

PADANG RESOURCES LTD (PXR)

Enters into MoU to Acquire 70% Interest in high quality coal project in East Kalimantan – The Paser Project

SPECULATIVE

27 April 2012

Share Trading Info

ASX Code	PXR
Current Share Price (cps)	1.4
Trading Low/High (Rolling Year) (cps)	0.9 - 5.8
Mkt Capitalisation (undiluted) \$m	4.9

Issued Capital (m)

Total Ordinary Shares*	346.7
Listed Options (out-of-the-money)	160.3
Total Diluted Securities	507.0

* Not including the proposed issue of 125m PXR to Paser Pte Ltd as part consideration for a 70% interest in the Paser Project, which would give Paser a 26.5% shareholding in PXR

Board of Directors

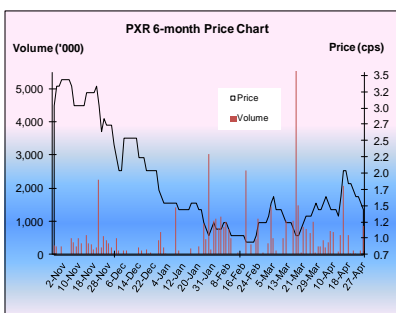
Guy Le Page	Non Executive Chairman
John Jordan	Non Executive Director
Ian Murie	Non Executive Director

Major Shareholders

Spartan Nominees P/L	5.7%
John Wardman & Associates	5.4%
Fay Holdings P/L	5.0%
Formaine P/L	3.2%
Ossart Holdings P/L	2.9%

Important Disclosure

Investors should be aware that Padang Resources Ltd is a corporate client of Alpha and that Alpha will receive a consultancy fee from Padang Resources Ltd for compiling this research report



SUMMARY

Padang Resources Ltd (ASX: PXR; formerly *Palace Resources Ltd*) has announced that it had entered into a Memorandum of Understanding (MoU) to acquire a 70% interest in the Paser Project, a prospective Indonesian coal project located in East Kalimantan province.

The project area comprises of a 43ha production license (IUP), with all environmental and mining approvals granted. PXR have commenced a due diligence program, with the company in the process of mobilising a technical team.

Strong Technical Team Mobilised

PXR has assembled a strong in-country technical management team to commence work on the Paser Project, including an in country manager and independent geologist, based locally and with 17 years experience in Indonesian coal mining projects and direct experience in projects that lie within the Tanjung Formation in Paser Regency.

Favourable Project Infrastructure

The project area is located approximately 127 kilometres SW from Balikpapan. Good quality haul roads exist in and around the concession area. In particular, Jetty locations are within 14 kilometres of the concession and are within a short distance to a deep water harbour, with an existing operational port nearby. The distance by barge from the loading facility is ~30 kilometres.

High Indicative Coal Quality

Coal analysis figures from nine samples provided by the vendor (to be validated by PXR during the due diligence phase) indicate an average calorific value of 6,841 kcal/kg, with overall figures (calorific value, ash, moisture and sulphur content) comparing favourably with the figures for typical Indonesian bituminous coal as well as the benchmark Rio Tinto thermal coal blend.

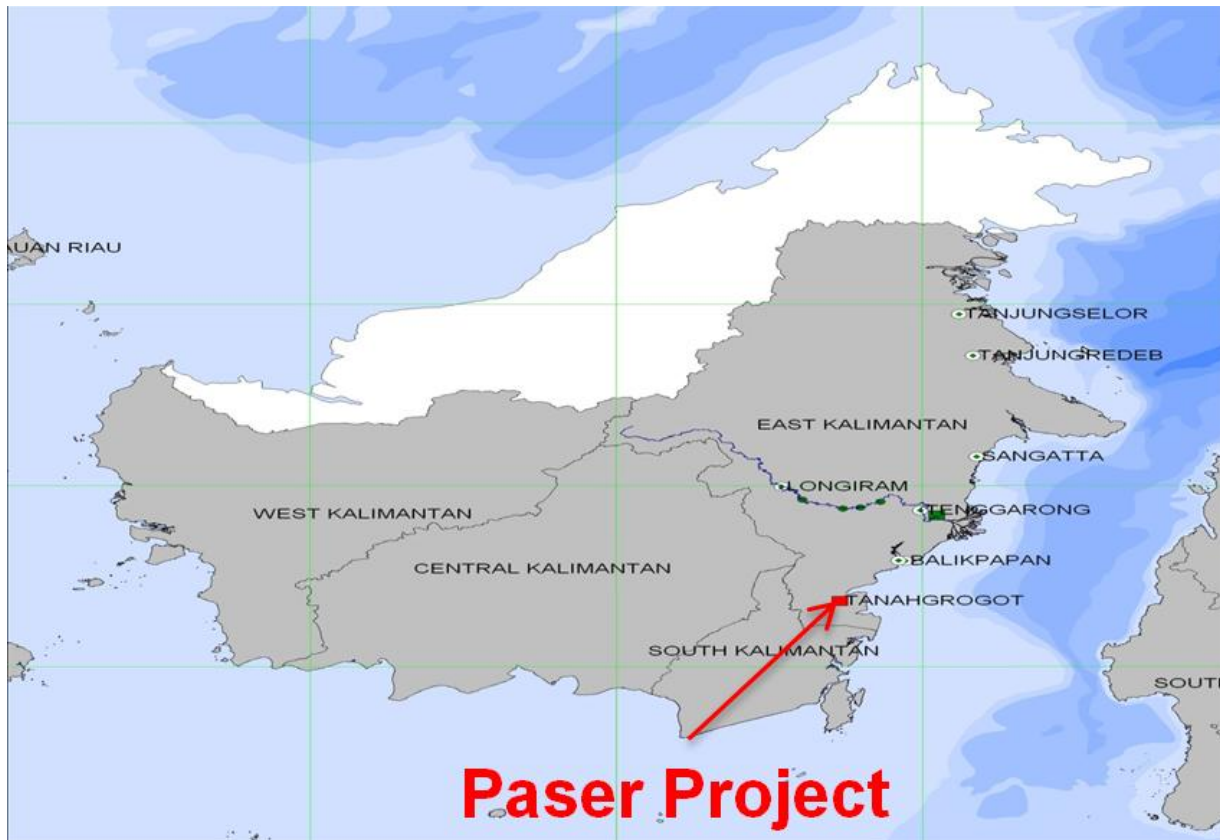
Successful Due Diligence program progressing rapidly

PXR has completed company and IUP due diligence confirming that the permit holder has been registered at Ministry of Law and Human Rights, Indonesia and has duly obtained a Mining License for the Operation and Production. It has also been confirmed that the IUP is listed with the Status Clean and Clear on the 'List of Clean and Clear IUPs' published by the Directorate General of Mineral Resources and that the IUP is therefore deemed valid.

PXR has commenced technical due diligence with the aim of collating and validating previous exploration data and completing a geophysical survey to map the coal distributions and profile the resistivity of coal and other soil layers in the ground.

1. PASER PROJECT, EAST KALIMANTAN

Figure 1: Location of Paser Project – Approx. 127 kilometres SW from Balikpapan



Source: PXR

1.1 Planned Technical Due Diligence Program

PXR are planning a 2-stage technical due diligence program for the Paser Project.

Stage 1 is aimed at:

- Collating and validating previous exploration data (topographical, outcrop and borehole surveys, coal quality and civil infrastructure plans, etc),
- Completing a Geophysical Survey to map the vertical and lateral distribution of the coal seams in 2D/3D format and profile the resistivity of coal and other soil layers in the ground and
- Providing an initial coal resource estimate.

Subject to a positive outcome from Stage 1 of the due diligence program, PXR will move to Stage 2, which is aimed at:

- Drilling stratigraphic holes to test coal distribution portrayed by 3D images produced from the Geo-electric survey in Stage 1 to JORC standards,
- Confirming coal quality and
- Delineating a JORC compliant resource.

To date, PXR has received a legal due diligence report on the company/permit holder and title of the Paser Project, validating that the permit holder has obtained an IUP¹ for Operation and Production of coal within the permit area. Further, the legal due diligence confirmed that the IUP is deemed valid, as it is listed with the Status 'Clear and Clean' on the 'List of Clear and Clean IUPs' published by the Directorate General of Minerals and Coal.

1.2 Available Project Infrastructure

The project area lies within the Tanjung Formation and is located approximately 127 kilometres SW from Balikpapan. Administratively the prospect area is located in Petangis Village, BatuEngau District, Paser Regency in East Kalimantan. Good quality haul roads exist in and around the concession area. In particular, Jetty locations are within 14 kilometres of the concession.

Indonesian export coals are typically loaded onto barges at either river-based or coastal-sited loading facilities and transported to an offshore transfer point for loading onto ocean-going vessels or barged to a deep water coal terminal. Further, Indonesian coal is moved from mine to shipping points primarily via a combination of trucking and barging.

At most Indonesian export thermal coal mines, coal is trucked directly to a coal processing/barge-loading facility located on tidewater or on a barge-navigable river. For direct-haul operations, trucking distances typically vary from between 10 to 35 kilometres. In the case of the Paser Project, the jetty locations are within a short distance to a deep water harbour, with an existing operational port nearby. The distance by barge from the loading facility is approximately 30 kilometres.

1.3 In-Country Technical Team Strengthened

PXR have an Indonesian-based Geologist, **Mr Mulyadi Hasan**, who has been engaged as In-country General Manager. Mr Hasan is a Jakarta-based geological consultant with 28 years experience across Asia and, particularly, Indonesia. He has undertaken a broad range of technical and commercial roles in the coal and energy industry including the co-ordination of geological studies, project management, asset valuations, contract management, localisation issues and offtake agreements. He is a Member of the Association of Indonesian Professional Geologists (IAGI), the Indonesian Petroleum Association (IPA) and the Association of American Petroleum Geologists (AAPG).

PXR has recently expanded its technical capability in Indonesia, following the appointment of **Mr Sober Syabaruddin** in October 2011 as the Head of Exploration in Indonesia. Mr Syabaruddin is an Indonesian citizen and resident (Jakarta based) whose recent experience is as a Geologist Manager and Co-ordinator in coal and hard rock work in West Sumatra, East Kalimantan, Central Kalimantan and West Papua. Mr Syabaruddin is responsible for the company's exploration and geological work in conjunction with Mr Hasan and Mr Raintung.

A 3rd member of the technical team, **Mr Herry JT Raintung**, is the in-country local liaison officer and mine contractor, whose present focus is on validating land access to the Paser Project, defining and implementing the localisation program and assisting deployment of the

¹ The abbreviation for *Izin Usaha Pertambangan* (i.e. Production Permit). The IUP gives the permit holder the right to conduct construction, production, haulage, sale and refining in the Mining Area.

technical due diligence program (in conjunction with Mr Hasan and Syabaruddin), as well as creating in-country relationships with other contractors and technical specialists

1.3.1 Technical Team Mobilised to Commence Work at Paser Project

PXR has engaged Dr Stephen Macmillan, an independent geologist, to oversee the technical due diligence program and assist in validating data from 20 boreholes believed to have been drilled by the vendor to the north of the 43Ha IUP. Dr Macmillan is based in Balikpapan, East Kalimantan and has 18 years direct experience in coal mining projects that lie within the Tanjung Formation, Paser Regency. More recently, he has undertaken work for a project adjacent to the Paser Project.

The company is currently in the process of mobilising a technical team (overseen by Dr Macmillan) comprising Mr Mulyadi Hasan, Mr Sober Syabaruddin, as well as **Waluyo Bagaskoro** (Competent Person) to:

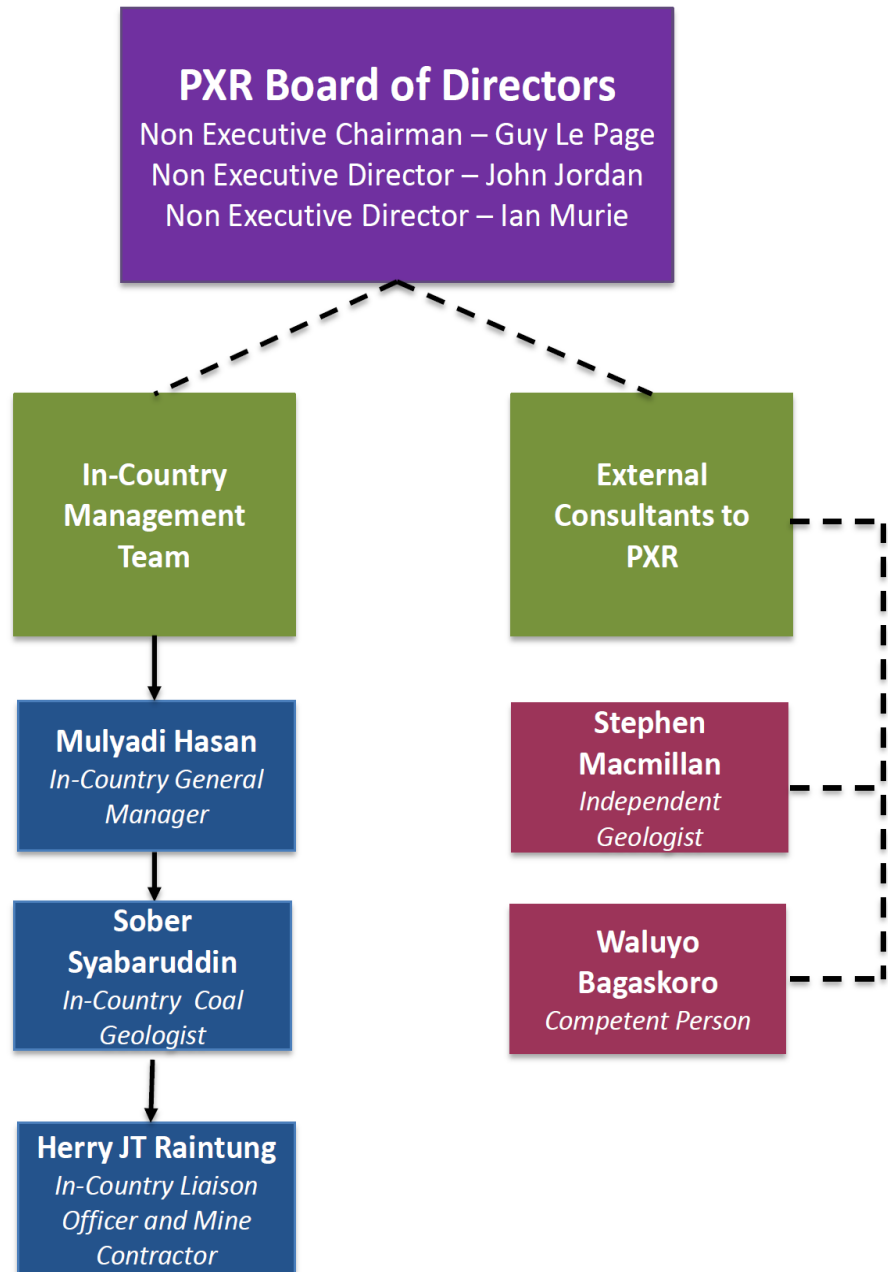
- i) Implement the technical due diligence on the Paser Project
- ii) To work up to the development of a JORC-compliant resource statement
- iii) Validate the economic viability of recommencing mining.

Waluyo has nearly 18 years experience in the development and appraisal of Indonesian coal projects, in a variety of roles that have spanned across supervising drilling programs, Due Diligence, Team Leader, Project Co-ordinator, Geologist and Senior Geologist.

Since June 2002, Waluyo has held senior positions in Coal projects owned and/or operated by BHP Billiton, including Technical Mine Manager and Geologist. Prior to his appointment as the Competent Person for the Paser Project, Waluyo worked as a Technical Advisor for a BHP Billiton Coal Project, and Director & Senior Geologist of PT Indonesia Carbon Energy (ICE), a position he held for nearly five years.

Waluyo has been a member of AusIMM (Australasian Institute Mining and Metallurgy) since 2002 and is also a member of the Association of Indonesian Professional Geologists (IAGI).

Figure 2: In-Country Technical Team (Management and External Consultants)



Source: PXR, Alpha Securities

1.4 Quality of Paser Project Coal and Recent Price Trends

1.4.1 Quality of Indonesian Coal

Export thermal coals in Indonesia are bituminous to sub-bituminous in quality, with widely varying ash, moisture, sulphur and volatile matter characteristics. In Indonesia, coal with calorific values in excess of 5,300 Kcal/kg is generally regarded as bituminous coals, while coal with calorific values of 4,100 to 5,300 Kcal/kg is classified as sub-bituminous coals. Table 1 outlines the typical coal quality specifications for Indonesian export thermal coals.

Table 1: Typical Coal Specifications for Indonesian Export Thermal Coals

	Unit	Basis	Bituminous Coals	Sub-Bituminous Coals
Total Moisture	%	arb	10 - 12	24 - 38
Ash Content	%	adb	2 - 12	1.5 - 7.5
Volatile Matter	%	adb	31 - 42	28 - 37
Total Sulphur	%	adb	0.10 - 0.95	0.07 - 0.90
Calorific Value	Kcal/Kg	adb	5300 - 6700	4100 - 5200

Source: World Coal Asia

The bituminous and higher calorific-value content sub-bituminous coals produced from Indonesia are typically supplied to export markets, while the lower calorific-value content sub-bituminous coals are supplied to both export and domestic markets. Most of the lowest rank sub-bituminous coals have gained acceptance in export markets due to their very low sulphur contents (typically <0.2%). Although Indonesian low-rank coal is typically low-to-very low in ash and sulphur content, total moisture contents are generally greater than 40%.

1.4.2 Quality of Paser Coal Compared to Indonesian Coal

The vendor’s analysis of nine samples indicates the presence of a high-quality coal, underpinned by high calorific values² averaging 6,841 Kcal/kg and ranging up to 7,692 Kcal/kg. One sample is from a bulk sample analysis from a 25,000t stockpile.

Table 2 summarises the results for the samples analysed to date. **These samples are to be validated by PXR during the due diligence phase.**

Table 2: Summary of Nine Coal Samples at Paser Project

	Unit	Basis	Range	Average
Total Moisture	%	arb	2.2 - 7.6	4.9
Inherent Moisture	%	adb	1.6 - 4.7	2.7
Ash Content	%	adb	2.7 - 30.4	12.7
Volatile Matter	%	adb	30.7 - 42.9	39.1
Fixed Carbon	%	adb	36.7 - 53.8	45.0
Total Sulphur	%	adb	0.5 - 2.5	1.2
Calorific Value	Kcal/Kg	adb	5473 - 7692	6841

arb - dried basis adb – air dried basis

Source: Coal Samples Provided by Vendor to PXR

The sample results for Paser coal (outlined in Table 2) indicate that it compares favourably with the figures for typical Indonesian bituminous coal. In particular:

- The average calorific value (6.841 Kcal/kg) is well in excess of the 5,300 – 6,700 Kcal/kg range for typical Indonesian bituminous coal;
- Total Moisture content for Paser coal is well below the range of 10-12% for typical Indonesian bituminous coal and
- The ash content is slightly above range.
- The majority of coal samples had sulphur content within range for typical Indonesian bituminous coal.

² Calorific value is defined as the calories or thermal units contained in one unit of a substance and released when the substance is burned.

The sample results are also consistent with coal located in The Tanjung Formation, where coal calorific values can vary from ~6,000 kcal/kg to over 7,500 kcal/kg; ash content varies widely from 0.2% to 12% and total sulfur can vary from 0.2 to +3% adb.

Paser coal also compares favourably with the specifications for another cross reference 'benchmark' for thermal coal - the Rio Tinto thermal coal blend - illustrated in Table 3.

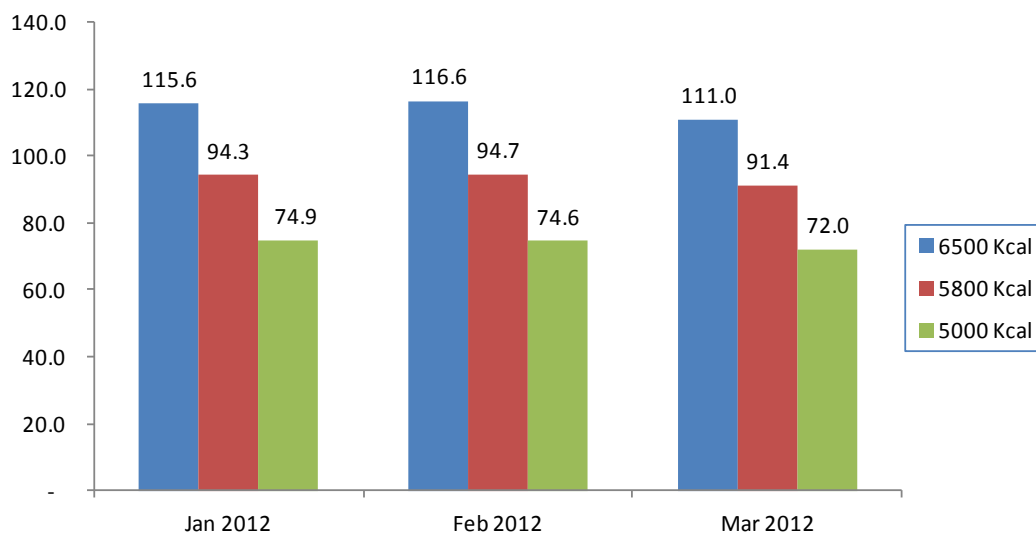
Table 3: Quality of Paser Coal vs Rio Tinto Thermal Coal Blend

	Unit	Basis	Paser Coal (Avg)	Rio Tinto Thermal Blend
Ash Content	%	adb	12.7	13.5
Total Sulphur	%	adb	1.2	0.55
Calorific Value	Kcal/Kg	adb	6841	6850

1.4.3 Pricing Indicators for Paser Coal

Recent coal prices for Indonesia coal, provided for 6,500 Kcal/kg grade is considered an appropriate reference price for Paser coal. Figure 3 below highlights to prices over the last three months for 6,500 Kcal/kg, 5,800 Kcal/kg and 5,000 Kcal/kg grades, respectively, and shows the benchmark for 6,500 Kcal coal as at March 2012 at US\$111/tonne.

Figure 3: Recent Prices for Indonesian Coal Grades (US\$/tonne)

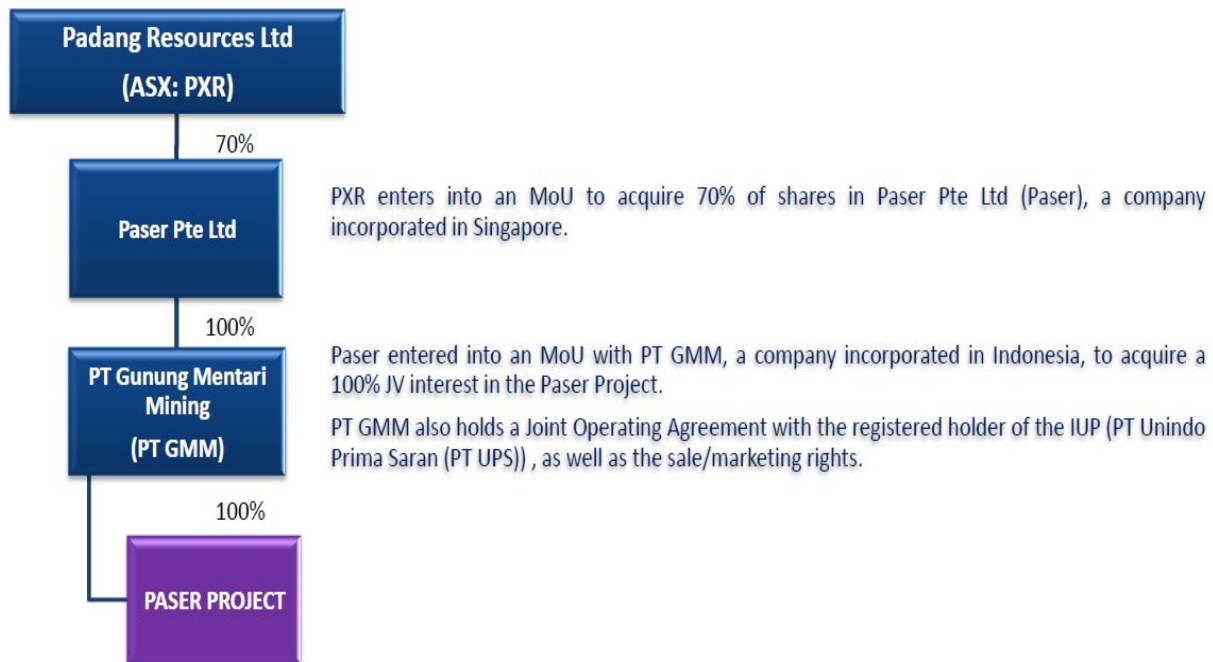


Source: Argus/Coalindo Indonesian Coal Index Report, 20 April 2012

1.4 Deal Structure

The acquisition of a 70% interest in the Paser Project will be effected by the acquisition of Paser Pte Ltd (Paser), who have entered into an MoU with PT GMM, a company incorporated in Indonesia, to acquire a 100% JV interest in the Paser Project. Paser will retain the remaining 30% interest in the Paser Project.

Figure 4: Deal Structure for PXR Proposed Acquisition of Paser Project



Source: PXR, Alpha Securities

1.5 Acquisition Terms

The total consideration payable by PXR's for its 70% interest in the Paser Project is ~A\$2.2 million (comprising scrip and cash and including royalties). This includes:

- a) The issue of 125 million fully paid ordinary PXR shares (subject to escrow period of 12 months) to Paser (@1c per share) valued at \$1.25 million.
The issue of these additional 125 million shares will give Paser a 26.5% shareholding in PXR. There are currently 346.7 million ordinary PXR shares on issue.
- b) Cash payment up to US\$0.35 million on completion of Due Diligence, reimbursing Paser's expenses in developing the project to date, and
- c) Cash payment of A\$0.6 million, to be paid to PT GMM as a royalty of US\$12/t from production. The payment is payable in three equal tranches of A\$0.2 million, on
 - i) Satisfactory completion of due diligence by PXR,
 - ii) Commencement of mining and
 - iii) First coal shipment.

The acquisition is subject to a number of conditions precedent, which must be satisfied or waived on or before 15 June 2012, and include the completion, to PXR's satisfaction, of financial and legal due diligence.

2. FUNDING AND COMPLETION OF OTCQX LISTING

The cash balance as at 31 December 2011 was \$1.85 million, assisted by a \$1.3 million placement completed in early November 2011 to sophisticated and professional investors. The balance sheet is debt free.

PXR's near-term cash requirement includes a cash payment of up to US\$0.35 million, on completion of due diligence into the Paser Project, reimbursing Paser's expenses in developing the project to date.

PXR has also completed its quotation on the OTCQX (OTCQX Code: PRRCY), which is designed to boost the company's ability to raise equity from markets outside Australia as well as potentially improving liquidity of PXR shares in Australia.

PXR have appointed Spartan Securities, a privately-held, full-service investment banking firm based in St Petersburg, Florida, as its sponsor for the OTCQX International application process. Spartan will also assist in introducing PXR to its extensive network of institutions and brokers in the US.

DIRECTORY – ALPHA SECURITIES

Corporate

George Karantzias

george@alphasecurities.com.au

0401 670 620

Research Analyst

John Haddad

john@alphasecurities.com.au

0407 219 222

Disclaimer

This report is not for distribution and is not directed to, nor intended for distribution or use by, any person or entity in any jurisdiction or country where the publication or availability of this report or such distribution or use would be contrary to local law or regulation.

This document has been prepared (in Australia) by Alpha Securities Pty Ltd ABN 94 073 633 664 ("Alpha"), who holds an Australian Financial Services License (License number 330757). Alpha has made every effort to ensure that the information and material contained in this report is accurate and correct and has been obtained from reliable sources. However, Alpha makes no representation and gives no warranties about the accuracy or completeness of the information and material, including any forward looking statements and forecasts made by Padang Resources Ltd to Alpha, and it should not be relied upon as a substitute for the exercise of independent judgment.

Except to the extent required by law, Alpha does not accept any liability, including negligence, for any loss or damage arising from the use of, or reliance on, the material contained in this report, or as a result of errors or omissions on the part of Alpha or by any of their respective officers, employees or agents.

This report is for information purposes only and is not intended as an offer or solicitation with respect to the sale or purchase of any securities. The securities recommended by Alpha carry no guarantee with respect to return of capital or the market value of those securities. There are general risks associated with any investment in securities. Investors should be aware that these risks might result in loss of income and capital invested. Neither Alpha nor any of its associates guarantees the repayment of capital.

This report and any communication transmitted with it are confidential and are intended solely for the use of the individual or entity to which they are addressed. If you have received this email in error please notify the sender. If you no longer wish to receive communication from Alpha, please contact Alpha requesting to be unsubscribed from future communications.

General Advice Warning

This report may contain general securities advice or recommendations, which, while believed to be accurate at the time of publication, are not appropriate for all persons or accounts. This report does not contain specific securities advice and does not take into account particular investment objectives, financial situation and needs of any particular person. You should carefully assess whether such information is appropriate in light of your individual circumstances before acting on it.

Disclosure

Alpha, its Directors and associates declare that they may have a relevant interest in the securities mentioned herein. This position can change at any time. Alpha also receives fees for advisory services.

Alpha does and seeks to do business with companies covered in its research reports and investors should be aware that Alpha received a consultancy fee from Padang Resources Ltd for compiling this research report.