requirements. Drilling results support a mine life of over 10 years at 100Koz pa.

Financial metrics reveal a low cost, undervalued development with a value range of 68-85 cents per share. A 2 moz gold Resource plus expected initial mine Reserve estimate, along with further clarity on CAPEX, OPEX and fiscal terms should make way for capital growth.

Peter Strachan



### Investment Drivers

- ◆ **RISKED VALUATION:** Strachan Corporate finds that at a gold price of US\$1,320 per ounce, an estimated mined Resource of 1.1 moz of gold at the Awak Mas project should deliver a geared NPV<sub>8</sub> of US\$172 million or US\$130 per ounce of gold mined over a 10 year project life. Expansion of mined mineralisation to 1.3 moz lifts estimated NPV<sub>8</sub> to US\$210 million, translating into an NPV of A\$0.85 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\$1,040) per ounce. Cost is moderated by low waste to ore ratio mining and standard gold recovery of 89% to 91%, made commercial through access to low cost grid power and skills.
- ◆ **2 MOZ PROJECT RESOURCE + EXPLORATION UPSIDE:** Recent drilling increased estimated gold Resource in a US\$1,400/oz pit shell to 2 moz and boosts total Resources in a US\$1,200/oz shell to 1.8 moz at the Awak Mas project, pointing to a possible mining Reserve target of 1.2 moz with further upside as drilling results are compiled.
- ◆ **FAVOURABLE CoW:** Secure 10 year operating tenure at 100% prior to 51% divestment obligation at fair value by ~2030. Tax rate of 25% plus 3.75% royalty rate. Potential to attract local partner as funding option.
- ◆ **NEWS FLOW:** Nusantara has added new drilling results to a database that feeds into an estimated mineable Reserve. Completion of a Definitive Feasibility Study in mid-2018, ahead of a decision to proceed and formal financing arrangements should crystallise a value platform upon which a potential partner or shareholder might judge its involvement.

### Project location



## Summary

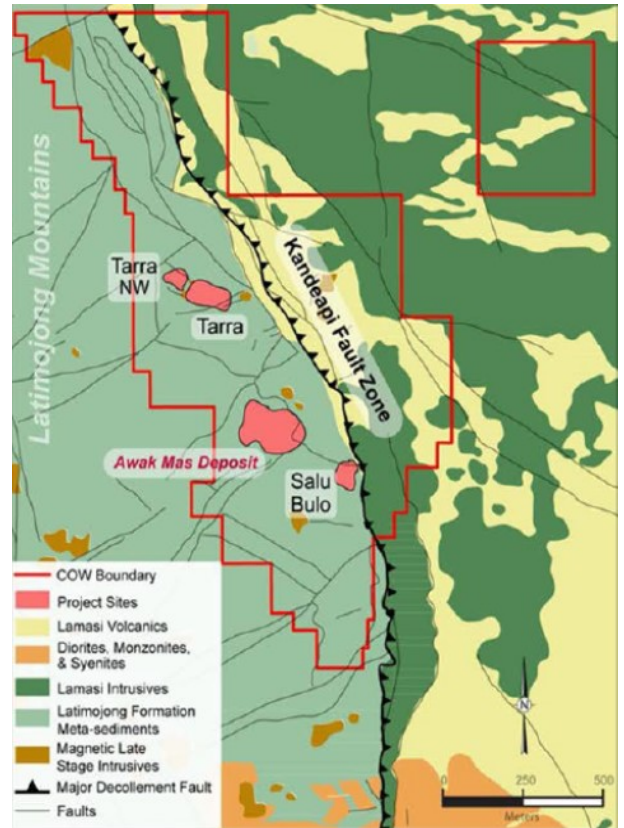
### 2 Moz Resource

Nusantara is the 100% owner of the Awak Mas gold project in Sulawesi, Indonesia. The company is updating earlier preliminary feasibility work 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 2020.

## Awak Mas

The company has spent about \$5 million to expand and upgrade known areas of mineralisation to support preparation of a mining Reserve in H1 '18. This work has expanded total Resources to 2 moz while the estimated Resource constrained in a US\$1,200/oz pit shell is booted to 1.82 moz. Drilling also indicates potential for further Resource expansion through Brownfield exploration. The project site has gained access to interim low cost grid power, which will support construction ahead of linking in low cost power supply to run the plant.

The project benefits from a low waste to ore mining ratio, access to low cost power, solid understanding of mineralisation from over 130 kilometres of drilling and relatively affordable labour costs.



### Drilling set to boost Reserves to >1.2moz

### Access to low cost power lowers construction & operating cost

### Early mining of high grade ore enhances payback

Project economics are enhanced by its ability to access about 3 mt of mineralisation grading 1.6 g/t Au from the Salu Bulo deposit in early months of operation, thus boosting cash flow ahead of treating Reserve grade ore of closer to 1.4 g/t Au over the project's life.

The company estimates the project 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\$893/oz).

## WORK UNDERWAY

The company is presently reworking and updating feasibility engineering and metallurgical inputs ahead of a financial commitment to proceed, which is expected by the September quarter of 2018. Results from a recently completed 8,000 metre drilling programme are being added to mine and exploration planning. Resources have expanded to 2 million ounces of gold, which supports expanded open pit mining in many areas. An estimated mining Reserve is expected by mid-2018.

Mineralisation is typically orientated in two separate directions. Higher grade sub-vertical feeder zones are cross-cut by lower grade zones where mineralised fluids have extruded into the host rock along sedimentary plains. Understanding this geometry is a key component to designing an optimum open pit shell shape to capture the optimum volume of ore grade material.

Recent drilling at the Awak Mas deposit has shown results typically grading between 0.5 g/t and up to 4 g/t gold with exceptional intercepts such as **3.9 metres grading 10.2 g/t Au from 102 metres, 12 metres grading 2.6 g/t from 48 metres, 20 metres grading 2 g/t from surface, and 33 metres grading 1.6 g/t Au.**

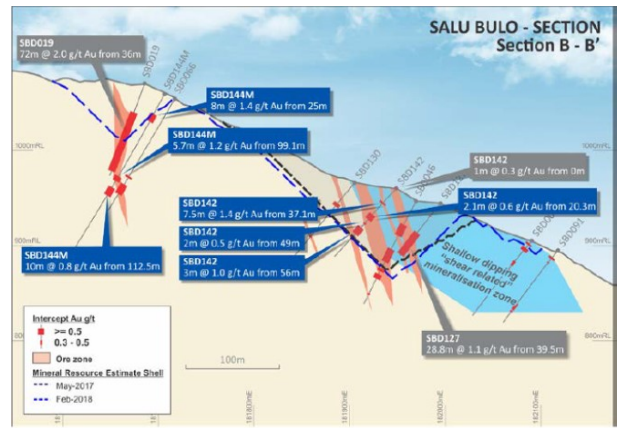
Significant intersections recently found at the smaller but higher grade Salu Bulo deposit include:

### Feasibility work assimilates an increased ore Reserve

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

*Upgraded Resource at Salu Bulu deposit estimated to hold 180 Koz in 3.7 mt of mineralisation grading 1.53g/t Au*

- ◆ **30.1 metres grading 2.8 g/t Au from 53.4 m**, including
  - ◆ **8 m at 7.4 g/t Au from 69.5 m (SBD139M)**
- ◆ **23.2 metres grading 2.8 g/t Au from surface**, including
  - ◆ **9.5 m at 4.1 g/t Au from 2 m (SBD138)**
- ◆ **13.0 metres grading 1.9 g/t Au from surface**, including
  - ◆ **2 m at 5.5 g/t Au from 9 m (SBD136)**
- ◆ **21.0 metres grading 1.5 g/t Au from surface**, including
  - ◆ **3 m at 6.0 g/t Au from 18 m (SBD134)**



Source: Nusantara

**MINING**

The project is envisaged, sourcing ore from multiple open pits for operational redundancy and ore blending. An overall waste to ore ratio of 3.5:1 should keep mining cost low with conventional excavator and truck operation delivering material to a central, run of mine pad.

Ore mined from the Salu Bulu deposit should deliver higher grade feed at ~1.6 g/t over the first twelve months of operation, boosting early production and operating cash flow.

**PROCESSING**

Ore will be crushed and ground through a primary crusher and then sequential SAG and ball mills, delivering a moderate grind, followed by gravity gold recovery and CIL processing to recover 88% to 91% of feed gold.

**PLANT AND LEGALS**

The company has secured a contract to 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.

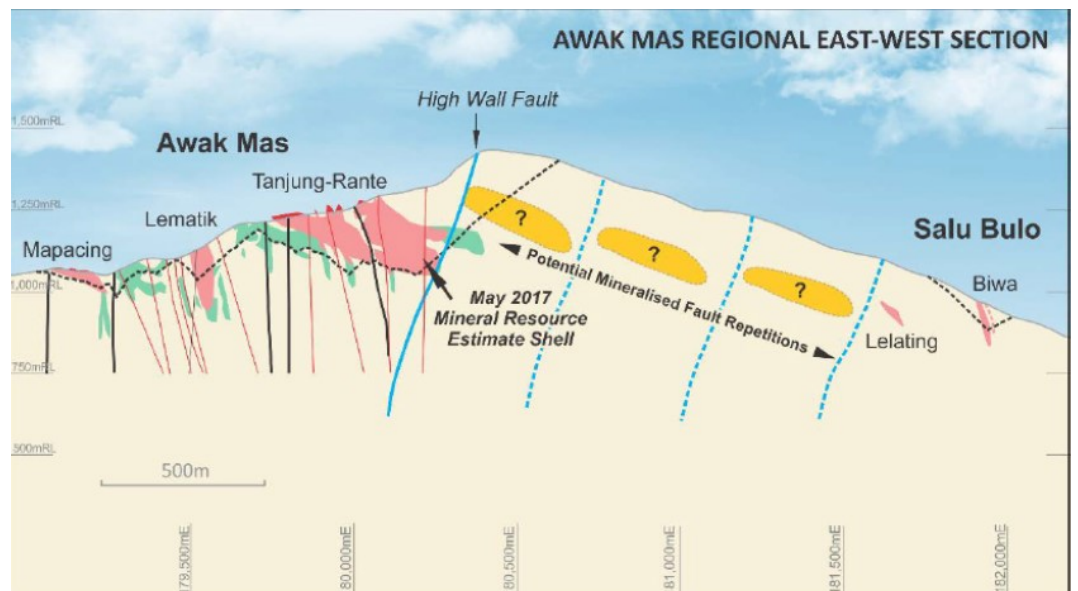
The project is located on land where mining is permitted and is subject to a Contract of Work which is now in the Construct Phase. The project will be subject to a 3.75% royalty rate and a 25% corporate taxation rate. Under Indonesian law, Nusantara can retain 100% ownership of the project for the first 10 years of commercial operation. However, divestment of a part of the project could occur during construction with full 51% divestment at fair market valuation to occur at any time prior to ~2030.

**EXPLORATION APPEAL**

Mineralisation is known to occur along an 8 kilometre corridor within the company's permit, from the higher grade Salu Bulu Resource in the south, beyond the Tarra Resource in the north and west towards mineralisation in the main Awak Mas deposit.

*Standard open pit mining techniques*

*Drilling has expanded mineral Resource*



Source: Nusantara

Previous work produced 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 show widths of **12 to 15 metres grading 1.2 and up to 2.5 g/t Au**.

Offering significant encouragement for further exploration outside of known Resources, 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.

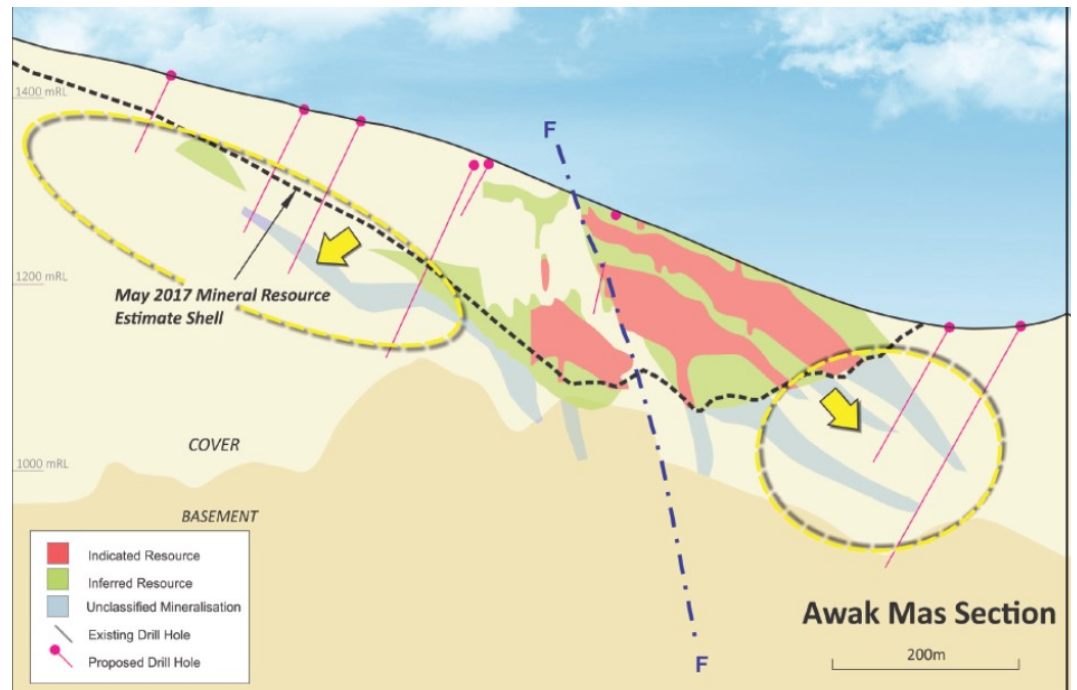
*Exploration drilling has focused on targets near the Awak Mas, Salu Bulu and Tarra deposits.*

Extension drilling holds significant potential to reshape planned open pits in order to capture much more mineralisation at Awak Mas while repetitions of the higher grade mineralisation is being tested at and around the Salu Balo deposit.

Early drilling at Tarra targeted deeper mineralisation that may add significantly to Resources and expand the planned open pit design.

*Drilling has extended Awak Mas mineralisation to the east*

At Awak Mas, further drilling will follow high grade feeder zones at depth while extending lower grade mineralisation to the east.



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 ~92% gold recovery at a moderate grind size
- ◆ Simple metallurgical process
- ◆ Access to low cost. US\$0.1 per kWh power
- ◆ Access to high quality skill at a moderate rate

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*Geared NPV<sub>8</sub> of A\$219 v. current market capitalisation of A\$28m*

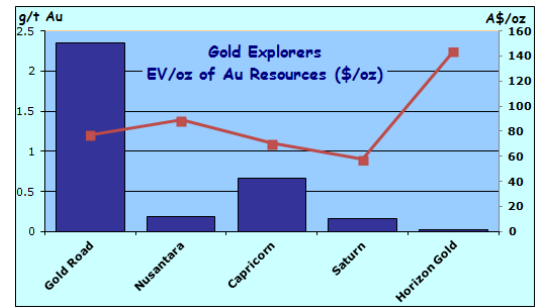
Nusantra is applying cash to drilling and feasibility work, so in effect this is not cash that can be deducted from its market capitalisation to produce an EV. With a market capitalisation of ~A\$28 million, the company trades a market value of just A\$14/oz (US\$11/oz) of Resources which might translate into an EV of US\$15/oz of Reserves, if 60% of the Resource reports to Reserves.

*Discounted cash flow analysis & discounted forecast eps analysis finds fair value at between A\$0.68 & A\$ 0.79 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\$0.68 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 \$0.79 per share after discounted by 8% per annum back to 2018.

Peer group gold project developers with smaller Resource bases than Nusantara but lower grade, or metallurgically difficult ore types, attract similar or in the case of Capricorn higher EV/Resource ratings, when Nusantara's larger ore base and consequent projected mine life should see it trading at a premium to its peer project developers.



Well progressed and fully funded peer, Gold Road (GOR) trades with an EV of ~A\$150/oz of Resources, showing a path to value accretion for Nusantara once it has delivered an updated BFS and funding clarity is achieved.

### 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.

### Executive Director 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.

### Non Executive Director Rob Hogarth

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

### Chief Finance Officer Derek Humphry

Derek has a strong background in both finance and mining and extensive financial management experience of resources companies during feasibility studies and financing and development of mines.

### 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 Robin Widdup

Robin has had a long career in the mining and finance industry in Africa and Australia. He was head of mining research at J B Were & Sons before founding Lion Selection Gp, where he remains a Director.

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