27 June 2011

INTERSUISSE

# Kangaroo Resources (KRL)

## Up to 13Mt/yr coal in Indonesia

### 1 producing mine, 3 developments, more potential

**Important:** Intersuisse Limited has been commissioned by Kangaroo Resources to produce this report.
For disclosures see back page under “Important Information”

Price

**17.5c**

Valuation

**29c**

ASX / S&P Sector

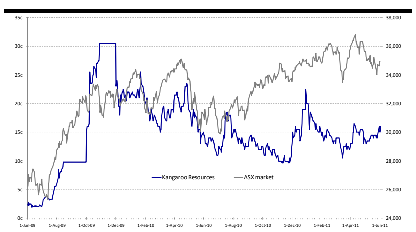
**Energy : Coal**

- **On 13 June, KRL shareholders approved the acquisition of the Pakar coal projects, with 442Mt Reserves of low energy thermal coal.**
- **KRL is now 56% owned by PT Bayan Resources**
- **KRL is producing coal, but with projects currently planned, KRL could be producing 13Mt/yr within 6 years.**
- **With over 3,000Mt in Resources, KRL has significant potential.**

### Snapshot

| | |
|---|---|
| Last Price | $0.175 |
| Market Cap. | $601 million |
| Shares on Issue | 3,434.4m |
| 52 Week High | $0.225 |
| 52 Week Low | $0.096 |

### Price Chart



On 1 June 2009, KRL announced that it had entered into an option to acquire 2 coal concessions in Kalimantan. Over the next 18 months, KRL announced the acquisition of a further 6 coal interests, culminating with Pakar.

The coals vary from low grade thermal coal to benchmark thermal coal to a semi-soft coking coal and hard coking coals.

It is projected that KRL could achieve production of 10Mt/yr by 2015, and 13Mt/yr by 2017.

There are significant risks in investing in KRL, especially as Indonesian Government spokesmen have spoken of banning the export of low grade thermal coals.

See www.kangarooresources.com/

*Analyst: Pieter Bruinstroop :*

### Outline

- KRL currently has 442Mt in Reserves, within 1,272Mt in Measured and Indicated Resources, in addition to Reserves.
- KRL also has 1,875Mt of Inferred Resources, plus further Exploration Targets.
- KRL is expected to reach production of 10Mt/yr by 2015 and up to 13Mt/yr by 2017, of equity coal, with significant further potential.
- KRL has a range of coal types, from low energy (and low ash and low sulphur) thermal coal, to metallurgical coals.

### Analysis

- Intersuisse’s base case valuation for KRL is 29c/share, and KRL has a portfolio of potentially valuable projects for which Intersuisse has given no value.
- In addition to commodity price risks, we highlight the following :
  - (i) KRL is 56% owned by Jakarta listed PT Bayan Resources Tbk which produced 11.9Mt of coal in 2010 and is targeting 13Mt – 14Mt in 2011;
  - (ii) a further 580m shares (nearly 17%) is held by vendors of assets and related parties while issued warrants can be converted into 128m shares at 13.3c;
  - (iii) KRL does not have an established operating track record; it has, to date, devoted its resources to new acquisitions;
  - (iv) The Indonesian Government is reported to be considering a decree that will ban the export of low grade coals from 2014, which is most, not all, of KRL’s sales, and about 90% of Intersuisse’s valuation, though PTBR in a joint venture to upgrade thermal coals.
- KRL does not require any further equity to execute its projects.

### Conclusion

There is significant potential, growth, value, as well as risk.

## Kangaroo Resources (KRL)

The predecessor company, Kangaroo Metals (KML), first listed on the ASX in April 2007 as an exploration company with interests in base and precious metals and also an iron ore tenement.

KML was suspended from ASX trading in the wake of the GFC and was re-capitalised in April 2009 with a new Board of Directors. In June 2009, KML announced the first of a series of Indonesian coal interests. It was re-named Kangaroo Resources in August 2009, with a new ASX code, KRL.

On 29 December 2010, KRL announced that it agreed to acquire a 99% interest in the Pakar thermal coal project, in Kalimantan, from PT Bayan Resources Tbk (PTBR), in exchange for a total of 2,305m shares.

These transactions were approved by Extraordinary General Meetings of PTBR on 7 June and KRL on 13 June 2011.

**KRL has concluded a company transforming deal through which KRL now has extensive coal interests in Kalimantan**

Figure 1 comes from the Independent Expert's Report (IER), at p.34, showing the impact of this transaction on KRL, showing that PTBR now owns 53.8% of KRL on a fully diluted basis (or 56.0% if the warrants are not exercised, at 13.3c per KRL share).

**Figure 1 : KRL shareholding structure**

| | Pre-Transaction | | Post-Transaction | |
|---|---|---|---|---|
| Total Shares on a diluted basis | No. of Shares | % | No. of Shares | % |
| Current Shareholders | 1,129,430,012 | 88.5% | 1,129,430,012 | 31.5% |
| Bayan Resources | - | - | 1,925,000,000 | 53.8% |
| Jedi Resources | - | - | 380,000,000 | 10.6% |
| Current warrantholders | 128,103,448 | 10.0% | 128,103,448 | 3.6% |
| Current optionholders | 18,500,000 | 1.4% | 18,500,000 | 0.5% |
| Total Shares on a diluted basis | 1,276,033,460 | 100% | 3,581,033,460 | 100% |

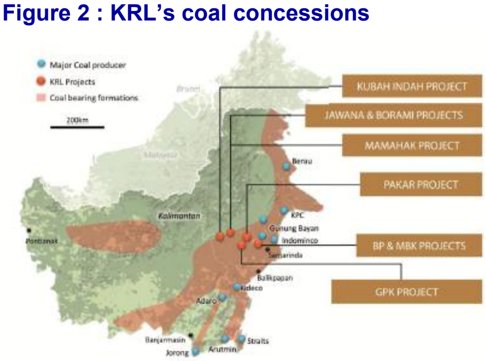
Source : Independent Expert's Report, 7 April 2011, p.34

Apart from an Exploration Lease prospective for iron ore in Queensland, KRL's assets are 3 coal developments in Kalimantan, as shown in Figure 2, plus 5 potential projects.

This shows that the geographical concentration of KRL's interests.

Figure 3 shows the details of the Reserves, Resources, and in some cases exploration targets, of KRL's projects / developments and also KRL's potential projects.

**Figure 2 : KRL's coal concessions**




Source : Kangaroo Resources Limited

It shows there are 4 projects with coking coal, while the rest are typical Indonesian thermal coal projects.

**KRL now has 442Mt of Reserves, plus a further 830Mt of Measured and Indicated Resources, excluding Reserves, plus 1,875Mt of Inferred Resources**

**Figure 3 : Reserves, Resources and coal quality, KRL's coal projects**

| | | Reserves | | Resources | | | Exploration | | Calorific Value | | other technial data | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | KRL Interest | Proven | Probable | Measured | Indicated | Inferred | Target | Coal type | as received | air dried | Sulphur | ash | T M | I M | CSN |
| PRODUCITON / DEVELOPMENT | | | | | | | | | | | | | | | |
| Mamahak | 100 % | | | 6.9 Mt | 3.1 Mt | 0.5 Mt | 25 - 40Mt | semi-soft coking | | 7,550Kcal/kg | 1.5 % | 7.6 % | 3.4 % | 1.7 % | 4.8 |
| G P K | 76.82 % | | | | 59 Mt | 58 Mt | | low rank thermal | 3,881Kcal/kg | | 0.18 % | 4.4 % | 40.1 % | 18.0 % | |
| Pakar | 99 % | 16 Mt | 426 Mt | 111 Mt | 1,092 Mt | 1,816 Mt | | low rank thermal | 3,209Kcal/kg | 5,208Kcal/kg | 0.19 % | 6.0 % | 47.2 % | 14.2 % | |
| POTENTIAL | | | | | | | | | | | | | | | |
| Jawana | 100 % | | | | | | 20 Mt - 40Mt | coking - thermal | | 7,500Kcal/kg | | | | | |
| Borami | 100 % | | | | | | | | | | | | | | |
| Kubar Indah | 100 % | | | | | | 100 - 140 Mt | coking | | 7,500 - 8,500 Kcal/kg | .5% - 0.8% | .4% - 12.7% | 5.0 % | 1.5 % | |
| M B K | 100 % | | | | | | 20 Mt - 30Mt | thermal | | 7,123Kcal/kg | 2.6 % | 6.3 % | | 7.4 % | |
| B P | 100 % | | | | | | | | | 7,260Kcal/kg | 2.8 % | 1.9 % | | 6.6 % | |
| TOTAL | | 16.0 Mt | 426 Mt | 118 Mt | 1,154 Mt | 1,875 Mt | 165Mt - 250Mt | | | | | | | | |

Source : various KRL announcements, Independent Expert's Report, Intersuisse

Figure 3 shows that the acquisition of the Pakar assets added 2,989Mt of equity resources (being 99% of 3,019Mt), including 442Mt of Reserves.

## KRL : Valuation

Figure 4 shows the detail of Intersuisse's indicative valuation of KRL, of 29c/share.

**Figure 4 : Detail of Intersuisse's valuation of KRL**

| discount rate = | 15% | 30 June 2010 | | | 24-Jun-11 |
|---|---|---|---|---|---|
| | | 100% | Product | per share | |
| Mamahak | | | | | |
| Measured Resources | 90 % | $A 110 m | $A 99 m | 2.8 c | 3.0 c |
| Indicated Resources | 80 % | $A 10 m | $A 8 m | 0.2 c | 0.3 c |
| Other mineralisation | 50 % | $A 5 m | $A 4 m | 0.1 c | 0.1 c |
| Pakar South | | | | | |
| Probable Reserves | 90 % | $A 129 m | $A 116 m | 3.2 c | 3.7 c |
| Pakar North | | | | | |
| Proven Reserves | 90 % | $A 52 m | $A 47 m | 1.3 c | 1.1 c |
| Probable Reserves | 80 % | $A 854 m | $A 683 m | 19.1 c | 18.8 c |
| G P K | | | | | |
| Indicated Resources | 70 % | $A 87 m | $A 61 m | 1.7 c | 1.9 c |
| Kubar Indah | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Jawana | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Borami | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| M B K | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| B P | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Mt Ruby Iron Ore | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Corporate | 100 % | ($A 39 m) | ($A 39 m) | (1.1c) | (1.1c) |
| Warrants, Equity raising | 100 % | $A 32 m | $A 32 m | 0.9 c | 0.3 c |
| Cash | 100 % | ($A 0 m) | ($A 0 m) | (0.0c) | 1.2 c |
| TOTAL | | $A 1,239 m | $A 1,010 m | 28.2c | 29.3c |
| Shares on issue | | 3434.4m | FPO shares | 18.5m | options |
| Shares to be issued | | 128.1m | warrants | 0.0m | new shares |

Source : Intersuisse estimates

There are many points to note about Intersuisse's valuation:

- Intersuisse has applied a discount rate of 15% on the after-tax cashflows;
- Intersuisse has made its own estimates of capital costs and timing of the 4 projects, each estimate is potentially subject to significant error;
- Intersuisse has made its own estimates of operating costs, sustaining capital expenditure and production rates for each operation, and each estimate is subject to potentially significant error. .

**Intersuisse's base case valuation of KRL is 29c a share.**

**Of which Pakar is over 25c a share**

KRL has 18.5m options on issue, all of which have exercise dates in September 2012.

In this valuation, Intersuisse has assumed that the 10.0m options with exercise prices of 5c and 10c are exercised, while those options with exercise prices of 25c, 35c and 50c are not exercised.

The present value of the cash to be received from option exercises and warrants is included in the amount for "Warrants, equity raised".

In this valuation, Intersuisse has conceptualised the Pakar project as 2 separate mining areas as Pakar covers a large area and has significant resources; even though it is only one project, it may be 2 or more mining operations.

Intersuisse's valuation is dominated by Pakar. Pakar produces a low grade coal. An Indonesian Government has been reported as proposing to ban the export of low grade coals from 2014. The motivation may be to ensure sufficient coal for domestic needs, as Indonesia has proposed rules to set aside a proportion of coal for local consumption. .

**An Indonesian Government spokesman has been reported as saying that Indonesia is considering a decree to ban the export of low grade thermal coal from 2014**

KRL's majority owner, PT Bayan Resources, is in a joint venture with White Energy (WEC.ASX) to upgrade coals by flash drying, which may provide a means to allow these coals to continue to be exported.

However, we cannot know

- If this proposed rule will be proclaimed and brought into law, and if so whether that might be done in 2014 or later; and
- If it is, how much of the potential value generated by the upgrading of the low grade coals will be captured by the technology providers, how much by the upgrading operations and how much by the coal suppliers.

**This would cover most, but not all, of KRL's sales**

Intersuisse is not able to estimate whether designated domestic sales will be at a lower value than export sales; this might be the case, but we have not made any allowance for this further discount.

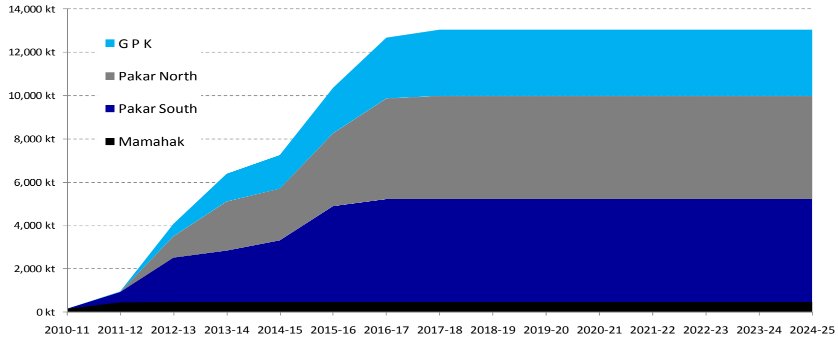
Figure 4 also shows 5 Indonesian projects, which are included in Figure 3, for which Intersuisse has given no value. For some, there is a dispute over title, which relates to title administration.

Also, Intersuisse has not given any value for KRL's Mt Ruby iron ore project in Queensland.

## Mine production

The key to the valuation of KRL is the timing and the volume of coal produced. Figure 5 shows Intersuisse's estimated coal sales volumes for KRL.

**Figure 5 : Projected coal sales for KRL.**




**KRL has one small producing mine, ramping up to 500kt/yr, but KRL expects to produce more than 10Mt in 2015**

Source : Intersuisse estimates

Figure 6 is a table of some of the data in Figure 5, showing Intersuisse's projections for capital costs and project timing, as well as summary cash costs for each of KRL's projects.

**Figure 6 : Project capital and operating costs and project timing assumed by Intersuisse**

| | Mamahak | Pakar South | Pakar North | G P K |
|---|---|---|---|---|
| KRL equity | 100 % | 99 % | 99 % | 77 % |
| Project Cap.Ex | | | | |
| Total | $A 50 m | $A 80 m | $A 80 m | $A 65 m |
| Still to spend | $A 0 m | $A 10 m | $A 20 m | $A 65 m |
| First Coal | Dec. 10 | Dec. 11 | Sep. 12 | Jun. 12 |
| C H P P yield | 100% | 100% | 100% | 100% |
| Product Coal | 480 kt | 4,800 kt | 4,800 kt | 3,960 kt |
| Mine site cash cost | $A 46/t | $A 17/t | $A 22/t | $A 18/t |
| Total Cash Costs | $A 64/t | $A 31/t | $A 33/t | $A 26/t |
| Net Revenue | US$ 118/t | US$ 38/t | US$ 40/t | US$ 38/t |

**Intersuisse has modelled KRL's operations as though KRL has 4 mines**

Source : Intersuisse estimates

Note that, due to the low ash levels, there is no washing required and hence run of mine coal is the same as product. The main drivers of the differing operating costs are :

- Trucking distance to barge port;
- Waste : ore ratio; and
- A small impact from the scale of operation.

## Coal pricing

Figure 3 showed that the coal quality for each project was less than benchmark quality. Intersuisse has observed that, over the last 12 months or so, the discount of lower quality coals to relative benchmark has narrowed. Figure 7 details Intersuisse's estimated revenue for each of KRL's coals.

**Intersuisse has estimated KRL's revenue by a net back from benchmark for logistics, finance, transport, holding and marketing costs**

**Figure 7 : Detail of Intersuisse's estimated revenue for each of KRL's coals**

| | Mamahak | Pakar South | Pakar North | G P K |
|---|---|---|---|---|
| Benchmark price | US$ 173/t | US$ 110/t | US$ 110/t | US$ 110/t |
| Barge Loading | US$ 5.0/t | US$ 3.5/t | US$ 3.5/t | US$ 3.5/t |
| Barge to tans-ship | 270 km | 200 km | 200 km | 220 km |
| | **10.0c/t-km** | 10.0c/t-km | 10.0c/t-km | 10.0c/t-km |
| Ship loading | US$ 7.5/t | US$ 7.5/t | US$ 7.5/t | US$ 7.5/t |
| P T Bayan fee | US$ 7.5/t | US$ 3.5/t | US$ 3.5/t | US$ 3.5/t |
| Freight penalty | US$ 0/t | US$ 12.5/t | US$ 10.0/t | US$ 10/t |
| Sulphur penalty | 5.0 % | | | |
| Moisture penalty | | 23 % | 23 % | 23 % |
| **REALISED PRICE** | **US$ 118/t** | **US$ 38/t** | **US$ 40/t** | **US$ 39/t** |

Source : Intersuisse estimates

Intersuisse has allowed a fee for PT Bayan, in addition to logistics costs as PT Bayan pays KRL when coal is put into barge-port stock. KRL suffered when the river levels were too low for barging through most of 2010. PT Bayan now takes this risk, along with the associated penalty for irregular delivery, and Figure 7 shows Intersuisse's allowance of a fee paid to PTBR for doing this.

## Valuation Sensitivity and Risks

**Intersuisse's valuation is moderately sensitive to the discount rate chosen, which is 15% on the real, after tax net cashflows**

Figure 4 showed the detail of Intersuisse's valuation of KRL of 29c a share. Figure 8 shows the sensitivity of this valuation to differing asset risk factors and also discount rates. It shows that the valuation is not highly sensitive to the discount rate used.

### Figure 8 : discount rate and risk

| | 12 % | 15 % | 18 % |
|---|---|---|---|
| High Risk | 28.8 c | 24.1 c | 20.7 c |
| Base Case | 35.1 c | **29.3 c** | 25.0 c |
| Low Risk | 38.3 c | 31.9 c | 27.2 c |
| Un-risked | 41.5 c | 34.5 c | 29.4 c |

Source : Intersuisse estimates

**There is also significant potential value from successful project execution**

It also shows that there is significant potential value from successful project execution.

Figure 9 shows that Intersuisse's valuation is sensitive to the coal prices assumed, but not very sensitive to the AUD-USD rate assumed.

### Figure 9a : coal prices and AUD-USD rate

| AUD \ Coal prices | High | Base | Low | Spot |
|---|---|---|---|---|
| 1.045 | 38.3 c | 27.0 c | 15.7 c | 30.3 c |
| 0.950 | 41.7 c | **29.3 c** | 16.8 c | 32.9 c |
| 0.855 | 46.0 c | 32.1 c | 18.3 c | 36.2 c |
| 1.000 | 40.9 c | 28.8 c | 16.6 c | 32.2 c |

Source : Intersuisse estimates

### Figure 9b: coal prices used

| Coal prices | High | Base | Low | Spot |
|---|---|---|---|---|
| Thermal | US$ 132/t | US$ 110/t | US$ 88/t | US$ 120/t |
| Semi-soft | US$ 189/t | US$ 158/t | US$ 126/t | US$ 180/t |

Source : Intersuisse estimates

**Intersuisse's valuation is also sensitive to coal prices assumed**

## Other Risks

In addition to commodity risks, Intersuisse highlights the following :

- KRL is 56% owned by the Jakarta listed PT Bayan Resources Tbk;
- a further 580m shares is held by vendors of assets and related parties while issued warrants can be converted into 128m shares at 13.3c;
- KRL does not have an established operating track record, partly because it has devoted its resources to new acquisitions;
- The Indonesian Government is reported to be considering a decree that will ban the export of low grade coals from 2014, which is most, not all, of KRL's sales, and about 90% of Intersuisse's valuation.

The last of these points is potentially the most serious risk. While coal producers have said to us that the decree will not happen, we would have said the same about the Rudd super tax in April 2010.

**The major risk, in Intersuisse's view, is if the Indonesian Government issues a decree banning he export of low grade thermal coal, which is most, but not all, of KRL's business**

PTBR is in a joint venture with White Energy (WEC.ASX) in a plant to upgrade coals, using pressure and heat. If this works and the coals can be upgraded, we are not able to say what the cost will be and consequently the loss in margin.

## Conclusions

Figure 10 shows Intersuisse's projected operating profits for KRL.

### Figure 10 : Intersuisse's projected financial outcomes for KRL

| Kangaroo Rersources | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Coal Sold | 168 kt | 962 kt | 4,080 kt | 6,387 kt | 7,247 kt | 10,353 kt | 12,660 kt | 13,026 kt | 13,026 kt | 13,026 kt |
| Revenue | $A 19.3 m | $A 76.9 m | $A 207.7 m | $A 318.7 m | $A 373.1 m | $A 523.1 m | $A 561.0 m | $A 576.0 m | $A 576.0 m | $A 576.0 m |
| Total Cash Costs | $A 10.2 m | $A 44.3 m | $A 134.5 m | $A 191.6 m | $A 221.0 m | $A 310.9 m | $A 373.0 m | $A 391.4 m | $A 401.6 m | $A 410.0 m |
| Corporate | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m |
| Dep'cn & Amort'sn | $A 0.9 m | $A 2.6 m | $A 4.4 m | $A 5.7 m | $A 6.2 m | $A 7.9 m | $A 9.2 m | $A 9.5 m | $A 9.5 m | $A 9.5 m |
| E B I T | ($A2.3 m) | $A 23.9 m | $A 62.7 m | $A 115.4 m | $A 139.8 m | $A 198.3 m | $A 172.7 m | $A 169.1 m | $A 158.9 m | $A 150.5 m |
| Interest | ($A1.1 m) | ($A3.5 m) | ($A3.0 m) | ($A2.9 m) | ($A3.5 m) | ($A4.2 m) | ($A4.9 m) | ($A5.6 m) | ($A6.0 m) | ($A6.0 m) |
| Tax Expense | $A 2.4 m | $A 7.5 m | $A 17.2 m | $A 29.6 m | $A 35.8 m | $A 50.6 m | $A 44.4 m | $A 43.7 m | $A 41.2 m | $A 39.1 m |
| N P A T | ($A3.7 m) | $A 20.0 m | $A 48.5 m | $A 88.7 m | $A 107.5 m | $A 151.8 m | $A 133.2 m | $A 131.0 m | $A 123.7 m | $A 117.4 m |
| e .p.s | (0.1c) | 0.6 c | 1.4 c | 2.5 c | 3.0 c | 4.3 c | 3.7 c | 3.7 c | 3.5 c | 3.3 c |

Source : Intersuisse estimates

There are significant risks, there is also significant reward and upside potential.

## Kangaroo Resources (KRL) : Introduction

KRL listed on the Australian Stock Exchange in April 2007 as a mining and exploration company. The Company focussed on both base and precious metals exploration and the 17 tenements held by Kangaroo Resources in Australia have a combined land area of 2,955 $km^2$ in the historically mineral rich and polymetallic regions of north Queensland.

In 2008 Kangaroo Resources (then trading as Kangaroo Metals Limited) was suspended from trading on the ASX due to cash flow difficulties associated with the underlying global financial crisis.

**KRL listed in 2007 as an explorer for base and previous metals**

In early 2009 KRL was recapitalised with a new Board of Directors. The strong links this Board had to significant Indonesian partners gave rise to opportunities in that region and the Company refocused on exploring and leveraging off these relationships. The Company was renamed Kangaroo Resources Limited in August 2009 and at the same time brought in several exciting coal projects.

**KRL was re-capitalised with a new Board in 2009 and has since focussed on Indonesian coal**

KRL still maintains its ownership of some of the original Australian assets, and plans to enhance value within these for its shareholders over time, in some cases by outright sale, in others by farming down. .

## KRL in Indonesia

KRL announced its first Indonesian acquisition on 1 June 2009, which was to farm in to 2 coal concession owned by a private Australian company, Alexis Minerals. The coal concessions were Bara Pratama (BP) and Mitra Bara Karya (MBK). KRL has secured options on these projects, but is yet to seek shareholders' approval.

This was followed, on 30 September 2009, by the acquisition of an 84.82% interest in PT Graha Panca Karsa (GPK). The terms were to pay US$ 2.0m up-front and spend up to US$ 8.0m on development costs. In addition, KRL paid a fee of 150m KRL shares to the consultant which brought the project to KRL.

Progress on GPK has been delayed by :

- Re-focussing resources on Mamahak; and
- Receiving corporate interest, which was assessed for some time, before finally being rejected.

**KRL announced the acquisition of interests in 8 different coal projects between June and December 2009.**

On 2 November, 2009, KRL announced the acquisition of 4 more projects, subject to shareholder approval :

- 100% of Kubar Indah coking coal project;
- 45% of Tanur Jaya thermal coal project;
- 100% of Jawana coking coal project; and
- 100% of Borami coking coal project.

The fee for this acquisition was US$ 15m, for the acquisition of 45% of Tanur Jaya, plus 185m KRL shares for the balance. This is now being reviewed in light of the Pakar transaction and Kubar Indah title issue.

Shareholder approval for the acquisition of the projects other than Tanur Jaya has yet to be sought, due to the subsequent Pakar deal, while Tanur Jaya is also held up by a dispute over title. .

On 16 December 2009, KRL announced the acquisition of 85% of the Mamahak coking coal project from the TSX listed South Gobi Energy Resources. The fee paid to SGER for this acquisition was $A 1m plus 50m KRL shares.

On 9 February 2010, KRL announced that it had begun production at Mamahak. However, due to low river levels, the coal that had been sold could not be shipped until November 2010.

 See Page 24 for Disclaimer and Disclosures 

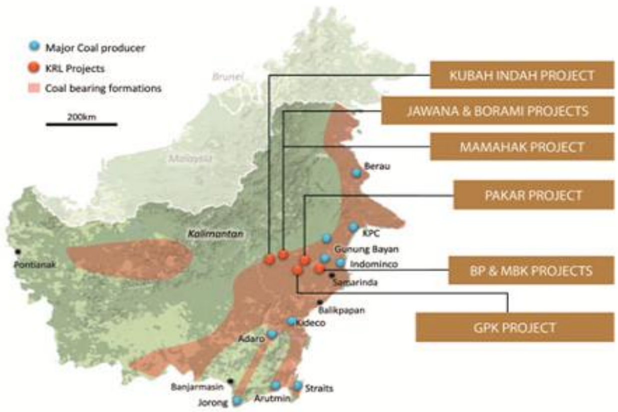
On 29 December 2010, KRL announced the acquisition of Pakar, which was approved by a General Meeting of KRL shareholders on 13 June 2011. The acquisition cost was

- The issue of 1,925m KRL shares to PT Bayan Resources, giving PTBR about 56% of KRL; plus
- The issue of 380m KRL shares to Jedi Resources as a consulting fee.

**In December 2010, KRL announced a deal with PTBR on the Pakar coal project.**

As Figure 11 shows, all of these projects are co-located, and all are serviced by the Mahakam River.

**Figure 11 : KRL's Indonesian projects**




Source : Kangaroo Resources

## Operating in Indonesia

Under the new law, Mining Business Licenses (IUP s) are to be divided into two groups Exploration (valid for 7 years for coal projects) and Production Operation valid for 20 years, extendable to 40 years in 10 year increments. The ultimate issuing authorities for the IUP s are the relevant Regional Government.

Indonesian forests span more than 176m ha of land, 80% containing mineral or coal resources.

A vast majority of mineral and coal resources lie under "secondary forest" areas and therefore will not be affected by the recent implementation of the forestry moratorium (which will only prevent the conversion of primary forests and peatlands).

**Indonesia has recently introduced new mining laws**

To obtain the required land-use titles, investors will need to secure recommendations from provincial governments (governors) or regencies (mayors). Each approving authority may take six months to approve, before the official review on the applications (which may take another 3-6 months).

The Forestry Minister emphasised the priority of state-owned or domestic companies in exploiting natural resources, even though he acknowledged that the resource sector is open for foreign investments. Currently, less than 40% of mining operations are operated with the proper forestry permits.

There exist 4,000 IUP permits (3,000 in Kalimantan and 1,000 in Sumatra), but only 230 (200 in Kalimantan and 30 in Sumatra) are in operation.

The company tax rate is 25%.

Under the new mining leases, the royalty rate is 7% for metallurgical coals, 5% for high grade thermal coal and 3% for low quality thermal coals, compared with 13.5% under CCoW.

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## Foreign Ownership

The new Mining Law requires foreign companies to divest a 20% stake to Indonesian investors after 5 years of production.

Prior to the new mining law, of 2010, the only project in which KRL held direct equity was Mamahak. For the others, KRL extended loan funds to its Indonesian partners to work on the projects. The loans were secured by exchangeable bonds, which can be exchanged into equity.

Framework agreements give KRL all mining rights to these projects as well as the right to convert these positions to full equity when possible. KRL is now able to move to full equity positions.

## Local Supply

**It has been reported in the media that Indonesia requires local needs for metals and minerals to be met and is considering mandating proportion set each year from each mine**

Reuters reported, on 13 January 2010, that Indonesia has imposed a requirement for metal and coal miners to set aside a certain amount of their production for domestic needs. This percentage will be calculated based on total domestic consumption of coal or minerals, divided by the total production of coal or minerals.

Coal miners can export their products as long as they are able to meet the minimum percentage, according to the document. The document also said another minimum domestic sales percentage, which has been set before the decree was issued and included in the 2010 plan, would continue to be effective.

The government has earlier set domestic coal consumption at 75 million tonnes for this year, or about 30 percent of 2010 coal production estimated at 250 million tonnes.

## Upgrading

On 3 March 2011, the following was reported :

> " From 2014 onwards, we will only export value-added coal of more than 5,600 kilocalories (kcal)," Djunaedi, deputy director of oil, gas and mine products at Indonesia's Ministry of Trade, said on the sidelines of the ninth Annual Coal Markets Conference."

There has, however, been little information to suggest the authority of this statement; whether it was a firm statement of Government intent or something to be considered.

It has been very strongly presented to Intersuisse by companies operating in Indonesia, not just KRL, that this is just an idea and that it will not happen.

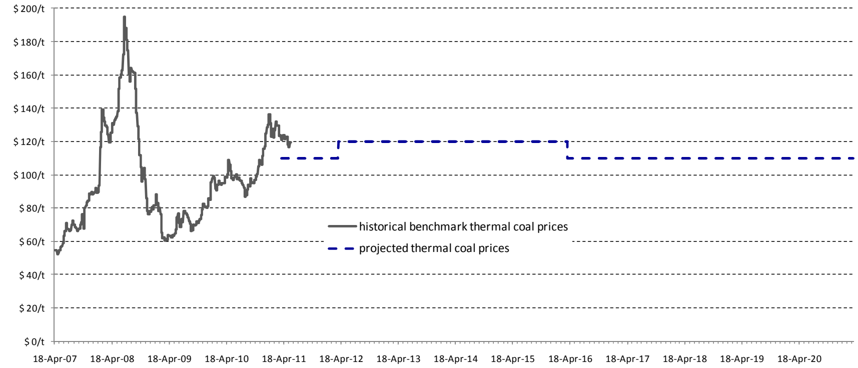
Intersuisse is unable to say and presents it as a risk.

## Coal Pricing

Figure 12 shows that Intersuisse's projected benchmark thermal coal prices are little different from flat at slightly below current prices.

**Intersuisse's projected coal prices are for a small discount to current levels**

**Figure 12 : Intersuisse's projected benchmark thermal coal prices**




Sources : GlobalCoal.com, Intersuisse

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**An international market is developing for low grade coals due to the comparative availability of low grade coals and the increasing scarcity of the traditional benchmark coals**

Most Indonesian coals are low grade and have sold at significant discounts to the energy equivalent, despite generally low levels of ash and delirious elements. However, due to supply constraints of benchmark quality coal, including emerging Australian production, the coal market is accepting lower grade coals, as shown by the following Reuters article of 5 June 2011 :

> " Korean utility sources, who could not be named as they were not authorised to talk to the media, said Indonesian coal imports were projected to rise as upcoming thermal power plants are designed to use low-calorific coal. "With the expectation for rising supply of low-calorific coal from Indonesia, new plants have been designed for low calorific coal use. If they are completed, Indonesian coal imports are projected to rise above 50 percent of the total," a third utility source said.

Intersuisse notes the potential conflict between the 2 Reuters quotes.

In estimating the coal prices received for each project, Intersuisse started from the benchmark and then made adjustments for coal quality and also for marketing costs.

Figure 13 shows Reserves and Resources for each coal and also coal quality.

**KRL now has 442Mt of Reserves, plus a further 830Mt of Measured and Indicated Resources, excluding Reserves, plus 1,875Mt of Inferred Resources**

## Figure 13 : KRL Reserves and Resources and coal quality

| | | Reserves | | Resources | | | Exploration | | Calorific Value | | other technial data | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Project | KRL Interest | Proven | Probable | Measured | Indicated | Inferred | Target | Coal type | as received | air dried | Sulphur | ash | T M | I M | CSN |
| **PRODUCITON / DEVELOPMENT** | | | | | | | | | | | | | | | |
| Mamahak | 100 % | | | 6.9 Mt | 3.1 Mt | 0.5 Mt | 25 - 40Mt | semi-soft coking | | 7,550Kcal/kg | 1.5 % | 7.6 % | 3.4 % | 1.7 % | 4.8 |
| G P K | 76.82 % | | | | 59 Mt | 58 Mt | | low rank thermal | 3,881Kcal/kg | | 0.18 % | 4.4 % | 40.1 % | 18.0 % | |
| Pakar | 99 % | 16 Mt | 426 Mt | 111 Mt | 1,092 Mt | 1,816 Mt | | low rank thermal | 3,209Kcal/kg | 5,208Kcal/kg | 0.19 % | 6.0 % | 47.2 % | 14.2 % | |
| **POTENTIAL** | | | | | | | | | | | | | | | |
| Jawana | 100 % | | | | | | 20 Mt - 40Mt | coking - thermal | | 7,500Kcal/kg | | | | | |
| Borami | 100 % | | | | | | | | | | | | | | |
| Kubar Indah | 100 % | | | | | | 100 - 140 Mt | coking | | 7,500 - 8,500 Kcal/kg | .5% - 0.8% | .4% - 12.7% | 5.0 % | 1.5 % | |
| M B K | 100 % | | | | | | 20 Mt - 30Mt | thermal | | 7,123Kcal/kg | 2.6 % | 6.3 % | | 7.4 % | |
| B P | 100 % | | | | | | | | | 7,260Kcal/kg | 2.8 % | 1.9 % | | 6.6 % | |
| **TOTAL** | | 16.0 Mt | 426 Mt | 118 Mt | 1,154 Mt | 1,875 Mt | 165Mt - 250Mt | | | | | | | | |

Source : various KRL announcements, Independent Expert's Report, Intersuisse

Marketing costs arise for KRL as KRL, for Mamahak and Pakar, and Intersuisse has assumed for all other projects, is paid 70% when coal is delivered to the stockpile at the barge port, with the final 30% paid when the coal is loaded onto a barge. . These costs include :

- Loading a barge to be moved down the Mahakam River to a point where it can be loaded onto an ocean going vessel;
- Barging down the Mahakam River;
- Unloading the barge and then loading the ocean going vessel;
- Financing as the coal is paid for, 70% when it is put on the stockpile and the balance when it is loaded onto a barge for riverine transport, even when the river does not allow shipment;
- Sales cost for negotiating the sale with the customer and receiving payment.

There is also value as PT Bayan allows for more regular shipments so sales are not subject to a penalty associated with irregular, unreliable supply.

Figure 14 shows the derivation of Intersuisse's estimated coal value for each of KRL's projects.

**Intersuisse has estimated KRL's revenue by a net back from benchmark for logistics, finance, transport, holding and marketing costs**

## Figure 14 : Intersuisse's estimates of value of KRL's coals

| | Mamahak | Pakar South | Pakar North | G P K |
|---|---|---|---|---|
| Benchmark price | US$ 173/t | US$ 110/t | US$ 110/t | US$ 110/t |
| Barge Loading | US$ 5.0/t | US$ 3.5/t | US$ 3.5/t | US$ 3.5/t |
| Barge to tans-ship | 270 km | 200 km | 200 km | 220 km |
| | 10.0c/t-km | 10.0c/t-km | 10.0c/t-km | 10.0c/t-km |
| Ship loading | US$ 7.5/t | US$ 7.5/t | US$ 7.5/t | US$ 7.5/t |
| P T Bayan fee | US$ 7.5/t | US$ 3.5/t | US$ 3.5/t | US$ 3.5/t |
| Freight penalty | US$ 0/t | US$ 12.5/t | US$ 10.0/t | US$ 10/t |
| Sulphur penalty | 5.0 % | | | |
| Moisture penalty | | 23 % | 23 % | 23 % |
| **REALISED PRICE** | **US$ 118/t** | **US$ 38/t** | **US$ 40/t** | **US$ 39/t** |

Source : Intersuisse estimates

**Mamahak is currently in operation, and KRL is ramping up to 500kt/yr**

## Mamahak

Mamahak is presently KRL's only producing mine.

The acquisition of an 85% interest in Mamahak was announced on 16 December 2009. It was acquired from TSX listed South Gobiu Energy Resources for 50m KRL shares and $1m cash. The other 15% held by a local Indonesian partner, which has since sold that stake to KRL for $1, to settle a range of matters.

Mamahak comprises 4 IUPs, but only one has enough drilling to estimate a Resource.

The acquisition included a 30kt stockpile and a substantial amount of exposed coal ready for mining. As a result, while Mamahak was the 8th acquisition announced, it was the first project to produce saleable coal.

However, due to low river levels, even small barges were not able to be loaded for most of 2010. Barging re-commenced on 26 October 2010.

Figure 15 shows the location of Mamahak in Kalimantan.

Geologically, Mamahak is described as the northern limb of a steeply dipping syncline. It is structurally complex with many seams, in thickness from 6cm to 160cm, in measures 30cm to 170cm.

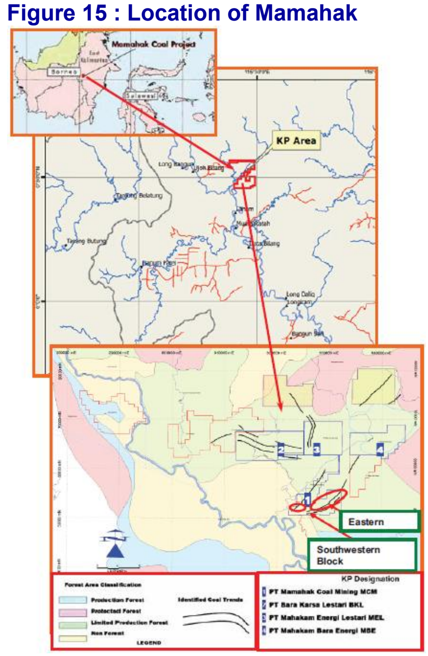
The strip ratio is 10 – 12.

There is a 34km haul road to limited barge port that allows only 2,000t each load.

There is potential to build a new, longer, road that would lead to a section of the river that would allow 8,000t barges. It would take 4 months to build the new road.

However, since the original purchase of Mamahak, as KRL has altered its sales arrangements so that it now receives payment when coal is placed on a stockpile.

**Figure 15 : Location of Mamahak**




Source : IER, April 2011,

The infrastructure is capable of 1.5Mt/yr. KRL originally targetted 30kt a month, or 350kt a year, but are now seeking to produce 40kt a month, or 500kt/yr.

Figure 16 shows some of the operations at Mamahak, with Figure 14a showing the trucking fleet

**Figure 16a : Mamahak truck fleet**

Source : KRL 17 March 2011 ASX announcement

**Figure 16b : Coal stock at barge port**

Source : KRL 25 March 2011 ASX announcement

As shown in Figure 14, Intersuisse is confident that the CSN and high fixed carbon make this a suitable coking coal though it will be penalised for its S levels.

We have assumed it will be sold as a semi-soft coal, though the swell is higher than the typical semi-soft.

**Mamahak produces a coking coal.**

**Intersuisse has priced this against semi-soft coals, though the CSN is high for a semi-soft, but we do have the CSR**

**Mamahak is penalised for its S levels**

**Figure 16c : Barge loading at Mamahak**

Source : KRL 25 March 2011 ASX announcement

If we knew the CSR value, then we might be able to be persuaded that it could be sold as a semi-hard coal.

In the December quarter, KRL reported sales of 9,882t for $828k, or $84/t, while the benchmark price for High Quality Hard Coking Coal when the sale was announced was $129/t.

Figure 17 shows the operational costs estimated by Intersuisse for Mamahak.

At 500kt/yr, the Measured and Indicated Resources support a mine life of nearly 20 years. While the data in Figure 18 indicates a total cash cost, including royalties, of around $A 62/t, the estimated average cost over the mine life is $A 64/t.

**Figure 17 : Intersuisse's estimated operational data for Mamahak**

| MAMAHAK, 100% | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| ROM Coal | 168 kt | 468 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt |
| Product Coal | 168 kt | 468 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt |
| Overburden | 1.7M bcm | 4.7M bcm | 4.9M bcm | 5.0M bcm | 5.1M bcm | 5.2M bcm | 5.3M bcm | 5.4M bcm | 5.5M bcm | 5.6M bcm |
| Strip ratio | 10.0: 1 | 10.1: 1 | 10.3: 1 | 10.5: 1 | 10.7: 1 | 10.9: 1 | 11.1: 1 | 11.3: 1 | 11.5: 1 | 11.7: 1 |
| Overburden removal | $A 5.7 m | $A 15.0 m | $A 15.5 m | $A 15.9 m | $A 16.3 m | $A 17.2 m | $A 17.6 m | $A 17.9 m | $A 18.2 m | $A 18.4 m |
| AUD/ t ROM coal | $A 33.7/t | $A 32.1/t | $A 32.2/t | $A 33.1/t | $A 33.9/t | $A 35.8/t | $A 36.7/t | $A 37.3/t | $A 37.8/t | $A 38.4/t |
| Coal mining | $A 0.5 m | $A 1.2 m | $A 1.3 m | $A 1.3 m | $A 1.3 m | $A 1.3 m | $A 1.3 m | $A 1.3 m | $A 1.3 m | $A 1.3 m |
| AUD/ t ROM coal | $A 3.2/t | $A 2.6/t | $A 2.6/t | $A 2.6/t | $A 2.6/t | $A 2.7/t | $A 2.7/t | $A 2.7/t | $A 2.7/t | $A 2.7/t |
| CHPP - crush & screen | $A 0.3 m | $A 0.7 m | $A 0.8 m | $A 0.8 m | $A 0.8 m | $A 0.8 m | $A 0.8 m | $A 0.8 m | $A 0.8 m | $A 0.8 m |
| AUD/ t ROM coal | $A 2.0/t | $A 1.6/t | $A 1.6/t | $A 1.6/t | $A 1.6/t | $A 1.6/t | $A 1.6/t | $A 1.6/t | $A 1.6/t | $A 1.6/t |
| Admin / Overhead | $A 0.6 m | $A 1.4 m | $A 1.4 m | $A 1.4 m | $A 1.4 m | $A 1.5 m | $A 1.5 m | $A 1.5 m | $A 1.5 m | $A 1.5 m |
| AUD/t product | $A 3.6/t | $A 3.0/t | $A 2.9/t | $A 3.0/t | $A 3.0/t | $A 3.0/t | $A 3.1/t | $A 3.1/t | $A 3.1/t | $A 3.2/t |
| Trucking to barge port | $A 1.1 m | $A 3.1 m | $A 3.2 m | $A 3.1 m | $A 3.1 m | $A 3.2 m | $A 3.2 m | $A 3.2 m | $A 3.2 m | $A 3.2 m |
| | 34 km | 34 km | 34 km | 34 km | 34 km | 34 km | 34 km | 34 km | 34 km | 34 km |
| AUD/t product | $A 6.5/t | $A 6.7/t | $A 6.6/t | $A 6.5/t | $A 6.4/t | $A 6.6/t | $A 6.6/t | $A 6.6/t | $A 6.6/t | $A 6.6/t |

Source : Intersuisse estimates

**Figure 18 : Intersuisse's estimated financial outcomes for Mamahak**

**Intersuisse projects that Mamahak will generate a very high rate of return, though the NPAT is only about $20m a year.**

| MAMAHAK, equity | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Benchmark | US$ 170/t | US$ 192/t | US$ 183/t | US$ 173/t | US$ 173/t | US$ 173/t | US$ 173/t | US$ 173/t | US$ 173/t | US$ 173/t |
| AUD / USD | 0.997 | 1.100 | 1.100 | 1.050 | 1.000 | 0.950 | 0.950 | 0.950 | 0.950 | 0.950 |
| Coal Sold | 168 kt | 468 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt |
| Sales price | US$ 115/t | US$ 135/t | US$ 126/t | US$ 118/t | US$ 118/t | US$ 118/t | US$ 118/t | US$ 118/t | US$ 118/t | US$ 118/t |
| Revenue | $A 20.8 m | $A 57.5 m | $A 55.2 m | $A 53.9 m | $A 56.4 m | $A 59.4 m | $A 59.4 m | $A 59.4 m | $A 59.4 m | $A 59.4 m |
| Mine Site cash costs | $A 7.1 m | $A 18.4 m | $A 18.9 m | $A 19.3 m | $A 19.8 m | $A 20.7 m | $A 21.1 m | $A 21.4 m | $A 21.7 m | $A 22.0 m |
| | $A 42.5/t | $A 39.3/t | $A 39.4/t | $A 40.2/t | $A 41.2/t | $A 43.1/t | $A 44.0/t | $A 44.6/t | $A 45.3/t | $A 45.9/t |
| Off-site cash costs | $A 3.1 m | $A 8.5 m | $A 8.5 m | $A 8.4 m | $A 8.6 m | $A 9.0 m | $A 9.0 m | $A 9.0 m | $A 9.0 m | $A 9.0 m |
| | $A 18.4/t | $A 18.3/t | $A 17.6/t | $A 17.5/t | $A 18.0/t | $A 18.7/t | $A 18.7/t | $A 18.7/t | $A 18.7/t | $A 18.7/t |
| Dep'cn & Amort'sn | $A 0.9 m | $A 2.4 m | $A 2.4 m | $A 2.4 m | $A 2.4 m | $A 2.4 m | $A 2.4 m | $A 2.4 m | $A 2.4 m | $A 2.4 m |
| E B I T | $A 9.7 m | $A 28.2 m | $A 25.4 m | $A 23.7 m | $A 25.6 m | $A 27.3 m | $A 26.9 m | $A 26.6 m | $A 26.3 m | $A 26.0 m |
| Interest | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m |
| Tax Expense | $A 2.4 m | $A 7.0 m | $A 6.3 m | $A 5.9 m | $A 6.4 m | $A 6.8 m | $A 6.7 m | $A 6.6 m | $A 6.6 m | $A 6.5 m |
| N P A T | $A 7.3 m | $A 21.1 m | $A 19.0 m | $A 17.8 m | $A 19.2 m | $A 20.5 m | $A 20.2 m | $A 19.9 m | $A 19.7 m | $A 19.5 m |
| Total Cap.Ex | $A 0.4 m | $A 1.2 m | $A 1.2 m | $A 1.2 m | $A 1.2 m | $A 1.2 m | $A 1.2 m | $A 1.2 m | $A 1.2 m | $A 1.2 m |

Source : Intersuisse estimates

## P. T. Bayan Resources (PTBR)

**Acquiring Pakar from PTBR, and becoming a subsidiary of PTBR, transforms KRL as a company**

The acquisition of the Pakar coal project(s) from PTBR in exchange for equity in KRL, is a company transforming deal :

- KRL becomes a major coal company with over 3,000Mt of resources and production expected to be 13Mt/yr by 2016, with significant further potential; and
- KRL becomes an ASX listed subsidiary of the Jakarta listed PTBR, which owns 56% of KRL.

Pakar is located adjacent with PTBR's existing Tabang mines, which have their own infrastructure.

KRL has informed Intersuisse that PTBR's motivation for the deal was :

- To have a greater than 50% stake so that PTBR is able to consolidate the results; and;
- leave KRL ASX listed.

**PTBR produced 11.9Mt of coal in 2010 and has 476Mt of reserves**

Pakar was originally owned by PT Ilthabi Bara Utama (IBU), which raised $100m in 2006 but has not been able to progress to development.

PTBR :

- has 1.0Bt Resources, as at 31 March 2008 (which is the most recent data on the company web-site), including 476Mt Reserves over 8 concessions;
- owns Balikpapan Coal Terminal, which has a capacity of 15Mt/yr, with barge loading to offshore CapeSize vessels;
- market cap 59,300B Rupiah (roughly $A 6,500m);
- produced 11.9Mt in 2010 and target 13Mt – 14Mt in 2011
- has 50% of pilot plant with White Energy Corporation to upgrade high total moisture coals, by "flash drying", which is air heated by burning the coals.

## Pakar

KRL announced the acquisition of an initial 45% interest in the Tanur Jaya concession on 2 November 2009. It was one of four interests announced. Figure 19 shows that TJ is one of the 9 concessions that make up the Pakar coal project.

**Pakar has over 3,000Mt of Resources.**

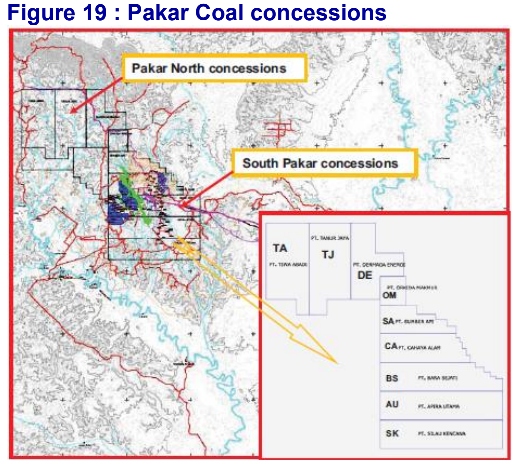
KRL later moved to a 49% interest, and then a 100% interest as part of the Pakar deal.

The acquisition of Pakar was announced on 29 December 2010, at a cost of 1,925m KRL shares to PT Bayan Resources and a further 380m KRL shares to Jedi Resources.

Pakar is located 150km inland, N-W of Samarinda, 40km from Senyuir River.

**Pakar covers 9 concessions, of which 7 have JORC resources, of over 3,000Mt**

**Figure 19 : Pakar Coal concessions**




Source : IER, April 2011

Figure 20 shows the geological data relating to each of the Pakar concessions as reported in the Independent Expert's Report, of April 2011.

**Figure 20 : Resources and Reserves and coal data for Pakar**

| Pakar | Reserves | | Resources | | | Calorific Value | | other technial data | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Concession | Proven | Probable | Measured | Indicated | Inferred | as received | air dried | Sulphur | ash | T M |
| **PAKAR NORTH** | | | | | | | | | | |
| Tanur Jaya | 16 Mt | 95 Mt | 59 Mt | 107 Mt | 131 Mt | 3,825Kcal/kg | 5,215Kcal/kg | 0.14 % | 6.9 % | 39.3 % |
| Demaga Energi | | 46 Mt | 52 Mt | 94 Mt | 41 Mt | 3,670Kcal/kg | | 0.13 % | 5.9 % | 42.4 % |
| **PAKAR SOUTH** | | | | | | | | | | |
| Silau Kencana | | 1 Mt | | 17 Mt | 43 Mt | 3,072Kcal/kg | | 0.11 % | 3.1 % | 49.5 % |
| Apira Utama | | 12 Mt | | 89 Mt | 303 Mt | 3,022Kcal/kg | | 0.14 % | 4.4 % | 48.4 % |
| Bara Sejati | | 63 Mt | | 467 Mt | 780 Mt | 3,025Kcal/kg | 5,230Kcal/kg | 0.11 % | 4.2 % | 48.7 % |
| Cahaya Alam | | 180 Mt | | 286 Mt | 467 Mt | 3,150Kcal/kg | | 0.15 % | 4.7 % | 44.6 % |
| Sumber Api | | 31 Mt | | 34 Mt | 95 Mt | 3,137Kcal/kg | | 0.13 % | 5.0 % | 46.3 % |
| **TOTAL** | 16.0 Mt | 428 Mt | 111 Mt | 1,094 Mt | 1,860 Mt | 3,178Kcal/kg | 5,228Kcal/kg | 0.13 % | 4.7 % | 46.3 % |

Source : IER, April 2011

Figure 20 shows, even on an air dried basis, the Pakar coals are low grade thermal coals the export of which could be banned; also the Pakar coals are low in ash and low in sulphur, and so can be blended with higher energy coals..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Intersuisse notes that the total of the Resources in Figure 20 is 3,065Mt, while KRL's 8 April ASX announcement advised a total resource for Pakar of 3,019Mt.

Given the size of the Resource and also the relative locations as shown in Figure 17, Intersuisse has treated Pakar as comprising 2 separate mines, at Pakar South and Pakar North. Intersuisse has assumed that Pakar South gets into production first as

**Intersuisse has modelled Pakar as 2 separate mines, though it is only a single project**

- there has already been trial mining at Pakar South, so infrastructure is in place; and
- it is 20km closer to the River

## Pakar South

Pakar South is 40km haul by road to the barge port on the Senyiur River. The port can handle 5,000t barges, and has a present capacity of 5Mt/yr.

Figure 21 shows the current river port stockpiles for Pakar.

Trial coal mining at Pakar South was undertaken in 2008 and a total of 300kt of coal was mined.

Support facilities constructed included offices and a camp with associated road access, power and water supply.

**Figure 21 : Pakar river stockpile**

Source : KRL presentation

Pakar South has 5 seams plus many sub-seams. Intersuisse has assumed that the data given for Tanur Jaya is typical of Pakar. TJ was reported as having a thick seam, allowing production of 3Mt – 4Mt/yr, at a average waste : ore ratio of 4 BCM / t RoM coal, though the seam dips at $5^{o}$ to $15^{o}$.

Figure 22 shows Intersuisse's operational assumptions for Pakar South. It shows that the strip ratio starts at 3.0 and rises over time to 5.0, and production begins December 2011.

**KR: expects to being producing coal at Pakar by December 2011**

**Figure 22 : Intersuisse's estimated operational data for Pakar South**

| Pakar South, 100% | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| ROM Coal | 0 kt | 300 kt | 1,770 kt | 2,400 kt | 2,700 kt | 4,170 kt | 4,800 kt | 4,800 kt | 4,800 kt | 4,800 kt |
| Product Coal | 0 kt | 300 kt | 1,770 kt | 2,400 kt | 2,700 kt | 4,170 kt | 4,800 kt | 4,800 kt | 4,800 kt | 4,800 kt |
| Overburden | 0.0M bcm | 1.1M bcm | 6.4M bcm | 9.5M bcm | 11.8M bcm | 19.9M bcm | 24.0M bcm | 24.0M bcm | 24.0M bcm | 24.0M bcm |
| Strip ratio | 3.0: 1 | 3.0: 1 | 3.0: 1 | 3.0: 1 | 3.4: 1 | 3.8: 1 | 4.2: 1 | 4.6: 1 | 4.9: 1 | 5.0: 1 |
| Overburden removal | $A 0.0 m | $A 3.9 m | $A 19.8 m | $A 27.5 m | $A 32.7 m | $A 51.4 m | $A 61.7 m | $A 62.6 m | $A 63.6 m | $A 64.5 m |
| AUD/ t ROM coal | $A 0.0/t | $A 12.9/t | $A 11.2/t | $A 11.5/t | $A 12.1/t | $A 12.3/t | $A 12.8/t | $A 13.0/t | $A 13.2/t | $A 13.4/t |
| Coal mining | $A 0.0 m | $A 0.9 m | $A 4.1 m | $A 5.2 m | $A 5.7 m | $A 8.2 m | $A 9.3 m | $A 9.3 m | $A 9.4 m | $A 9.5 m |
| AUD/ t ROM coal | $A 0.0/t | $A 3.1/t | $A 2.3/t | $A 2.2/t | $A 2.1/t | $A 2.0/t | $A 1.9/t | $A 1.9/t | $A 2.0/t | $A 2.0/t |
| CHPP - crush & screen | $A 0.0 m | $A 0.5 m | $A 2.3 m | $A 2.9 m | $A 3.1 m | $A 4.2 m | $A 4.6 m | $A 4.6 m | $A 4.6 m | $A 4.6 m |
| AUD/ t ROM coal | $A 0.0/t | $A 1.8/t | $A 1.3/t | $A 1.2/t | $A 1.2/t | $A 1.0/t | $A 1.0/t | $A 1.0/t | $A 1.0/t | $A 1.0/t |
| Admin / Overhead | $A 0.0 m | $A 0.7 m | $A 3.3 m | $A 4.0 m | $A 4.3 m | $A 5.1 m | $A 5.4 m | $A 5.4 m | $A 5.4 m | $A 5.4 m |
| AUD/t product | $A 0.0/t | $A 2.4/t | $A 1.8/t | $A 1.7/t | $A 1.6/t | $A 1.2/t | $A 1.1/t | $A 1.1/t | $A 1.1/t | $A 1.1/t |
| Trucking to barge port | $A 0.0 m | $A 2.7 m | $A 15.7 m | $A 21.0 m | $A 23.3 m | $A 37.0 m | $A 42.5 m | $A 42.5 m | $A 42.5 m | $A 42.5 m |
| | 50 km | 50 km | 50 km | 50 km | 50 km | 50 km | 50 km | 50 km | 50 km | 50 km |
| AUD/t product | $A 0.0/t | $A 9.0/t | $A 8.9/t | $A 8.7/t | $A 8.6/t | $A 8.9/t | $A 8.9/t | $A 8.9/t | $A 8.9/t | $A 8.9/t |

Source : Intersuisse estimates

**Figure 23 : Intersuisse's estimated financial outcomes for Pakar South**

| Pakar South, equity | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Benchmark | US$ 110/t | US$ 113/t | US$ 120/t | US$ 120/t | US$ 120/t | US$ 118/t | US$ 110/t | US$ 110/t | US$ 110/t | US$ 110/t |
| AUD / USD | 0.997 | 1.100 | 1.100 | 1.050 | 1.000 | 0.950 | 0.950 | 0.950 | 0.950 | 0.950 |
| Coal Sold | 0 kt | 297 kt | 1,752 kt | 2,376 kt | 2,673 kt | 4,128 kt | 4,752 kt | 4,752 kt | 4,752 kt | 4,752 kt |
| Sales price | US$ 51/t | US$ 40/t | US$ 46/t | US$ 46/t | US$ 46/t | US$ 44/t | US$ 38/t | US$ 38/t | US$ 38/t | US$ 38/t |
| Revenue | $A 0.0 m | $A 11.8 m | $A 73.2 m | $A 104.3 m | $A 122.9 m | $A 190.4 m | $A 191.2 m | $A 191.2 m | $A 191.2 m | $A 191.2 m |
| Mine Site cash costs | $A 0.0 m | $A 6.0 m | $A 29.1 m | $A 39.2 m | $A 45.4 m | $A 68.2 m | $A 80.1 m | $A 81.2 m | $A 82.2 m | $A 83.2 m |
| | $A 0.0/t | $A 20.3/t | $A 16.6/t | $A 16.5/t | $A 17.0/t | $A 16.5/t | $A 16.9/t | $A 17.1/t | $A 17.3/t | $A 17.5/t |
| Off-site cash costs | $A 0.0 m | $A 3.9 m | $A 22.9 m | $A 31.2 m | $A 35.4 m | $A 56.1 m | $A 63.2 m | $A 63.2 m | $A 63.2 m | $A 63.2 m |
| | $A 0.0/t | $A 13.1/t | $A 13.1/t | $A 13.1/t | $A 13.2/t | $A 13.6/t | $A 13.3/t | $A 13.3/t | $A 13.3/t | $A 13.3/t |
| Dep'cn & Amort'sn | $A 0.0 m | $A 0.2 m | $A 0.9 m | $A 1.2 m | $A 1.4 m | $A 2.1 m | $A 2.4 m | $A 2.4 m | $A 2.4 m | $A 2.4 m |
| E B I T | $A 0.0 m | $A 1.7 m | $A 20.4 m | $A 32.6 m | $A 40.7 m | $A 64.0 m | $A 45.5 m | $A 44.4 m | $A 43.4 m | $A 42.4 m |
| Interest | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m |
| Tax Expense | $A 0.0 m | $A 0.4 m | $A 5.1 m | $A 8.2 m | $A 10.2 m | $A 16.0 m | $A 11.4 m | $A 11.1 m | $A 10.9 m | $A 10.6 m |
| N P A T | $A 0.0 m | $A 1.3 m | $A 15.3 m | $A 24.5 m | $A 30.5 m | $A 48.0 m | $A 34.1 m | $A 33.3 m | $A 32.6 m | $A 31.8 m |
| Total Cap.ex | $A 0.0 m | $A 10.5 m | $A 2.7 m | $A 3.6 m | $A 4.1 m | $A 6.3 m | $A 7.2 m | $A 7.2 m | $A 7.2 m | $A 7.2 m |

Source : Intersuisse estimates



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Figure 23 shows Intersuisse's derived financial outcomes for Pakar South. Note that Intersuisse projects total cash costs for Pakar South around $A 31/t.

## Pakar North

Pakar North currently has exploration licences (IUP Explorasi) and applications for mining licences has been lodged.

It is a multi-seam deposit, with 6 seams plus splits on sub-seams. It is shallow dipping (5$^{o}$). The expected strip ratio is 2.3BCM /t ROM coal.

While a low rank coal, it is able to be sold as a low rank blending coal, due to the low ash and sulphur levels.

**A second mining operation at Pakar is modelled, beginning in July 2011**

KRL estimate it will cost US$ 11.7m to upgrade infrastructure to get into production. There is 20m wide haul road, traversing through Pakar South.

At the time the acquisition was announced, KRL expected to be in production by July 2011 at 1 Mt/yr rate, though 2 Mt/yr rate 2011 to 4Mt/yr rate 2012. A Life of Mine plan has already been completed.

Figure 24 shows that development at Pakar is already in place.

Intersuisse has assumed that production starts in the September quarter of 2012, to achieve a rate of 2.5Mt/yr in early 2014, and then being further expanded to achieve a rate of 4.8Mt/yr by early 2017.

**Figure 24 : Development at Pakar**

Source : KRL presentation

Figure 25 shows Intersuisse's operational estimates for Pakar North. Total cash costs for Pakar North are estimated by Intersuisse to be $33/t, while Figure 26 shows Intersuisse's projected financial outcomes, including the expected project capital expenditure to get into production..

**Figure 25 : Intersuisse's estimated operational data for Pakar North**

| Pakar North, 100% | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| ROM Coal | 0 kt | 0 kt | 990 kt | 2,280 kt | 2,400 kt | 3,390 kt | 4,680 kt | 4,800 kt | 4,800 kt | 4,800 kt |
| Product Coal | 0 kt | 0 kt | 990 kt | 2,280 kt | 2,400 kt | 3,390 kt | 4,680 kt | 4,800 kt | 4,800 kt | 4,800 kt |
| Overburden | 0.0M bcm | 0.0M bcm | 5.0M bcm | 12.0M bcm | 13.6M bcm | 20.6M bcm | 30.2M bcm | 32.9M bcm | 34.8M bcm | 36.7M bcm |
| Strip ratio | 5.0: 1 | 5.0: 1 | 5.0: 1 | 5.3: 1 | 5.7: 1 | 6.1: 1 | 6.5: 1 | 6.8: 1 | 7.2: 1 | 7.6: 1 |
| Overburden removal | $A 0.0 m | $A 0.0 m | $A 15.7 m | $A 28.8 m | $A 33.1 m | $A 47.7 m | $A 66.6 m | $A 73.1 m | $A 79.3 m | $A 85.5 m |
| AUD/ t ROM coal | $A 0.0/t | $A 0.0/t | $A 15.9/t | $A 12.6/t | $A 13.8/t | $A 14.1/t | $A 14.2/t | $A 15.2/t | $A 16.5/t | $A 17.8/t |
| Coal mining | $A 0.0 m | $A 0.0 m | $A 2.3 m | $A 4.3 m | $A 4.5 m | $A 6.0 m | $A 8.0 m | $A 8.2 m | $A 8.3 m | $A 8.4 m |
| AUD/ t ROM coal | $A 0.0/t | $A 0.0/t | $A 2.3/t | $A 1.9/t | $A 1.9/t | $A 1.8/t | $A 1.7/t | $A 1.7/t | $A 1.7/t | $A 1.7/t |
| CHPP - crush & screen | $A 0.0 m | $A 0.0 m | $A 1.4 m | $A 2.7 m | $A 2.8 m | $A 3.5 m | $A 4.4 m | $A 4.4 m | $A 4.4 m | $A 4.4 m |
| AUD/ t ROM coal | $A 0.0/t | $A 0.0/t | $A 1.5/t | $A 1.2/t | $A 1.2/t | $A 1.0/t | $A 0.9/t | $A 0.9/t | $A 0.9/t | $A 0.9/t |
| Admin / Overhead | $A 0.0 m | $A 0.0 m | $A 2.8 m | $A 4.7 m | $A 5.1 m | $A 5.7 m | $A 6.1 m | $A 6.4 m | $A 6.5 m | $A 6.7 m |
| AUD/t product | $A 0.0/t | $A 0.0/t | $A 2.9/t | $A 2.1/t | $A 2.1/t | $A 1.7/t | $A 1.3/t | $A 1.3/t | $A 1.4/t | $A 1.4/t |
| Trucking to barge port | $A 0.0 m | $A 0.0 m | $A 8.1 m | $A 18.3 m | $A 19.1 m | $A 27.6 m | $A 38.1 m | $A 39.1 m | $A 39.1 m | $A 39.1 m |
| | 45 km | 45 km | 45 km | 45 km | 45 km | 45 km | 45 km | 45 km | 45 km | 45 km |
| AUD/t product | $A 0.0/t | $A 0.0/t | $A 8.1/t | $A 8.0/t | $A 8.0/t | $A 8.2/t | $A 8.2/t | $A 8.2/t | $A 8.2/t | $A 8.2/t |

Source : Intersuisse estimates

**Figure 26 : Intersuisse's estimated financial outcomes for Pakar North**

| Pakar North, equity | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Benchmark | US$ 110/t | US$ 113/t | US$ 120/t | US$ 120/t | US$ 120/t | US$ 118/t | US$ 110/t | US$ 110/t | US$ 110/t | US$ 110/t |
| AUD / USD | 0.997 | 1.100 | 1.100 | 1.050 | 1.000 | 0.950 | 0.950 | 0.950 | 0.950 | 0.950 |
| Coal Sold | 0 kt | 0 kt | 980 kt | 2,257 kt | 2,376 kt | 3,356 kt | 4,633 kt | 4,752 kt | 4,752 kt | 4,752 kt |
| Sales price | US$ 41/t | US$ 42/t | US$ 48/t | US$ 48/t | US$ 48/t | US$ 46/t | US$ 40/t | US$ 40/t | US$ 40/t | US$ 40/t |
| Revenue | $A 0.0 m | $A 0.0 m | $A 43.0 m | $A 104.1 m | $A 114.5 m | $A 162.3 m | $A 197.4 m | $A 202.5 m | $A 202.5 m | $A 202.5 m |
| Mine Site cash costs | $A 0.0 m | $A 0.0 m | $A 22.0 m | $A 40.1 m | $A 45.1 m | $A 62.3 m | $A 84.1 m | $A 91.2 m | $A 97.5 m | $A 104.0 m |
| | $A 0.0/t | $A 0.0/t | $A 22.5/t | $A 17.8/t | $A 19.0/t | $A 18.6/t | $A 18.2/t | $A 19.2/t | $A 20.5/t | $A 21.9/t |
| Off-site cash costs | $A 0.0 m | $A 0.0 m | $A 10.4 m | $A 24.1 m | $A 25.4 m | $A 36.8 m | $A 50.1 m | $A 51.4 m | $A 51.4 m | $A 51.4 m |
| | $A 0.0/t | $A 0.0/t | $A 10.7/t | $A 10.7/t | $A 10.7/t | $A 11.0/t | $A 10.8/t | $A 10.8/t | $A 10.8/t | $A 10.8/t |
| Dep'cn & Amort'sn | $A 0.0 m | $A 0.0 m | $A 0.3 m | $A 0.6 m | $A 0.7 m | $A 0.9 m | $A 1.3 m | $A 1.3 m | $A 1.3 m | $A 1.3 m |
| E B I T | $A 0.0 m | $A 0.0 m | $A 10.2 m | $A 39.3 m | $A 43.3 m | $A 62.2 m | $A 62.0 m | $A 58.6 m | $A 52.3 m | $A 45.8 m |
| Interest | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m |
| Tax Expense | $A 0.0 m | $A 0.0 m | $A 2.6 m | $A 9.8 m | $A 10.8 m | $A 15.6 m | $A 15.5 m | $A 14.7 m | $A 13.1 m | $A 11.5 m |
| N P A T | $A 0.0 m | $A 0.0 m | $A 7.7 m | $A 29.4 m | $A 32.5 m | $A 46.7 m | $A 46.5 m | $A 44.0 m | $A 39.2 m | $A 34.4 m |
| Total Cap.ex | $A 0.0 m | $A 9.9 m | $A 11.4 m | $A 3.4 m | $A 3.6 m | $A 5.0 m | $A 6.9 m | $A 7.1 m | $A 7.1 m | $A 7.1 m |

Source : Intersuisse estimates


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## G P K (PT Graha Panca Karsa)

The acquisition of an 84.82% interest in GPK was announced on 30 September 2009. The cost was

- $2m cash upfront plus $8m in development expenditure; plus
- 150m KRL shares issued to PT Energi Sutya Abadia.

GPK's exploitation licence granted 6 October 2009 and mining commenced in December 2009, when the 15km access road to Mahakam River was completed. The barge port is able to handle 5,000t barges.

When KRL announced the acquisition of GPK on 30 September 2009, the total resource was 248Mt, of which 141Mt was at depths of less than 60m. That announcement also stated that the average seam thickness is 4.5m and the resulting average waste : ore ratio is 3.0.

**GPK has been the subject of corporate interest and its progress has been deferred by attention given to other potential projects**

Just over 18 months later, on 8 April 2011, when KRL announced its revised resource estimate for Pakar, it also announced that the Resource estimate for GPK had been revised, as shown in Figure 27.

**Figure 27 : GPK's revised Resources**

| G P K Resources | Measured | Indicated | Inferred | TOTAL | CV - g.a.r | CV - a.d. | ash | S |
|---|---|---|---|---|---|---|---|---|
| 30 September 2009 | 0 Mt | 141 Mt | 107 Mt | 248 Mt | | 5,245Kcal/kg | 9.4 % | 0.18 % |
| 8 April 2011 | 0 Mt | 58 Mt | 59 Mt | 117 Mt | 3,854Kcal/kg | | 3.3 % | 0.12 % |

Source : KRL ASX announcements

As Figure 27 shows, while the total resource is much smaller, the quality of the coal is higher. Also, now 112Mt, or over 95% of the Resource lie at depths less than 60m.

The first sale, of 4,200t, was delivered to a local power station on 13 January 2010, at a price of $34/t. The benchmark price, for comparison, was $70 on 9 October 2009, around the time the sale was agreed and $99 in Jan 2010).

KRL sated at that time production was expected to be 25kt a month by December 2010, ramping up to 100kt a month by early 2011". However, the production ramp up was delayed as resources were directed to Mamahak.

On 12 July 2010, KRL announced that it had been approached to sell its interest in GPK (Reuters, on 2 September, 2010 nominated Essar Group of India).

**Intersuisse models GPK as increasing production to 4Mt/yr by 2017**

GPK is expected to be brought back into operation in June 2012, reaching a target rate of 165kt a month in 2 years, and then proceeding to double this rate by June 2017, as shown in Figure 28.

**Figure 28 : Intersuisse's estimated operational data for GPK**

| G P K, 100% | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| ROM Coal | 0 kt | 25 kt | 743 kt | 1,658 kt | 2,005 kt | 2,723 kt | 3,638 kt | 3,960 kt | 3,960 kt | 3,960 kt |
| Product Coal | 0 kt | 25 kt | 743 kt | 1,658 kt | 2,005 kt | 2,723 kt | 3,638 kt | 3,960 kt | 3,960 kt | 3,960 kt |
| Overburden | 0.0M bcm | 0.1M bcm | 2.2M bcm | 5.3M bcm | 7.1M bcm | 10.8M bcm | 15.9M bcm | 18.8M bcm | 19.8M bcm | 19.8M bcm |
| Strip ratio | 3.0: 1 | 3.0: 1 | 3.0: 1 | 3.2: 1 | 3.6: 1 | 4.0: 1 | 4.4: 1 | 4.8: 1 | 5.0: 1 | 5.0: 1 |
| Overburden removal | $A 0.0 m | $A 0.6 m | $A 8.2 m | $A 15.5 m | $A 20.3 m | $A 29.2 m | $A 41.3 m | $A 48.9 m | $A 52.1 m | $A 52.8 m |
| AUD/ t ROM coal | $A 0.0/t | $A 23.8/t | $A 11.1/t | $A 9.4/t | $A 10.1/t | $A 10.7/t | $A 11.4/t | $A 12.4/t | $A 13.1/t | $A 13.3/t |
| Coal mining | $A 0.0 m | $A 0.3 m | $A 2.5 m | $A 4.4 m | $A 5.1 m | $A 6.4 m | $A 8.0 m | $A 8.7 m | $A 8.8 m | $A 8.8 m |
| AUD/ t ROM coal | $A 0.0/t | $A 11.7/t | $A 3.4/t | $A 2.7/t | $A 2.5/t | $A 2.3/t | $A 2.2/t | $A 2.2/t | $A 2.2/t | $A 2.2/t |
| CHPP - crush & screen | $A 0.0 m | $A 0.2 m | $A 1.5 m | $A 2.6 m | $A 2.9 m | $A 3.6 m | $A 4.4 m | $A 4.8 m | $A 4.8 m | $A 4.8 m |
| AUD/ t ROM coal | $A 0.0/t | $A 9.0/t | $A 2.1/t | $A 1.6/t | $A 1.5/t | $A 1.3/t | $A 1.2/t | $A 1.2/t | $A 1.2/t | $A 1.2/t |
| Admin / Overhead | $A 0.0 m | $A 0.2 m | $A 1.6 m | $A 2.6 m | $A 3.0 m | $A 3.6 m | $A 4.3 m | $A 4.7 m | $A 4.8 m | $A 4.8 m |
| AUD/t product | $A 0.0/t | $A 8.3/t | $A 2.2/t | $A 1.6/t | $A 1.5/t | $A 1.3/t | $A 1.2/t | $A 1.2/t | $A 1.2/t | $A 1.2/t |
| Trucking to barge port | $A 0.0 m | $A 0.1 m | $A 2.9 m | $A 6.4 m | $A 7.7 m | $A 10.6 m | $A 14.1 m | $A 15.4 m | $A 15.4 m | $A 15.4 m |
| | 15 km | 15 km | 15 km | 15 km | 15 km | 15 km | 15 km | 15 km | 15 km | 15 km |
| AUD/t product | $A 0.0/t | $A 0.0/t | $A 3.9/t | $A 3.9/t | $A 3.8/t | $A 3.9/t | $A 3.9/t | $A 3.9/t | $A 3.9/t | $A 3.9/t |

Source : Intersuisse estimates

As the GPK mine is only 15km from the barge port, it has the lowest cash cost of any of the mines; Intersuisse estimates cash costs of $26/t.

Figure 29 shows Intersuisse's derived financial outcomes, including the sustaining capital required to firstly increase the production rate and then maintain it.

Also, there is another party that now has an 8% economic interest, so KRL is interpreted as having an effective 77% interest in GPK (92% of 84.95%).

**Figure 29 : Intersuisse's estimated financial outcomes for GPK**

| G P K, equity | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Benchmark | US$ 110/t | US$ 113/t | US$ 120/t | US$ 120/t | US$ 120/t | US$ 118/t | US$ 110/t | US$ 110/t | US$ 110/t | US$ 110/t |
| AUD / USD | 0.997 | 1.100 | 1.100 | 1.050 | 1.000 | 0.950 | 0.950 | 0.950 | 0.950 | 0.950 |
| Coal Sold | 0 kt | 19 kt | 570 kt | 1,274 kt | 1,540 kt | 2,091 kt | 2,795 kt | 3,042 kt | 3,042 kt | 3,042 kt |
| Sales price | US$ 39/t | US$ 40/t | US$ 46/t | US$ 46/t | US$ 46/t | US$ 44/t | US$ 38/t | US$ 38/t | US$ 38/t | US$ 38/t |
| Revenue | $A 0.0 m | $A 0.8 m | $A 23.9 m | $A 56.4 m | $A 71.0 m | $A 96.8 m | $A 112.9 m | $A 122.9 m | $A 122.9 m | $A 122.9 m |
| Mine Site cash costs | $A 0.0 m | $A 1.0 m | $A 10.7 m | $A 19.3 m | $A 24.0 m | $A 32.9 m | $A 44.7 m | $A 51.5 m | $A 54.1 m | $A 54.7 m |
| | $A 0.0/t | $A 52.9/t | $A 18.8/t | $A 15.2/t | $A 15.6/t | $A 15.7/t | $A 16.0/t | $A 16.9/t | $A 17.8/t | $A 18.0/t |
| Off-site cash costs | $A 0.0 m | $A 0.1 m | $A 4.1 m | $A 9.3 m | $A 11.4 m | $A 15.8 m | $A 20.5 m | $A 22.3 m | $A 22.3 m | $A 22.3 m |
| | $A 0.0/t | $A 7.2/t | $A 7.1/t | $A 7.3/t | $A 7.4/t | $A 7.5/t | $A 7.3/t | $A 7.3/t | $A 7.3/t | $A 7.3/t |
| Dep'cn & Amort'sn | $A 0.0 m | $A 0.0 m | $A 0.6 m | $A 1.4 m | $A 1.7 m | $A 2.3 m | $A 3.1 m | $A 3.4 m | $A 3.4 m | $A 3.4 m |
| E B I T | $A 0.0 m | ($A0.4 m) | $A 8.5 m | $A 26.4 m | $A 33.9 m | $A 45.9 m | $A 44.7 m | $A 45.7 m | $A 43.2 m | $A 42.5 m |
| Interest | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 3.0 m | $A 2.5 m | $A 1.8 m | $A 1.1 m | $A 0.4 m | $A 0.0 m | $A 0.0 m |
| Tax Expense | $A 0.0 m | ($A0.1 m) | $A 2.1 m | $A 5.8 m | $A 7.9 m | $A 11.0 m | $A 10.9 m | $A 11.3 m | $A 10.8 m | $A 10.6 m |
| N P A T | $A 0.0 m | ($A0.3 m) | $A 6.4 m | $A 17.5 m | $A 23.6 m | $A 33.0 m | $A 32.7 m | $A 34.0 m | $A 32.4 m | $A 31.9 m |
| Total Cap.ex | $A 0.0 m | $A 25.0 m | $A 1.1 m | $A 2.5 m | $A 3.1 m | $A 4.2 m | $A 5.6 m | $A 6.1 m | $A 6.1 m | $A 6.1 m |

Source : Intersuisse estimates

## Other KRL possible projects

As shown in Figure 4, KRL has a possible 5 other coal projects in Kalimantan, none of which is included in Intersuisse's valuation due to uncertainty.

### Kubar Indah

**Kubar Indah is a coking coal project in an area that was part of BHP's original Murawai project.**

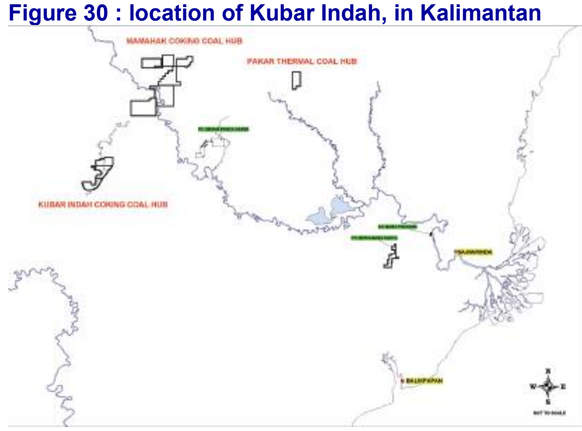
The acquisition of a 100% interest in Kubar Indah was another one the 4 projects announced on 2 November 2009. Due diligence was subsequently completed on 14 May 2010.

Figure 30 shows the location of Kubar Indah in central Kalimantan.

It is in an area that was originally included in BHP Billiton's Murawai project, but is among the areas relinquished when BHP (temporarily) abandoned the Murawai project.

On 23 July 2010, in their report on activities for the June quarter, KRL reported that

**Figure 30 : location of Kubar Indah, in Kalimantan**




Source : KRL 14 May 2010 ASX announcement

- Their Indonesian partner had been granted exploration licenses for the three initial concessions in the first quarter of 2010; and
- A large multinational third party had notified KRL alleging that part of these initial three exploration licences for the Kubah Indah Coking Coal Project overlap licenses held by the third party which claims to have a priority right to the licenses granted.

Kubar Indah is 100km – 120km from Mahakam River and it is estimated it will cost about $100m to bring it into production, of which $50m is for the haul road and a port loader.

**Title to Kubar Indah has been disputed and resolution is unclear**

Construction of the haul road requires the approval of the forestry ministry. This has been applied for and is still being assessed.

There are 7 coal seams at Kubar Indah ranging in thickness from 500mm to 3.5m, but the mine has a Life of Mine waste : ore ratio of 16.

KRL had expected to start development in mid 2010 for 1Mt/yr in mid 2012 and 2Mt/yr in 2013.

The coal is expected to be a High Quality Hard Coking Coal, but no metallurgical test data has been given, so Intersuisse has assumed that it is a semi-soft coking coal.

When the total dispute is resolved, there is 3 months of drilling and then further 3 months to announce a JORC Resource.

Intersuisse has estimated total cash costs around $65/t. We have assumed that the coal does not require washing, but we do not know of any high quality hard coking coals that are not washed.

**KRL has other coal interests that have yet to be put to shareholders for approval**

## Other possible projects

The other projects have not been put to shareholders for approval.

- Jawana and Borami are adjacent to Mamahak, but due diligence is still to be completed
- M B K (Mitra Bara Karya) and B P (Bara Pratama) are 30km from Mahakam River
  - Target 20Mt – 30Mt resource with low total moisture, low ash, high S
  - 6 thin seams, but inter-bedded quartz, sandstone and claystones with a waste to ore ratio of 7.0

## Summary

Just as Figure 14 summarised Intersuisse's estimation of coal revenues, Figure 31 summarises Intersuisse's estimation of operating costs.

**Intersuisse has modelled these projects using a number of generalised routines.**

It shows that each project is assumed to be similar to other projects, with the major differences being due to strip ratios and transport distances, with some small impact due to scale / size.

Figure 32 is a further summary of the keys of each project and their timing.

**There is significant scope for error in our estimates**

The assumed yield through the Coal Handling and Preparation Plant (washery) is because the coals are low to very low ash levels and do not require beneficiation, only crushing and sizing.

Figure 33 shows Intersuisse's projections for KRL's cashflows. It shows that KRL does not need any further capital, either debt or equity.

### Figure 31 : Intersuisse's estimation of operating costs

| | Mamahak | Pakar South | Pakar North | G P K |
|---|---|---|---|---|
| Overburden removal | 13.2 Mt | 55.2 Mt | 88.3 Mt | 45.5 Mt |
| Productivity | 50 | 75 | 100 | 75 |
| Fixed Cost | $A 0.15/t | $A 0.10/t | $A 0.10/t | $A 0.10/t |
| Var. Cost | $A 0.15/t | $A 0.15/t | $A 0.15/t | $A 0.15/t |
| Equipment Hire | $A 0.60/t | $A 0.50/t | $A 0.40/t | $A 0.50/t |
| AUD /t material | **$A 1.43/t** | **$A 1.17/t** | **$A 1.02/t** | **$A 1.17/t** |
| Strip ratio | 11.0: 1 | 4.3: 1 | 6.5: 1 | 4.0: 1 |
| AUD /t ROM | **$A 38.14/t** | **$A 13.34/t** | **$A 18.05/t** | **$A 13.16/t** |
| Mining ROM Coal | 480 kt | 2,400 kt | 2,400 kt | 3,960 kt |
| Productivity | 25 | 40 | 50 | 40 |
| Fixed Cost | $A 0.75/t | $A 0.60/t | $A 0.50/t | $A 0.60/t |
| Var. Cost | $A 0.25/t | $A 0.25/t | $A 0.25/t | $A 0.25/t |
| Equipment Hire | $A 0.75/t | $A 0.70/t | $A 0.60/t | $A 0.70/t |
| AUD /t ROM | **$A 2.71/t** | **$A 2.00/t** | **$A 1.76/t** | **$A 2.29/t** |
| CHPP Costs - crush & screen | | | | |
| Productivity | 50 | 75 | 90 | 75 |
| Fixed Cost | $A 0.75/t | $A 0.50/t | $A 0.50/t | $A 0.50/t |
| Var. Cost | $A 0.50/t | $A 0.50/t | $A 0.50/t | $A 0.50/t |
| AUD /t coal | **$A 1.57/t** | **$A 0.97/t** | **$A 0.94/t** | **$A 1.23/t** |
| Admin / Overhead | | | | |
| | $A 0.15/t | $A 0.15/t | $A 0.15/t | $A 0.15/t |
| AUD /t coal | **$A 3.19/t** | **$A 1.17/t** | **$A 1.45/t** | **$A 1.22/t** |
| Cash cost, mine gate | **$A 45.61/t** | **$A 17.47/t** | **$A 22.21/t** | **$A 17.91/t** |
| Trucking distance | **34 km** | **50 km** | **45 km** | **15 km** |
| | 19c/t-km | 18c/t-km | 18c/t-km | 26c/t-km |
| AUD /t coal | **$A 6.58/t** | **$A 8.85/t** | **$A 8.15/t** | **$A 3.89/t** |
| Royalty | **7.0 %** | **5.0 %** | **3.0 %** | **5.0 %** |
| AUD /t coal | **$A 12.01/t** | **$A 4.48/t** | **$A 2.68/t** | **$A 4.14/t** |
| **TOTAL CASH COST** | **$A 64.21/t** | **$A 30.81/t** | **$A 33.04/t** | **$A 25.93/t** |
| Sustaining Capital | **US$ 2.5/t** | **US$ 1.5/t** | **US$ 1.5/t** | **US$ 2.0/t** |

Source : Intersuisse estimates

### Figure 32 : KRL's projects

| | Mamahak | Pakar South | Pakar North | G P K |
|---|---|---|---|---|
| KRL equity | 100 % | 99 % | 99 % | 77 % |
| Project Cap.Ex | | | | |
| Total | $A 50 m | $A 80 m | $A 80 m | $A 65 m |
| Still to spend | $A 0 m | $A 10 m | $A 20 m | $A 65 m |
| First Coal | Dec. 10 | Dec. 11 | Sep. 12 | Jun. 12 |
| C H P P yield | 100% | 100% | 100% | 100% |
| Product Coal | 480 kt | 4,800 kt | 4,800 kt | 3,960 kt |
| Mine site cash cost | $A 46/t | $A 17/t | $A 22/t | $A 18/t |
| Total Cash Costs | $A 64/t | $A 31/t | $A 33/t | $A 26/t |
| Net Revenue | US$ 118/t | US$ 38/t | US$ 40/t | US$ 38/t |

Source : Intersuisse estimates

### Figure 33 : Total project cashflows for KRL

**Intersuisse projects that KRL has sufficient cash tro develop all of its projects**

| Cashflows | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| **MAMAHUK** | | | | | | | | | | |
| coal sold | 168 kt | 468 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt | 480 kt |
| Operations : net cash | $A 10.6 m | $A 30.6 m | $A 27.8 m | $A 26.2 m | $A 28.1 m | $A 29.8 m | $A 29.3 m | $A 29.0 m | $A 28.7 m | $A 28.4 m |
| Capital | ($A0.4 m) | ($A1.2 m) | ($A1.2 m) | ($A1.2 m) | ($A1.2 m) | ($A1.2 m) | ($A1.2 m) | ($A1.2 m) | ($A1.2 m) | ($A1.2 m) |
| Financing | | | | | | | | | | |
| Taxes | ($A2.4 m) | ($A7.0 m) | ($A6.3 m) | ($A5.9 m) | ($A6.4 m) | ($A6.8 m) | ($A6.7 m) | ($A6.6 m) | ($A6.6 m) | ($A6.5 m) |
| Net Cash | **$A 7.7 m** | **$A 22.3 m** | **$A 20.3 m** | **$A 19.0 m** | **$A 20.5 m** | **$A 21.7 m** | **$A 21.4 m** | **$A 21.2 m** | **$A 20.9 m** | **$A 20.7 m** |
| **PAKAR SOUTH** | | | | | | | | | | |
| coal sold | 0 kt | 475 kt | 2,049 kt | 2,376 kt | 2,851 kt | 4,425 kt | 4,752 kt | 4,752 kt | 4,752 kt | 4,752 kt |
| Operations : net cash | $A 0.0 m | $A 2.3 m | $A 25.7 m | $A 33.2 m | $A 44.4 m | $A 71.1 m | $A 47.6 m | $A 46.6 m | $A 45.6 m | $A 44.6 m |
| Capital | $A 0.0 m | ($A10.7 m) | ($A3.1 m) | ($A3.6 m) | ($A4.3 m) | ($A6.7 m) | ($A7.2 m) | ($A7.2 m) | ($A7.2 m) | ($A7.2 m) |
| Financing | | | | | | | | | | |
| Taxes | $A 0.0 m | ($A0.5 m) | ($A6.2 m) | ($A8.0 m) | ($A10.7 m) | ($A17.2 m) | ($A11.3 m) | ($A11.0 m) | ($A10.8 m) | ($A10.5 m) |
| Net Cash | **$A 0.0 m** | **($A8.9 m)** | **$A 16.4 m** | **$A 21.6 m** | **$A 29.3 m** | **$A 47.2 m** | **$A 29.1 m** | **$A 28.4 m** | **$A 27.6 m** | **$A 26.9 m** |
| **PAKAR NORTH** | | | | | | | | | | |
| coal sold | 0 kt | 0 kt | 980 kt | 2,257 kt | 2,376 kt | 3,356 kt | 4,633 kt | 4,752 kt | 4,752 kt | 4,752 kt |
| Operations : net cash | $A 0.0 m | $A 0.0 m | $A 10.5 m | $A 39.9 m | $A 44.0 m | $A 63.2 m | $A 63.2 m | $A 59.9 m | $A 53.6 m | $A 47.2 m |
| Capital | $A 0.0 m | ($A10.0 m) | ($A1.5 m) | ($A3.4 m) | ($A3.6 m) | ($A5.1 m) | ($A7.0 m) | ($A7.2 m) | ($A7.2 m) | ($A7.2 m) |
| Financing | | | | | | | | | | |
| Taxes | $A 0.0 m | $A 0.0 m | ($A2.6 m) | ($A9.8 m) | ($A10.8 m) | ($A15.6 m) | ($A15.5 m) | ($A14.7 m) | ($A13.1 m) | ($A11.5 m) |
| Net Cash | **$A 0.0 m** | **($A10.0 m)** | **$A 6.4 m** | **$A 26.7 m** | **$A 29.6 m** | **$A 42.5 m** | **$A 40.7 m** | **$A 38.1 m** | **$A 33.4 m** | **$A 28.5 m** |
| **G P K** | | | | | | | | | | |
| coal sold | 0 kt | 19 kt | 570 kt | 1,274 kt | 1,540 kt | 2,091 kt | 2,795 kt | 3,042 kt | 3,042 kt | 3,042 kt |
| Operations : net cash | $A 0.0 m | ($A0.3 m) | $A 9.1 m | $A 27.8 m | $A 35.6 m | $A 48.2 m | $A 47.8 m | $A 49.1 m | $A 46.5 m | $A 45.9 m |
| Capital | $A 0.0 m | ($A32.5 m) | ($A1.5 m) | ($A3.3 m) | ($A4.0 m) | ($A5.4 m) | ($A7.3 m) | ($A7.9 m) | ($A7.9 m) | ($A7.9 m) |
| Financing | $A 0.0 m | $A 0.0 m | $A 0.0 m | ($A5.5 m) | ($A6.1 m) | ($A6.7 m) | ($A7.4 m) | ($A8.2 m) | $A 0.0 m | $A 0.0 m |
| Taxes | $A 0.0 m | $A 0.1 m | ($A2.1 m) | ($A5.8 m) | ($A7.9 m) | ($A11.0 m) | ($A10.9 m) | ($A11.3 m) | ($A10.8 m) | ($A10.6 m) |
| Net Cash | **$A 0.0 m** | **($A32.8 m)** | **$A 5.5 m** | **$A 13.1 m** | **$A 17.6 m** | **$A 25.0 m** | **$A 22.2 m** | **$A 21.6 m** | **$A 27.8 m** | **$A 27.3 m** |
| CORPORATE | | | | | | | | | | |
| Office | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) | ($A6.0 m) |
| Warrants | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 17.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m |
| New Equity | $A 25.0 m | $A 0.0 m | $A 0.8 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m | $A 0.0 m |
| **Cash Balance** | **$A 42 m** | **$A 18 m** | **$A 65 m** | **$A 161 m** | **$A 258 m** | **$A 396 m** | **$A 512 m** | **$A 624 m** | **$A 736 m** | **$A 841 m** |

Source : Intersuisse estimates

However, a major conclusion is that value can be potentially destroyed by

- pursuing projects to aggressively; and/or
- failing to deliver on operating and development projections

Through excessive dilutionary equity issues. KRL's cash position should ensure that no further equity is required.

Figure 34 shows Intersuisse's projected financial outcomes for KRL.

### Figure 34 : Intersuisse's projected financial outcomes for KRL

| Kangaroo Rersources | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Coal Sold | 168 kt | 962 kt | 4,080 kt | 6,387 kt | 7,247 kt | 10,353 kt | 12,660 kt | 13,026 kt | 13,026 kt | 13,026 kt |
| Revenue | $A 19.3 m | $A 76.9 m | $A 207.7 m | $A 318.7 m | $A 373.1 m | $A 523.1 m | $A 561.0 m | $A 576.0 m | $A 576.0 m | $A 576.0 m |
| Total Cash Costs | $A 10.2 m | $A 44.3 m | $A 134.5 m | $A 191.6 m | $A 221.0 m | $A 310.9 m | $A 373.0 m | $A 391.4 m | $A 401.6 m | $A 410.0 m |
| Corporate | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m | $A 6.0 m |
| Dep'cn & Amort'sn | $A 0.9 m | $A 2.6 m | $A 4.4 m | $A 5.7 m | $A 6.2 m | $A 7.9 m | $A 9.2 m | $A 9.5 m | $A 9.5 m | $A 9.5 m |
| E B I T | ($A2.3 m) | $A 23.9 m | $A 62.7 m | $A 115.4 m | $A 139.8 m | $A 198.3 m | $A 172.7 m | $A 169.1 m | $A 158.9 m | $A 150.5 m |
| Interest | ($A1.1 m) | ($A3.5 m) | ($A3.0 m) | ($A2.9 m) | ($A3.5 m) | ($A4.2 m) | ($A4.9 m) | ($A5.6 m) | ($A6.0 m) | ($A6.0 m) |
| Tax Expense | $A 2.4 m | $A 7.5 m | $A 17.2 m | $A 29.6 m | $A 35.8 m | $A 50.6 m | $A 44.4 m | $A 43.7 m | $A 41.2 m | $A 39.1 m |
| N P A T | ($A3.7 m) | $A 20.0 m | $A 48.5 m | $A 88.7 m | $A 107.5 m | $A 151.8 m | $A 133.2 m | $A 131.0 m | $A 123.7 m | $A 117.4 m |
| e .p.s | (0.1c) | 0.6 c | 1.4 c | 2.5 c | 3.0 c | 4.3 c | 3.7 c | 3.7 c | 3.5 c | 3.3 c |

Source : Intersuisse estimates

## Valuation

Figure 35 shows Intersuisse's derived valuation for KRL, of 29c a share.

Intersuisse has largely undertaken its valuation in AUD terms as while many prices are set in USD terms, we believe that costs are more likely to behave similar to the AUD' ie. the AUD and IDR have a much better correlation than the USD and IDR.

**Intersuisse's base case valuation of KRL is 29c a share**

We have explicitly covered some costs, for oil and mobile plant, in USD terms.

Figure 35 shows that Intersuisse's valuation of Pakar is $846m, which compares with an acquisition cost of about $345m (being 1,925m shares paid to PTBR plus 380m shares paid to Jedi Resources, assuming an average value of 15c).

KRL has 18.5m options on issue, all with exercise dates in September 2012, as shown in Figure 36. In our valuation, Intersuisse has allowed for the 10.0m options with exercise prices of 5c and 10c to be exercised, as indicated in Figure 36.

The present value of the cash raised is included along with the present value of the cash raised by the exercise of the warrants at 13.3c

**Intersuisse's valuation is moderately sensitive to the discount rate chosen, which is 15% on the real, after tax net cashflows**

**There is also significant potential value from successful project execution**

### Figure 35 : Intersuisse's valuation of KRL

| discount rate = | 15% | 30 June 2010 | | | 25-Jun-11 |
|---|---|---|---|---|---|
| | | 100% | Product | per share | |
| Mamahak | | | | | |
| Measured Resources | 90 % | $A 110 m | $A 99 m | 2.8 c | 3.0 c |
| Indicated Resources | 80 % | $A 10 m | $A 8 m | 0.2 c | 0.3 c |
| Other mineralisation | 50 % | $A 5 m | $A 4 m | 0.1 c | 0.1 c |
| Pakar South | | | | | |
| Probable Reserves | 90 % | $A 129 m | $A 116 m | 3.2 c | 3.7 c |
| Pakar North | | | | | |
| Proven Reserves | 90 % | $A 52 m | $A 47 m | 1.3 c | 1.1 c |
| Probable Reserves | 80 % | $A 854 m | $A 683 m | 19.1 c | 18.8 c |
| G P K | | | | | |
| Indicated Resources | 70 % | $A 87 m | $A 61 m | 1.7 c | 1.9 c |
| Kubar Indah | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Jawana | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Borami | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| M B K | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| B P | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Mt Ruby Iron Ore | | $A 0 m | $A 0 m | 0.0 c | 0.0 c |
| Corporate | 100 % | ($A 39 m) | ($A 39 m) | (1.1c) | (1.1c) |
| Warrants, Equity raising | 100 % | $A 32 m | $A 32 m | 0.9 c | 0.3 c |
| Cash | 100 % | ($A 0 m) | ($A 0 m) | (0.0c) | 1.2 c |
| TOTAL | | $A 1,239 m | $A 1,010 m | 28.2c | 29.3c |
| Shares on issue | | 3434.4m | FPO shares | 18.5m | options |
| Shares to be issued | | 128.1m | warrants | 0.0m | new shares |

Source : Intersuisse estimates

### Figure 36 : KRL's issued options

| date | Options | ex price | No. Ex'd | cash |
|---|---|---|---|---|
| 15-Sep-12 | 1.0m | 25 c | 0.0m | $A 0.0 m |
| 30-Sep-12 | 5.0m | 5 c | 5.0m | $A 0.3 m |
| 30-Sep-12 | 5.0m | 10 c | 5.0m | $A 0.5 m |
| 2-Sep-12 | 2.5m | 25 c | 0.0m | $A 0.0 m |
| 2-Sep-12 | 2.5m | 35 c | 0.0m | $A 0.0 m |
| 2-Sep-12 | 2.5m | 50 c | 0.0m | $A 0.0 m |
| TOTAL | 18.5m | | 10.0m | $A 0.8 m |

Source : KR: Appendix 3B

There are 2 major sets of sensitivities in the valuation. Figure 37 shows the impact of risk and discount rate assumptions. It shows that valuation of KRL is sensitive to the choice of discount rate.

Figure 37 also shows that the valuation is sensitive to the risk weightings applied, which also means that there is significant potential value generated by successful project execution.

**Intersuisse's valuation is also sensitive to coal prices assumed**

### Figure 37 : discount rates impact

| | 12 % | 15 % | 18 % |
|---|---|---|---|
| High Risk | 27.8 c | 23.2 c | 19.8 c |
| Base Case | 34.1 c | **28.3 c** | 24.1 c |
| Low Risk | 37.3 c | 30.9 c | 26.2 c |
| Un-risked | 40.4 c | 33.5 c | 28.4 c |

Source : Intersuisse estimates

Figure 38shows the sensitivity of Intersuisse's valuation of KRL to changes in commodity price and exchange rate assumptions, with Figure 38b showing the differing coal prices used.

Figure 38 shows that the valuation is much more sensitive to coal prices than to exchange rates.

### Figure 38a : Coal price v. AUD-USD

| AUD \ Coal prices | High | Base | Low | Spot |
|---|---|---|---|---|
| 1.045 | 37.0 c | 26.1 c | 15.1 c | 29.4 c |
| 0.950 | 40.4 c | **28.3 c** | 16.3 c | 31.9 c |
| 0.855 | 44.5 c | 31.1 c | 17.7 c | 35.1 c |
| 1.000 | 39.5 c | 27.8 c | 16.1 c | 31.2 c |

Source : Intersuisse estimates

### Figure 38b : coal prices

| Coal prices | High | Base | Low | Spot |
|---|---|---|---|---|
| Thermal | US$ 132/t | US$ 110/t | US$ 88/t | US$ 120/t |
| Semi-soft | US$ 189/t | US$ 158/t | US$ 126/t | US$ 180/t |

Source : Intersuisse estimates

## Other Risks

**The major risk, in Intersuisse's view, is if the Indonesian Government issues a decree banning he export of low grade thermal coal, which is most, but not all, of KRL's business**

In addition to commodity risks, Intersuisse highlights the following :

- KRL is 56% owned by the Jakarta listed PT Bayan Resources Tbk;
- a further 580m shares is held by vendors of assets and related parties while issued warrants can be converted into 128m shares at 13.3c;
- KRL does not have an established operating track record, partly because it has devoted its resources to new acquisitions;
- The Indonesian Government is reported to be considering a decree that will ban the export of low grade coals from 2014, which is most, not all, of KRL's sales, and about 90% of Intersuisse's valuation.

The last of these points is potentially the most serious risk. While coal producers have said to us that the decree will not happen, we would have said the same about the Rudd super tax in April 2010.

PTBR is in a joint venture with White Energy (WEC.ASX) in a plant to upgrade coals, using pressure and heat. If this works and the coals can be upgraded, we are not able to say what the cost will be and consequently the loss in margin.

## Conclusions

There are significant risks, there is also significant reward and upside potential.

## Board and Management

### Peter Richards

**NON-EXECUTIVE CHAIRMAN**

Mr Richards is an internationally experienced business executive with a proven track record in the mining industry. His roles have included more than 30 years' experience with companies such as British Petroleum (including its mining arm Seltrust Holdings), Wesfarmers, and Dyno Nobel. He has a unique understanding of the global resources and mining services industries.

Mr Richards has managed and supported complex financial and corporate activities, with significant exposure to the investment, broking and analyst community. He has international experience with a diversity of cultures and has started new businesses in a range of locations, including Indonesia, South Africa and Turkey.

Mr Richards was most recently CEO of the ASX-listed Dyno Nobel Limited for 2.5 years. Prior to this he was based in Salt Lake City, USA, where he was the President of Dyno Nobel North America. Following the takeover of Dyno Nobel in 2008, Peter became a Non-Executive Director of Bradken Limited. He is also a Non-Executive Director of NSL Consolidated Limited.

### Mark O'Keeffe

**MANAGING DIRECTOR**

Mark has been a successful businessman in the Perth community for the past 18 years and in recent years has become actively involved in the minerals industry. He has provided his services in various corporate capacities, including his direct involvement in a number of private and public company capital raisings.

Mark's previous business interests have encompassed several established enterprises in the retail and service industries, as well as a range of real estate investments which have seen him develop a wide network of business associates.

Mark's extensive corporate experience and networks in combination with his entrepreneurial skills will contribute significantly to the Company's strategic move into the Indonesian coal sector.

### Trevor Butcher

**NON-EXECUTIVE DIRECTOR**

Trevor is an Indonesian-based professional who has spent more than five years working in the Indonesian mining industry. This vital industry knowledge, along with his significant Indonesian business networks and strong relationships with local partners, puts him in a strong position to guide KRL through the next phases of development.

The advantages of being based in Jakarta, as well as Trevor's ability to speak the language and understand the local culture and customs is a tremendous asset to KRL in its strategic move into the Indonesian coal industry.

Before moving to Indonesia, Trevor worked in both the food industry and the electrical manufacturing industry in New South Wales. A depth of business knowledge gained in general industry and the mining industry in particular stands Trevor in good stead to drive KRL's new direction.

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## Galih Kartasasmita

**DIRECTOR**

Galih has a background in financial analysis and investment appraisal of resource projects and has worked in the past for PT Freeport Indonesia (the local subsidiary of Freeport-McMoRan Copper and Gold Inc, the world's largest publicly traded copper company) and most recently for PT Bakrie and Brothers, which is the parent company of the substantial Indonesian coal mining company PT Bumi Resources.

He has been directly involved with various financial and investment activities for these businesses, including debt restructuring, asset acquisition and divestment, refinancing and strategy.

Galih is also active in the youth movement of the ruling Golkar Party in Indonesian, where he currently holds the position of Vice Treasurer..

## Darcy Wentworth

**DIRECTOR**

Darcy Wentworth, MSc (Mining), MAusIMM is an experienced Australian-based mining executive with over 40 years of international experience managing various coal operations around the world, with specific focus and expertise in coal mining and Indonesia.

Mr Wentworth was previously the Operations Manager for Bayan's large Gunungbayan coal operation in East Kalimantan for over 10 years until 2009.

## Alastair McLeod

**DIRECTOR**

Alastair McLeod, CA, is an Indonesian-based mining executive with over 20 years experience in senior finance, accounting and management roles and over 10 years directly relating to the Indonesian resource market.

Mr McLeod is currently Chief Financial Officer and a Director of Bayan Resources.

## Russell Neil

**DIRECTOR**

Russell Neil, FCPA CFA, is an Indonesian-based mining executive with approximately twenty years of corporate experience in accounting, finance and management roles within the mining industries of Australia and Indonesia. He is currently Chief Development Officer and a Director of Bayan Resources.

## David Low Yi Ngo

**DIRECTOR**

David Low Yi Ngo, BSc (Mechanical Engineering and Production), is presently acting Marketing Director for Bayan Resources. Mr Low has held various senior management roles within Indonesia and Asia over the past five years.

## MANAGEMENT

### Mike Ralston

**CHIEF FINANCIAL OFFICER**

Mr Ralston has joined KRL as the Company's Chief Financial Officer with a mandate to build strong financial discipline within the Company, as well as to assist in fund raising and the management of corporate and ASX matters. He has 12 years experience as a CFO internationally and has been CFO of several ASX listed mining companies over the past 5 years. He has been working in the Indonesian coal market with Fireside Resources for the past 12 months.

Mr Ralston is a member of the Australian Institute of Company Directors, holds a Bachelor of Commerce from University of South Africa and a Chartered Management Accountant (London).

### Jerko Zuvela

**CHIEF GEOLOGIST**

Mr Zuvela has joined KRL as the Company's Chief Geologist with a mandate to manage, explore and develop all of KRL's projects. He has 14 years resources experience in Australia and internationally, and has been directly involved in the Indonesian coal sector during the past 4 years, during which time he has worked for Strike Resources as General Manager – Operations, and Fireside Resources as Chief Geologist.

Mr Zuvela is a member of the Australasian Institute of Mining and Metallurgy and holds a Bachelor of Science in Applied Geology from Curtin University of Technology in Western Australia.

### Sean Henbury

**COMPANY SECRETARY**

Mr Henbury (CA, FITA) is a Chartered Accountant with over 13 years experience in public practice with three of Perth's major accounting firms. He was a founding director of the accounting firm FJH Solutions Pty Ltd, where he continues to provide client support across a wide range of industries including mining, exploration, research and development, construction and manufacturing.

Mr Henbury is company secretary for a number of companies, and is currently a director of Cape Range Wireless Limited (ASX: CGU).

## Contacts List

| | | |
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| **Steve Morris** | 03 9618 8231 | **Managing Director** |

### Research

| | | |
|---|---|---|
| Cameron Bell | 03 9618 8283 | Analyst |
| Pieter Bruinstroop | 03 9618 8275 | Mining Analyst |
| Nick Wirubov | 03 9618 8251 | Oil & Gas Analyst |

### Corporate Finance – PhillipCapital Australia

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| Jonathan Buckley | 03 9618 8244 | Managing Director |
| Andrea Coad | 03 9618 8256 | Administrator |
| Sackville Kempton | 03 9618 8258 | Director |
| Michael Laletas | 03 9618 8234 | Director |
| David Pryles | 03 9618 8269 | Manager |
| Leith Wale | 03 9618 8253 | Energy |

### Institutional Dealing

| | | |
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| Will Cleland | 03 9618 8223 | Associate Director |
| Colin Eichenberger | 03 9618 8214 | Associate Director |
| Hulya Ozmen | 03 9618 8232 | Desk Assistant |

### Private Clients

### Melbourne

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| Mark Chartres | 03 9618 8240 | Head of Wealth Management |
| Peter Addison | 03 9618 8226 | Associate Director |
| Craig Baillie | 03 9618 8279 | Client Adviser |
| Howard Elton | 03 9618 8233 | Director |
| Amanda Fanning | 03 9618 8247 | Client Adviser |
| Steven Goossens | 03 9618 8215 | ITS Operator |
| Graham Johnstone | 03 9618 8246 | Client Adviser |
| Ben Ikin | 03 9618 8231 | Client Adviser |
| Darren Levy | 03 9618 8252 | Associate Director |
| Sue McDonald | 03 9618 8211 | Senior Client Adviser |
| Luke Robinson | 03 9618 8210 | Senior Client Adviser |
| Suzie Shipton | 03 9618 8243 | Manager Client Services |
| John Taylor | 03 9618 8219 | Client Adviser |
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| Henry Vo | 03 9618 8250 | Associate Adviser |
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| Mark Wiseman | 03 9618 8228 | Director |
| Raymond Wong | 03 9618 8225 | Client Adviser |

### Sydney

| | | |
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| Andrew Sekely | 02 9994 5508 | Director |
| Joe Durak | 02 9994 5513 | Senior Client Adviser |
| Patricia Harrison | 02 9994 5505 | Senior Client Adviser |
| Ryan Hoffman | 02 9994 5512 | Client Adviser |
| Greg Lidicky | 02 9994 5522 | Client Adviser |
| Nick Madden | 02 9994 5518 | Client Adviser |
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| William Tan | 02 9994 5511 | Client Adviser |
| Oksana Wainwright | 02 9994 5500 | Administrator |

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