



# Prospectus

**In relation to the offer of up to 100,000,000 Shares at an issue price of \$0.20 per Share to raise up to \$20,000,000**

## **IMPORTANT NOTICE**

Securities offered by this Prospectus should be considered speculative and potential investors should refer to Section 5 for further details concerning the Risk Factors associated with an investment in the Securities.

This document is important and requires your immediate attention. It should be read in its entirety. If you do not understand its contents or are in doubt as to the course you should follow, you should consult your stockbroker or professional adviser.

Neither Exalt Resources Limited nor any other person guarantees the performance of the Securities offered pursuant to this Prospectus, or the performance of Exalt Resources Limited, or the return of any investment

**EXALT RESOURCES LIMITED**

ACN 145 327 617 | ASX Code: ERD

## IMPORTANT NOTICE

This Prospectus is a re-compliance prospectus for the purposes of satisfying Chapters 1 and 2 of the ASX Listing Rules and to satisfy ASX requirements for re-listing following a change to the nature and scale of the Company's activities.

The Offer under this Prospectus is conditional on:

- the satisfaction or waiver of all of the conditions precedent to the Share Purchase Agreement; and
- the Company's successful re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

The Company's securities were suspended from Official Quotation on Friday, 24 August 2012 and will not be reinstated until satisfaction of the conditions to the Offer and ASX approving the Company's re-compliance with the admission requirements of Chapters 1 and 2 of the ASX Listing Rules.

There is a risk that the Company may not be able to meet the requirements of ASX for re-quotation on the ASX. **In the event the conditions to the Offer are not satisfied or the Company does not receive conditional approval for re-quotation on ASX then the Company will not proceed with the Offer and will repay all Application Monies received without interest and the Company will seek re-quotation of its Shares.**

Neither the Company nor any other person guarantees the performance of the Securities offered pursuant to this Prospectus, or the performance of the Company, or the return of any investment.

Securities offered by this Prospectus should be considered speculative and potential investors should refer to section 5 for further details concerning the Risk Factors.

This document is important and requires your immediate attention. It should be read in its entirety. If you do not understand its contents or are in doubt as to the course you should follow, you should consult your stockbroker or professional adviser.

## Date

This Prospectus is dated 7 September 2012 and was lodged with ASIC on that date. Neither ASIC nor ASX take any responsibility as to the contents of this Prospectus or the merits of the investment to which the Prospectus relates. No Securities will be issued or transferred on the basis of this Prospectus later than thirteen months after the date of issue of this Prospectus.

## Offer of Odni Securities and Tudor Options

Shareholders approved the allotment and issue of the Odni Securities at the General Meeting. The Odni Securities, which consist of 25,000,000 Shares, 10,000,000 Class W Options and 20,000,000 Class X Options, are to be issued to the Odni Sellers as part consideration pursuant to the Share Sale Agreement. The Odni Securities are to be issued pursuant to this Prospectus.

Further details on the Odni Securities are set out in sections 2.5 and 10.3 of this Prospectus.

Shareholders also approved the allotment and issue of the Tudor Options at the General Meeting. The Tudor Options consist of 600,000 Class Y Options and 2,400,000 Class Z Options, and are to be issued to Barry Tudor as part of his remuneration package. The Tudor Options are to be issued pursuant to this Prospectus.

Further details on the Tudor Options are set out in sections 2.6 and 10.3 of this Prospectus.

## **Speculative**

The Securities offered under this Prospectus should be considered speculative. The risks associated with an investment in the Company are significant. It is important that investors read this Prospectus in its entirety and seek professional advice where necessary. Potential investors should carefully consider the factors in light of their personal circumstances and consult with their professional advisers before deciding whether to apply for Shares. The Securities offered under this Prospectus carry no guarantee with respect to return on capital investment, payment of dividends or the future value of the Securities. For further information in relation to the risk factors of the Company please refer to section 5 of this Prospectus.

## **Forward looking statements**

Various statements in this Prospectus constitute statements relating to intentions, future acts and events. Such statements are generally classified as forward looking statements and involve known and unknown risks, uncertainties and other important factors that could cause those future acts, events and circumstances to differ from the way implicitly portrayed in this Prospectus. These risks, uncertainties and other factors include, but are not limited to, the matters described in section 5 and in the Independent Technical Review in section 6 of this Prospectus. The Company gives no assurance that the anticipated results, performance or achievements expressed or implied in those forward looking statements will be achieved.

## **Foreign jurisdiction**

The Offer does not constitute a public offer in any jurisdiction other than Australia. The distribution of this Prospectus outside Australia may be restricted by law and therefore any person who resides outside Australia and who receives this Prospectus should seek advice on and observe any such restrictions. The Company will not offer to sell, nor solicit and offer to purchase, any securities in any jurisdiction where such offer, sale or solicitation may not lawfully be made. Any failure to comply with these restrictions may constitute violation of applicable securities laws.

## **Prospectus availability**

This Prospectus is available in electronic form at [www.exaltresources.com.au](http://www.exaltresources.com.au). Any person receiving this Prospectus electronically and who may lawfully purchase the Shares offered under this Prospectus will on request be sent a paper copy of this Prospectus (and attached Application Form) by the Company free of charge during the period of the Offer.

## **Electronic prospectus**

Persons who access the Electronic Prospectus should ensure that they download and read the entire Prospectus. Persons having received a copy of this Prospectus in its electronic form may obtain a paper copy of the Prospectus (free of charge) during the life of this Prospectus by contacting the Company Secretary at the Company's principal place of business. Applications for Securities may only be made on the Application Form attached to the Prospectus in its paper form or as downloaded in its entirety from the Company's website.

The Application Form may only be distributed as attached to a complete and unaltered copy of this Prospectus. The Application Form included with this Prospectus contains a declaration that the investor had personally received the complete and unaltered Prospectus prior to completing the Application Form.

The Company will not accept a completed Application Form if it has reason to believe that the Applicant has not received a complete paper copy or electronic copy of this Prospectus or if it has reason to believe that the Application Form or electronic copy of this Prospectus has been altered or tampered with in any way.

While the Company believes that it is extremely unlikely that during the period of the Offer the electronic version of this Prospectus will be tampered with or altered in any way, it cannot give any absolute assurance that this will not occur. Any investor in doubt concerning the validity or integrity of an electronic copy of this Prospectus should immediately request a paper copy of this Prospectus directly from the Company.

## **Definitions and abbreviations**

Defined terms and abbreviations used in this Prospectus are explained in the Glossary at the end of this Prospectus.

## **Miscellaneous**

The financial amounts in this Prospectus are expressed in Australian dollars unless stated otherwise. Items and undertakings displayed in photographs in this Prospectus are not necessarily assets owned by the Company. Diagrams in this Prospectus are illustrative only and may not be drawn to scale. The inclusion of photographs or diagrams supplied by persons or entities other than Exalt Resources Limited does not constitute an endorsement or recommendation by those persons or entities of Shares offered under this Prospectus.

## **AEST**

All references in this Prospectus to AEST refer to Sydney, Australia AEST, unless stated otherwise.

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## CORPORATE DIRECTORY

### DIRECTORS

Mr Barry Ralph Tudor	CEO & Managing Director
Mr Emmanuel Correia	Non-Executive Chairman
Mr James Lewis Michael Malone	Non-Executive Director
Mr Shane Anthony Hartwig	Non-Executive Director

### PROPOSED DIRECTORS

Romy HR Soekarno	Non-Executive Director
Edward Lee Kwong Foo	Non-Executive Director

### COMPANY SECRETARY

Mr Shane Anthony Hartwig

### REGISTERED OFFICE

Level 5,  
56 Pitt Street,  
Sydney NSW 2000

### PRINCIPAL PLACE OF BUSINESS

Level 5,  
56 Pitt Street,  
Sydney NSW 2000  
+61 2 8651 7820

### LAWYERS (AUSTRALIA)

Gadens Lawyers  
Level 16, 77 Castlereagh Street  
Sydney NSW 2000

### AUDITORS

Hall Chadwick  
Level 29, 31 Market Street  
Sydney NSW 2000

### INVESTIGATING ACCOUNTANTS

BDO Audit Pty Limited  
Level 18, 300 Queen Street  
Brisbane, QLD 4000

### INDEPENDENT CONSULTING GEOLOGIST

Minarco-MineConsult  
Level 16, Australia Square  
George Street,  
Sydney NSW 2000

### SHARE REGISTRAR

Computershare Investor Services Pty Limited  
Level 4  
60 Carrington Street  
Sydney NSW 2000

### LAWYERS (INDONESIA)

Hutabarat, Halim & Rekan  
Wisma 46 - Kota BNI, 34th Floor  
Jl Jend Sudirman Kav 1  
Jakarta 10220  
INDONESIA

## CHAIRMAN'S LETTER

Dear Investor,

On behalf of my fellow Directors, it gives me great pleasure to present to you this Prospectus and to provide you with the opportunity to become a Shareholder, or increase your shareholding, in our Company.

By this Prospectus, the Company is seeking to raise up to \$20 million before costs and expenses through an offer of up to 100,000,000 Shares at an issue price of \$0.20 per Share.

On 24 July 2012, the Company announced that it had signed a Sale & Purchase agreement to acquire 100% of the issued capital of Odni holdings (Pte.) Ltd (**Odni**), a Singapore incorporated coal investment company (the **Proposed Transaction**). At the General Meeting held on 24 August 2012 Shareholders of the Company approved the Proposed Transaction.

Odni has rights to acquire an interest in a number of prospective coal mining projects in Indonesia. In addition to these projects, the Company (via Odni) intends to continue to assess and review a number of greenfield, brownfield and producing projects in Indonesia, with the aim of building a substantial diverse portfolio of Indonesian coal assets.

If completed, the Proposed Transaction will constitute a significant change in the nature and scale of the Company's activities. The Company has obtained Shareholder approval for this change and is also required to re-comply with Chapters 1 and 2 of the Listing Rules as if it was seeking admission to the Official List.

The Offer and the Proposed Transaction are conditional on ASX confirming the Company's re-compliance with Chapters 1 and 2 of the Listing Rules and the satisfaction or waiver of all of the conditions precedent to the Share Purchase Agreement.

On behalf of my fellow Directors, I invite you to invest in our Company. It is important that investors read this Prospectus in its entirety and carefully consider the risk factors in light of their personal circumstances and consult with their professional advisers before deciding whether to apply for Shares.

Yours sincerely,



Emmanuel Correia

Non-Executive Chairman

## 1. INVESTMENT OVERVIEW

This section is not intended to provide full information for investors intending to apply for Shares offered pursuant to this Prospectus. The Prospectus should be read in full and considered in its entirety.

### 1.1 The Company's Business Model

Exalt Resources Limited is a public company listed on the Official List of the ASX (ASX code: ERD). The Company was incorporated in July 2010 and commenced its business as an Australian based resource and energy exploration company. The Company's initial projects were two gold and base metal exploration projects in NSW – the Mineral Hill South Project and the Nyngan Project (**NSW Projects**).

A key part of the Company's charter is to actively pursue the acquisition of and/or participation in additional resource and energy assets. Consistent with this charter, the Company has signed a Share Purchase Agreement for the acquisition of 100% of the issued capital of Odni, a Singapore incorporated coal investment company. Odni has secured rights to acquire an interest in three prospective coal mining projects in the Kalimantan region of Indonesia. Further, Odni has also substantially negotiated the terms of acquiring an interest in a prospective coal mining project in the Sumatran region of Indonesia and intends to secure the rights to this interest using the funds raised under the Offer. In addition to the Indonesian Projects, the Company (via Odni) intends to continue to assess and review a number of greenfield, brownfield and producing projects in Indonesia, with the aim of building a substantial diverse portfolio of Indonesian coal assets.

The Company will look to derive shareholder value through achieving exploration success from the proposed Indonesian Projects as well as its current NSW Projects, which are summarised further below and outlined in detail in section 3. The Company is assessing its options in relation to the NSW Projects including potentially attracting a farm-in partner for its Nyngan Project

The Company's business model is highly dependent on the Company achieving technical and commercial success within its exploration programs as well as being dependent on a number of other fiscal, economic, regulatory and environmental factors. Income growth in the form of dividends to investors will only eventuate if the Company's planned or future exploration programs yield commercial discoveries and are ultimately economically developed. Prospective investors should refer to the risks to the Company and its business model as outlined in section 5 of this Prospectus.

Further details in respect of the Company and its projects are set out in section 3 of this Prospectus.

### 1.2 The Proposed Transaction

On 23 July 2012, the Company entered into the Share Purchase Agreement with the Odni Sellers in respect of the acquisition by the Company of 100% of the issued capital of Odni. Odni has rights to acquire an interest, or in the case of Project Sugico has substantially negotiated the terms of acquiring an interest, in the Indonesian Projects, details of which are set out further below and in section 3 of this Prospectus

Pursuant to the Share Sale Agreement, the Company has agreed to issue or grant, as the case may be, the following consideration to the Odni Sellers:



- i. 25,000,000 Shares which shall be placed in voluntary escrow for a 12 month period (or as otherwise determined by the ASX);
- ii. 10,000,000 Class W Options to acquire Shares with an exercise price of \$0.20 and an expiry period of two years from the date of issue;
- iii. 20,000,000 Class X Options to acquire Shares with an exercise price of \$0.50 and an expiry period of three years from the date of issue;
- iv. 22,000,000 Class A Performance Shares which, upon satisfaction of certain exploration and production milestones being achieved, will convert into fully paid Shares;
- v. 22,000,000 Class B Performance Shares which, upon satisfaction of certain exploration and production milestones being achieved, will convert into fully paid Shares; and
- vi. 22,000,000 Class C Performance Shares which, upon satisfaction of certain exploration and production milestones being achieved, will convert into fully paid Shares,

(together, the **Consideration Securities**).

For further details on the terms and conditions of the Consideration Securities please refer to section 10 of this Prospectus.

Completion of the Proposed Transaction is subject to the satisfaction or waiver of a number of conditions precedent, including that the Company obtains the minimum subscription under the Offer, being \$10 million. For further details on the Share Sale Agreement, including the conditions precedent, please refer to section 10.5.1 of this Prospectus.

As announced on 3 May 2012, the Company appointed Mr Barry Tudor as Chief Executive Officer and Managing Director as a result of the Proposed Transaction. Details on Mr Tudor's background and experience are set out in section 4 of this Prospectus.

Upon the successful completion of the Proposed Transaction, the Company aims to become a significant mid-tier Indonesian coal developer with a pipeline of exploration, development and producing projects in strategic locations in proximity to established mining operations, and in locations with access or potential access to existing or developing infrastructure that will assist future growth and expansion.

### **1.3 Change in Nature and Scale of Activities**

As a result of the nature and scale of the Proposed Transaction, the Company was required to obtain Shareholder approval for a change of nature and activities, which it received at its General Meeting, and to comply with Chapters 1 and 2 of the Listing Rules as if it were seeking admission to the Official List.

This Prospectus is issued to assist the Company to comply with these requirements.

### **1.4 The Offer**

By this Prospectus, the Company offers for subscription up to 100,000,000 Shares at \$0.20 per Share to raise up to \$20,000,000.

The minimum subscription to be raised pursuant to the Offer is \$10 million.

The Offer is conditional on:

- the satisfaction or waiver of all of the conditions precedent to the Share Purchase Agreement; and
- the Company's successful re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

The Offer is not underwritten.

The Shares offered under this Prospectus will rank equally with the existing Shares on issue. Rights and liabilities attaching to the Shares are summarised in section 10.2 of this Prospectus. Please refer to section 2 of this Prospectus for further information on the Offer.

By this Prospectus, the Company is also offering 25,000,000 Shares, 10,000,000 Class W Options and 20,000,000 Class X Options (**Odni Securities**) to the Odni Sellers as part consideration pursuant to the terms of the Share Sale Agreement. Details on the terms and conditions of the Odni Securities are set out in sections 2.5 and 10.3 of this Prospectus.

The Company is also offering 600,000 Class Y Options and 2,400,000 Class Z Options to Barry Tudor as part of his remuneration package (**Tudor Options**) pursuant to this Prospectus. Details on the terms and conditions of the Tudor Options are set out in sections 2.6 and 10.3 of this Prospectus.

## 1.5 Indicative Timetable

Set out below is an indicative timetable outlining the key dates associated with the Offer.

Key Event	Date
Prospectus lodged with ASIC	7 September 2012
Estimated Opening Date	7 September 2012
Estimated Closing Date	5.00 pm on 21 September 2012
Issue and allotment of Shares under the Offer and settlement of the Proposed Transaction	5 October 2012
Expected despatch of holding statements and any refund payments (if required)	9 October 2012
Trading in Shares reinstated by ASX (subject to satisfaction of Chapters 1 and 2 of the Listing Rules)	17 October 2012

Note: This timetable is indicative only. Unless otherwise indicated, all times are AEST. The Company reserves the right to vary the dates and times of the Offer, including closing the Offer early, or withdrawing the Offer, to extend the Closing Date or to accept late Applications, either generally or in particular cases, without notifying any recipient of this Prospectus or any Applicants. Any changes will be released to the ASX. Investors are encouraged to submit their Applications as soon as possible after the opening of the Offer as the Offer may close at any time without notice.

Trading in Shares will only be reinstated by the ASX after the Company has completed the Proposed Transaction and the Company has complied with Chapters 1 and 2 of the Listing Rules or alternatively in the event the conditions to the Offer are not satisfied or the Company does not receive conditional approval for re-quotation on ASX then the Company will not proceed with the Offer and will repay all Application Monies received without interest and the Company will seek re-quotation of its Shares. The Company will endeavour to minimise the period of suspension as much as possible.

## 1.6 Purpose of the Offer and use of funds

The purpose of the Offer is to:

- (a) assist the Company to meet the requirements of ASX and re-comply with Chapters 1 and 2 of the Listing Rules; and
- (b) raise up to \$20,000,000 pursuant to the Offer to:
  - (i) satisfy the condition precedent in the Share Sale Agreement that requires the Company to raise minimum gross proceeds of \$10 million; and
  - (ii) provide additional funds for expenditure commitments and further exploration and development of the Indonesian Projects, general working capital and meet the expenses of the Offer.

On completion of the Offer, the Board believes that the Company will have sufficient working capital to achieve these objectives.

The Directors intend that the proceeds of the Offer, based on the minimum subscription and maximum subscription being raised, will be applied as follows:

Application	Note Ref	Minimum Subscription (\$10 million)	% Use of Funds	Maximum Subscription (\$20 million)	% Use of Funds
Exploration Expenditure – Project Sugico	(1)	\$1,500,000	15.0	\$3,000,000	15.0
Exploration Expenditure – Project MMBP	(1)	\$1,284,900	12.8	\$3,072,400	15.4
Exploration Expenditure – Project BIG	(1)	\$1,260,440	12.6	\$3,068,400	15.3
Exploration expenditure Project Karin	(1)	\$1,007,250	10.1	\$2,656,750	13.3
Part re-imburement to Ruck Pty Ltd	(2)	\$750,000	7.5	\$1,500,000	7.5
Working capital	(3)	\$2,857,000	28.6	\$4,757,000	23.8
Option fees payable for Indonesian Projects	(4)	\$450,000	4.5	\$450,000	2.2
Costs of the Offer	(5)	\$890,450	8.9	\$1,495,450	7.5
<b>Total</b>		<b>\$10,000,000</b>	<b>100%</b>	<b>\$20,000,000</b>	<b>100%</b>

## Notes:

- (1) For a detailed breakdown of the proposed exploration expenditure for each project, please refer to table 7.1 in the Independent Technical Review in section 6 of this Prospectus. In relation to the budgeted exploration expenditure on Project Sugico, the Company will only expend exploration funds if Odni has a present right to explore in relation to the Sugico IUPs. If Odni does not have a present right to explore with respect to the Sugico IUPs, the Company will apply the exploration funds budgeted for Project Sugico towards exploration of the IUPs in relation to which Odni has a present right to explore.
- (2) Pursuant to the Share Sale Agreement, the Company will pay to Ruck Pty Ltd, as part reimbursement of the expenditure incurred to date by Ruck in the development of the Indonesian Projects, costs depending on the amount of capital raised and subject to the Listing Rules. The amount set out in the table above is likely to vary, depending on the amount of money raised pursuant to the Offer. Please refer to section 10.5.1 of this Prospectus for further details.
- (3) Working capital includes the normal general and administrative costs associated with running a public company, including but not limited to salaries and Director fees, technical consulting fees, legal fees, rental of office premises, investor relations and finance and accounting fees.
- (4) Option fees payable relate to Projects MMBP, BIG and Karin.
- (5) Please refer to section 10.13 of this Prospectus for details associated with the costs of the Offer.

The above table is a statement of current intentions as of the date of lodgement of this Prospectus with ASIC. Although the proceeds of the Offer are intended to be used as set out in the above table, the actual use of the proceeds may change depending upon the progressive results of the exploration program, the analysis of those results, opportunities for third parties to fund parts of the exploration program and opportunities which may arise for the acquisition of interests in additional project in Projects. The Board reserves the right to alter the way funds are applied on this basis.

## **1.7 Indonesian and NSW Projects**

### **1.7.1 Indonesian Projects**

The Company has entered into agreements to acquire an interest in Projects BIG and Karin through acquiring 100% of the shares in the companies that own the BIG IUP and Karin IUP, subject to a number of conditions precedent being satisfied or waived. The Company has entered into an option agreement with respect to Project MMBP allowing the Company to conduct due diligence on Project MMBP during the option period and enter into an agreement to acquire 100% of the shares in the company that owns the MMBP IUP by the end of the option period on 30 September 2012. Odni and Corpac (the Company's strategic corporate advisor) have provided an undertaking to the Company that they will keep the MMBP Project in good standing by either ensuring Odni complies with its obligations under the MMBP Agreement, or negotiating an extension of the option period. Details of these projects are outlined below and in further details in section 3 of this Prospectus. The Directors intend to proceed with these projects on the terms outlined in detail in section 10.5.

Odni has conducted due diligence on Project Sugico and has been negotiating the terms of the agreement to acquire a 50% interest in the traditional coal mining rights and benefits in the IUPs relating to Project Sugico (**Sugico Agreement**). The Sugico Agreement has not been signed. The Company has a letter of intent from a representative of the Sugico Sellers stating that the Sugico Sellers will enter into the Sugico Agreement after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (**Sugico Intent Letter**). The Sugico Intent Letter does not provide the Company with the exclusive rights to negotiate or enter into an agreement to acquire an interest in Project Sugico. Further the Sugico Intent Letter may not be enforceable if the representative that signed the Sugico Intent letter is not authorised to agree such a commitment on behalf of the Sugico Sellers. However the Board is of the view that the representative that signed the Sugico Intent Letter has demonstrated commercial representation on behalf of the remainder of the Sugico Sellers and therefore believes that the remaining Sugico Sellers will agree to the content of the Sugico Intent Letter. Details of the negotiated terms of the Sugico Agreement as at the date of this document are set out in section 10.5.4. Subject to receiving valid Applications for \$10,000,000 on or before 28 September 2012, the Company intend to demonstrate to the Sugico Sellers by 28 September 2012 that Odni will have US\$1,500,000 available shortly to be applied towards the agreed exploration program. The Directors believe that if Odni can demonstrate this, the Sugico Sellers will be willing to finalise the negotiations of the terms of the Sugico Agreement with Odni, in particular, the timing of the payments to the Sugico Sellers. If Odni is unable to finalise negotiations of the Sugico Agreement, the Company will not proceed with Project Sugico. The Company will not make any payments to the Sugico Sellers unless the Sugico Agreement is finalised and executed.

Two further projects, Project Damanka and West Papua Project (**Pipeline Projects**), are considered projects of interest for the Company and continue to be reviewed from a commercial, legal and technical due diligence perspective. As at the date of this Prospectus, however, the Company has not completed due diligence on the Pipeline Projects to a requisite standard and therefore has not entered into definitive sale and purchase agreements for their acquisition. Accordingly, the Company classifies these projects as its pipeline projects and will continue to keep the market fully informed as it resolves whether or not to pursue their acquisition.

Summaries of Projects **Sugico**, **BIG**, **MMBP** and **Karin** are outlined below.

### **Project Sugico**

Project Sugico represents a very extensive combined exploration region comprising 11 mostly adjacent IUP areas located approximately 100 kilometres south of Palembang, the provincial capital of the South Sumatra Province on the island of Sumatra. The total area of all concessions combined is approximately 250,000 hectares; the equivalent of an area 50 kilometres long and 50 kilometres wide.

Due to the very large size of these concessions, the Independent Technical Review, as set out in section 6, considers that any discovery of coal has the potential to be a large coal resource, however there is currently not enough information to identify an exploration target at this stage. The main coal bearing formation of potential economic significance is the Muara Enim Formation. Approximately 44% of the total Project area overlies the Muara Enim Formation.

The Independent Technical Review set out in section 6 considers that with no evidence of any previous exploration activity, Project Sugico is vastly unexplored, and therefore represents a very large area of the Muara Enim Formation with good potential to discover coal.

The coal most likely to be found in Project Sugico would be lignites. There are no known or identified volcanic intrusions reported in Project Sugico concession areas which could improve the quality of the coal, however, as the area is so large and mostly unexplored, intrusions may exist.

### **Project BIG**

Project BIG consists of a concession area covering a total area of 4,969 hectares in the Antutan region of the Bulungan Regency in the East Kalimantan Province of Indonesia. The area is approximately 40 kilometres from the nearest river jetty point.

The main coal bearing formation of potential economic significance is the Sembakung Formation. 100% of the concession area overlies the Sembakung Formation.

Initial geological investigation (outcrop mapping) has identified 10 coal horizons within the Sembakung Formation. The coal seams are categorized as multiple, thin seams with moderate to steep dips. The Independent Technical Review set out in section 6 considers that Project BIG has good coal prospectivity.

An Exploration Target as defined in accordance with the JORC Code of 20 to 30 million tonnes has been estimated.

All estimated coal quantities are based on Exploration Results and represent exploration targets. They are not classified as either Coal Resources or Coal Reserves. Potential coal quantities are conceptual in nature, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of Mineral Resources.

### **Project MMBP**

Project MMBP is located in the Antutan, Central Tanjung Palas sub districts, Bulungan Regency, approximately 340 kilometres north of Samarinda, the capital of the East Kalimantan Province in Indonesia. The Project MMBP concession area covers 5,312 hectares and lies on tropical rainforest and rough terrain with steep slope elevation.

The main coal bearing formation of potential economic significance is the Sembakung Formation. Approximately 27% of the total concession area overlies the Sembakung Formation. The Independent Technical Review as set out in section 6 considers Project MMBP to have reasonable coal prospectivity. There is not yet enough information to estimate an exploration target.

### **Project Karin**

Project Karin concession is located in the Barito Utara Regency, approximately 150 kilometres northeast of Palangkaraya, the provincial capital of the province of Central Kalimantan, Indonesia.

The main coal bearing formations of potential economic significance are the Tanjung, Warukin and Montalat Formations. There is no exploration data available in respect of this project however 50% of the project area overlies the coal bearing Warukin Formation. The Independent Technical Review set out in section 6 considers Project Karin to have reasonable prospectivity.

### **1.7.2 The NSW Projects**

The Company currently holds two NSW based gold and base metal exploration projects, the Mineral Hill South Project and the Nyngan Project. A summary of the NSW Projects is set out below. For further information on the NSW Projects please refer to section 3.5 of this Prospectus.

## Mineral Hill South Project

The Mineral Hill South Project covers an area of 112 km<sup>2</sup> to the south and south-east of KBL's Mining Mineral Hill Mine in the central west of NSW, approximately 52km north of Condobolin. The land covered by the Mineral Hill South Project is mostly open flat grazing and/or cropping paddocks and can be accessed easily via public roads and farm tracks and contain the Yellow Shaft and Brooklyn Prospects.

### Yellow Shaft Prospect

Drilling at Yellow Shaft Prospect has identified a strong arsenic anomaly oriented north-west to south-east, similar to the orientation of the arsenic-gold anomaly which was the precursor to discovery of the Pearse Deposit 8.5km to the north-west.

### Brooklyn Prospect

The Brooklyn Ironstone intersected in the second round of drilling highlighted significant widths of greater than 50% Fe with relatively low contaminants. The ironstone outcrops over a roughly circular area of 150 metres in diameter and based on the one RC hole is at least 100 metres deep.

### Nyngan Project

The Nyngan Project comprises 160 km<sup>2</sup> of land located approximately 12km south of Nyngan, in central west NSW. The land covered by the Nyngan Project is flat and easily accessible by sealed roads. Current land uses consist of grazing and winter cereal cropping.

Aircore drilling during 2011 on the Nyngan Project confirmed the presence of a large intrusive system beneath the transported cover; all holes intersected granite which suggests that the erosion depth of the intrusive system is extensive and the likelihood of a high level intrusion or epithermal deposit remaining intact appears less likely given the new information.

## 1.8 Capital Structure

The capital structure of the Company following completion of the Offer and the Proposed Transaction is summarised below:

### Fully Paid Ordinary Shares

SHARES	Minimum		Maximum	
	Subscription (\$10 million)	%	Subscription (\$20 million)	%
Shares on issue at date of Prospectus	28,875,003	27.8	28,875,003	18.8
Shares issued to Odni Sellers	25,000,000	24.1	25,000,000	16.3
Shares offered under this Prospectus	50,000,000	48.1	100,000,000	64.9
<b>Total Shares following completion of the Offer and Proposed Transaction</b>	<b>103,875,003</b>	<b>100.0</b>	<b>153,875,003</b>	<b>100.0</b>

**Options and Performance Shares**

<b>Options</b>		<b>Performance Shares</b>	
Options on issue at date of Prospectus	16,008,568	Performance Shares on issue at date of Prospectus	Nil
Options issued to the Odni Sellers	30,000,000 <sup>1</sup>	Performance Shares issued to the Odni Sellers <sup>3</sup>	66,000,000
Options issued to Barry Tudor	3,000,000 <sup>2</sup>	Performance Shares issued to Barry Tudor <sup>4</sup>	18,000,000
<b>Total Options following completion of the Offer and Proposed Transaction</b>	<b>49,008,568</b>	<b>Total Performance Shares following completion of the Offer and Proposed Transaction</b>	<b>84,000,000</b>

Notes:

- (1) 10,000,000 Class W Options exercisable at \$0.20 on or before two years of the issue date and 20,000,000 Class X Options exercisable at \$0.50 on or before three years of the issue date. Refer to section 10.3 for further information on the Class W and Class X Options.
- (2) 2,400,000 Class Z Options exercisable at \$0.50 on or before four years of the issue date and 600,000 Class Y Options exercisable at \$0.20 on or before four years of the issue date. Refer to section 10.3 for further information on the Tudor Options.
- (3) 22,000,000 Class A Performance Shares, 22,000,000 Class B Performance Shares and 22,000,000 Class C Performance Shares. Refer to section 10.3 for further details on the Performance Shares.
- (4) 6,000,000 Class A Performance Shares, 6,000,000 Class B Performance Shares and 6,000,000 Class C Performance Shares. Refer to section 10.3 for further details on the Performance Shares.

**1.9 Substantial Shareholders**

The substantial Shareholders in the Company, being those who hold greater than 5% of the Shares:

- (a) as at the date of this Prospectus; and
- (b) following completion of the Offer and the Proposed Transaction (assuming (i) the substantial shareholders do not acquire any Shares under the Offer; and (ii) the maximum subscription under the Offer is raised) are set out below:



	Date of Prospectus		Completion of Offer and Proposed Transaction	
	SHARES	%	SHARES	%
Geba Pty Ltd	2,583,333	8.95	2,583,333	1.68
Cangu Pty Ltd	1,565,000	5.42	1,565,000	1.02

The Company will announce to the ASX details of its top 20 Shareholders (following completion of the Offer) prior to the Shares re-commencing trading on ASX.

## 1.10 Board and Management

The Directors consider that they have assembled a well-credentialed and balanced Board and management team. Together with its consulting technical team, extensive coal exploration and production experience is available to the Company. In addition, following the completion of the Proposed Transaction, the Company intends to appoint the Proposed Directors to the Board. The Directors believe that these appointments will add in-country experience and expertise to the Board and complement the operational, technical, corporate and commercial backgrounds of the existing Directors.

The Board and key personnel of the Company and the Proposed Directors are set out below. Please refer to section 4 of this Prospectus for further details on the Board and key personnel and the Proposed Directors. Please refer to sections 10.6 and 10.8 of this Prospectus for details on the Directors' interests and remuneration.

### Directors

Barry Tudor, Chief Executive Officer and Managing Director  
 Emmanuel Correia, Non-Executive Chairman  
 James Malone, Non-Executive Director  
 Shane Hartwig, Non-Executive Director and Company Secretary

### Proposed Directors

Mr Romy H.R Soekarno (Proposed Non-Executive Director)  
 Mr Edward Lee Kwong Foo (Proposed Non- Executive Director)

### Other Key Personnel

Attila Kovago, Director of Exploration  
 David Ward, Consulting Geologist  
 Rob Schnittger, Commercial Manager

## 1.11 Financial Information

The Company is currently involved in prospective gold and base metal exploration in NSW. Following the completion of the Proposed Transaction, the Company will also be involved in the exploration and development of prospective coal mining projects in the Kalimantan and, if the acquisition of Project Sugico occurs, Sumatra and West Papua regions of Indonesia.

Neither the NSW Projects or the Indonesian Projects are yet commercialised and, accordingly, have not generated any revenues or profits. The Company does not have any debt financing or borrowings.

The Company is unable to provide any meaningful key financial information or ratios, such as net profit after tax or earnings per Share. Given that the Company does not have any debt financing, it is unable to provide any meaningful gearing ratio, net interest cover ratio or working capital ratio.

The Directors intend to apply the proceeds from the Offer as outlined at section 1.6 of this Prospectus and in the absence of a successful base metal or coal discovery and subsequent economic development of that discovery, the Company is likely to generate operating losses and may be required to raise additional capital to fund its ongoing commitments.

Given the uncertainty attached to operating in the coal and base metal industry, the Company may be required to contribute additional working capital to projects above that allowed for in the Company's operating budgets.

Further financial information relating to the Company is set out in the Investigating Accountant's Report in section 7 and also in section 8 of this Prospectus which includes amongst other things, pro forma financial information of the Company as at 30 June 2012.

## 1.12 Risks

You should consider all of the risks associated with an investment in the Company before deciding whether to invest. Potential investors should be aware that an investment in Shares should be considered a highly speculative investment and the objectives of the Company set out in this Prospectus are considered high risk. Some risks are beyond the control of the Company and its Directors and management and those risks may have a material impact on the Company and its financial performance and position.

A detailed list of the risks that you should be aware of are set out in section 5 of this Prospectus. In particular the following specific risks are noted.

### Indonesian Agreements

The MMBP Agreement, BIG Agreement and Karin Agreement contain a number of conditions precedent that need to be completed before Odni can earn its interest in the various Indonesian Projects. These conditions precedent include the requirement to define Resources (as defined by the JORC Code), obtaining several approvals from various Indonesian regulatory bodies relating to the ownership and operations of the various IUP's, and obtaining shareholder approval from each of the relevant Indonesian Companies. Should these conditions precedent not be satisfied (or waived) by the relevant party, then the acquisition of some, or all, of the Indonesian Projects may not be completed and therefore the Company may not be successful in its objective of becoming an Indonesian coal exploration development company.

For example, the option period under the MMBP Agreement expires on 30 September 2012, before which Odni may negotiate and enter into a share purchase agreement in relation to the MMBP Shares. Odni and Corpac (Exalt's strategic corporate advisor) have provided an undertaking to the Company that they will keep the MMBP Project in good standing by either ensuring Odni complies with its obligations under the MMBP Agreement, or negotiating an extension of the option period.

Neither the Company nor Odni have entered into an agreement to acquire the Sugico Interest and the Company does not have any legal or beneficial rights to any interest in Project Sugico. If Odni is unable to finalise negotiations of the Sugico Agreement, in particular with respect to the timing of the payments to the Sugico Seller, the Company will not proceed with Project Sugico. The Sugico Intent Letter does not provide the Company with the exclusive rights to negotiate or enter into an agreement to acquire an interest in Project Sugico. The Sugico Intent Letter may not be enforceable if the representative that signed the Sugico Intent letter is not authorised to agree such a commitment on behalf of the Sugico Sellers. The Company will not make any payments to the Sugico Sellers unless the Sugico Agreement is finalised and executed.

### **Completion of the Proposed Transaction**

The Proposed Transaction is subject to a number of conditions precedent that are required to be achieved for completion to occur. Key conditions precedent include the Company finalising its due diligence, raising at least \$10,000,000 under the Offer, and obtaining the approval of various Australian and Indonesian regulatory bodies (including the ASX's conditional approval to the Company's admission to the Official List of the ASX and to Official Quotation, on terms and conditions acceptable to the Company). There is a risk that one or more of these conditions precedent may not be met. If this occurs then the Proposed Transaction and/or the Offer may not proceed. A summary of the terms and conditions of the Share Purchase Agreement are set out in section 10.5.1.

### **Funding**

Pursuant to the Offer, the Company is proposing to raise a minimum of \$10 million and a maximum of \$20 million.

If the maximum amount is raised under the Offer, the Company expects that there will be sufficient funding to support the initial exploration of the Indonesian Projects considered as part of the Proposed Transaction.

In the event the Company is not successful in raising the minimum subscription of \$10 million and the Company and the Odni Sellers do not agree to resolve to waive the condition precedent of this minimum capital raising pursuant to the terms of the Share Purchase Agreement, then it is unlikely that the Proposed Transaction would proceed and the Company would seek re-instatement of its securities on the ASX, continue to explore its NSW Projects and continue to look for other acquisition opportunities, consistent with its original charter.

The Company may need to raise debt and/or equity capital from time to time in relation to the funding of its projects and business activities. For example, the Company will need to secure additional financing to fund the \$10 million payable by Odni to the Sugico Sellers subject to the Sugico Agreement being entered into and exploration results.

### Further Exploration Funding

The Company may have difficulty in obtaining future equity or debt funding to support exploration programs and the evaluation and development of its projects. The Company's ability to raise further equity or debt or to divest part of its interest in a project, and the terms of such transactions will vary according to a number of factors, including the success of exploration results and the future development of the projects, stock market conditions and prices for commodities.

The Company will need to secure additional financing to fund the \$10 million payable by Odni to the Sugico Sellers, subject to the Sugico Agreement being entered into and exploration results.

Should it subsequently be established that a mining production operation is technically, environmentally and economically viable, the Company will require substantial additional financing to establish mining operations and production facilities. The Company may not be able to raise the additional finances that may be required for future activities. Commodity prices, environmental regulations, environmental rehabilitation or restitution obligations, revenues, taxes, transportation costs, capital expenditures, operating expenses and technical aspects are all factors which will impact on the amount of additional capital that may be required.

Additional financing may not be available on terms acceptable to the Company, or at all. Significantly, any additional equity financing or the exercising of options may dilute your existing shareholdings and debt financing, if available, may restrict financing and future activities.

If the Company fails to obtain additional financing, as needed, it may be required to reduce the scope of its operations and scale back its exploration programs as the case may be, which may adversely affect the business and financial condition of the Company and its performance.

### Projects will not be fully owned

Odni has the conditional right to acquire a 100% interest in Projects BIG, Karin and MMBP and is negotiating the right to acquire a 50% interest in Project Sugico. Please refer to section 3.2 which sets out the ownership interest of Odni in each project. In the event that these acquisitions are completed there is a risk the exploration/development activity could be disrupted in situations where there is disagreement on development programs or other issues between Odni, and its partners. Should such disagreements occur, this may have an adverse impact on the Company's operations and performance generally.

### Dual Access Rights - Project Sugico and MMBP

The Sugico IUPs and MMBP IUPs contained within the Indonesian Projects are currently the subject of Coal Bed Methane Production Sharing Contracts (**CBM PSC**) and/or rights to Underground Coal Gasification (**UCG Rights**) development with third parties. These CBM PSC and UCG Rights currently have precedence over traditional coal development rights within these IUP's. If access to areas covered by the IUP's is denied then there is a risk that the Company will not be in a position to fully explore and/or develop Project Sugico and Project MMBP, which may have a negative impact on the value of the Company and therefore may have a negative impact on the trading price of its Shares. The Board is of the view that should access issues arise in relation to Project Sugico and Project MMBP that the areas are large enough that an agreed exploitation program can be developed between the Company and those parties holding the CBM PSC and/or rights to UCG.

## Forestry licences

The IUPs in respect of the Indonesian Projects are located within designated 'production forest' and/or areas of forest known as 'Other Use Areas' or 'ARL'. IUP holders are required to obtain a forestry licence prior to conducting exploration activities within areas designated as 'production forest'. No licences are required for such activities within 'ARL' areas.

None of the Indonesian Companies have obtained the necessary forestry licences in respect of the 'production forest' areas within the relevant IUP project areas. Based on the findings of the Solicitor's Report in Section 9 of this Prospectus the Company is not aware of any reason as to why these licences cannot be obtained. The Directors understand that Odni is currently seeking the necessary forestry licences for each of the relevant IUPs. The forestry licenses could take at least two months to obtain.

Any delay in obtaining the necessary forestry licences could impact on the Company's proposed exploration activities in respect of the Indonesian Projects and may adversely affect the business and financial condition of the Company and its performance. Undertaking prospecting or exploration in a designated forest area without the relevant forestry licence is a criminal act and subject to certain penalties.

For further information on Indonesia's forestry licence regime, please refer to the Solicitor's Report contained in section 9.

## 'Clean and clear' title

In an effort to bring licensing into some order, the ESDM has forbidden the issuing of new licences under the Indonesian mining law and has been undertaking limited audits of all licences issued. The intention is to reveal where there are over-lapping licences. As a result of this process, ESDM issues lists, maps and statements on request, indicating that the licence involved is "clean and clear" ("CNC"). The IUP is thereby recognised by ESDM as legitimate, which carries an inference that the IUP has been properly issued, although this is not stated. The CNC lists are an administrative attempt to clear away confusion, and carry no legal status.

There is no definition of what "clean and clear" means, but it is understood to mean simply that there are no overlapping issues (with conflicting licences for the same product).

What "clean and clear" does not mean is that the licence holder is up to date with its obligations under the licence, that it has obtained any necessary approvals from the Ministry of Forestry, whether or not the licence holder also owns the land involved, whether or not there are land titles in place, whether there are any disputes with registered or traditional land owners, and whether there is any illegal mining activity taking place.

The Karin Project is not currently included on any CNC list nor is one of the licences constituting Project Sugico. Based on the findings of the Solicitors Report in Section 9 of this Prospectus, the Directors are not aware of any reason as to why these licences are not included on the relevant CNC lists and it is currently seeking to address this issue. The Company does not intend to expend a substantial amount of funds on exploring and developing an IUP until the IUP is included in a CNC list.

## **Country and Regulatory Risk**

Currently, the Indonesian Government is formulating a new policy with regards to Indonesian mineral and coal resources. Any actions or policy changes by the Indonesian government in relation to access to lands and infrastructure, compliance with environmental regulations, taxation, royalties and subsidies may adversely affect the Company's operations and financial performance.

As an example, Indonesia has recently changed its Mining Regulations and in particular the aspects relating to the position of foreign investors in relation to Indonesian mining assets. These regulations stipulate, amongst other things, that from 21 February 2012 companies holding IUPs must gradually increase their Indonesian participation to a 51% shareholding by the tenth year following the company entering the production operation phase, in accordance with a prescribed scale.

In certain circumstances, if Odni completes an acquisition of an Indonesian Company and that company enters into a production phase in respect of its coal assets, then, in accordance with the prescribed scale, from the 6th year following commencement of production, Odni's interest in that Indonesian Company may be diluted.

## **Change of Activities and Re-quotations of Shares on the ASX**

As the Company has no prior involvement in the coal industry, the Proposed Transaction, if completed, would constitute a change in the nature and scale of the Company's activities to include coal exploration and mining.

In accordance with the requirements of the ASX in relation to this proposed change in activity, the Company must re-comply with Chapters 1 and 2 of the Listing Rules as if it were seeking admission to the Official List. Accordingly, the Company is required to issue a Prospectus to, among other things, assist the Company to re-comply with these admission requirements.

The Company's Shares were suspended from Official Quotation on 24 August 2012 and will not be reinstated until the Company has re-complied with Chapters 1 and 2. If the conditions precedent to the Share Sale Agreement are not satisfied or waived (if applicable), the Company will not proceed with the Proposed Transaction and will seek re-quotations of its Shares. There is a risk that the Company may not be able to meet the requirements of the ASX for re-quotations of its Shares on the ASX. Shares will not be able to be traded on the ASX until such time as the ASX's requirements for re-quotations can be met, if at all.

## **Exploration & Operational Risks**

Coal exploration is inherently associated with risk. Notwithstanding the experience, knowledge and careful evaluation a company brings to an exploration project there is no assurance that recoverable mineral resources will be identified. Even if identified, other factors such as technical difficulties, geological conditions and other operational risks such as difficulties in securing costs for transportation and shipping may adversely affect the Company's profitability.

It is noted that currently there has been insufficient exploration to define a coal Resource (as defined by the JORC Code). There is no guarantee that the Company's proposed exploration program will yield a coal Resource from any of the Indonesian Projects. The outcome of the Company's exploration, project development and production programs will affect the future performance of the Company and the price of its Shares.

If and when the Company commences production, the production may be curtailed or shut down for considerable periods of time owing to a range of factors such as disruptions to transport infrastructure, operational hazards, and lack of market demand, government regulation, production allocations or force majeure events. These curtailments may continue for a considerable period of time, resulting in a materially adverse effect on the operations and/or financial condition of the Company and the trading price of the Shares.

### **Title Risks**

Mining and exploration licences are subject to periodic renewal. In particular, there is no guarantee that applications for future exploration licences or production licences will be approved. Renewal and transfer conditions may include increased expenditure and work commitments or compulsory relinquishment of areas of the exploration licences comprising the Company's projects. The imposition of new conditions or the inability to meet conditions may adversely affect the operations, financial position and/or performance of the Company.

As set out in section 3.2 of this Prospectus, the expiry dates of the IUP's relating to the Indonesian Projects range from December 2014 to February 2017. There is no guarantee that the IUP's will be renewed at the end of these expiry dates.

### **Native Title**

The Company's activities in Australia are subject to the *Native Title Act 1993* (Cth). There is currently a registered native title claim overlapping the areas covered by EL 7667, the exploration licence relating to the Nyngan project. A registered native title claim does not necessarily mean that Native Title exists over the area claimed. However, a registered native title claim does allow claimants to access certain procedural rights set out in the *Native Title Act 1993* (Cth) including the right to be consulted on or be involved in future acts or negotiations about certain proposed developments or activities in the claim area while their Native Title application is underway. There can be no guarantee that further native title applications will not be made or registered in respect to the land on which the Company's projects are situated in the future. The registered title claim affecting EL 7667 and any future registered native title claim may impact on the Company's ability to gain access to land, or to progress from the exploration phase to the development and mining phases of operations may be adversely affected.

### **Government, legislation and policy changes**

The NSW Government has released a number of policies and plans that deliver on its Strategic Regional Land Use Policy to protect high-quality agricultural land and its water sources from inappropriate mining and coal seam gas projects. It is not possible at this stage to predict the impact these policies and plans, if implemented, would have on the Company's projects.

### **Environmental Risk**

The Company must adhere and comply with all environmental policies and guidelines in the countries within which it operates. There is no guarantee that new environmental laws or policies, both in Australia and Indonesia, will not oblige the Company to incur expense in terms of compliance which may have an adverse effect on the Company's operations.

The above list of risk factors is not intended to be exhaustive. Further information concerning risks associated with an investment in the Company is set out in section 5 of this Prospectus.

Before deciding whether to apply for Shares, you should read this Prospectus in its entirety.

## 2. DETAILS OF THE OFFER

### 2.1 Description of the Offer

By this Prospectus, the Company offers for subscription up to 100,000,000 Shares at \$0.20 per Share to raise up to \$20,000,000. The Shares offered under this Prospectus will rank equally with the existing Shares on issue.

The rights attaching to the Shares are summarised in section 10.2 of this Prospectus.

The Offer is not underwritten.

### 2.2 Minimum Subscription

The minimum subscription to be raised pursuant to this Prospectus is \$10 million.

If the minimum subscription has not been raised within four months after the date of this Prospectus, the Company will either repay the Application Monies without interest or issue a supplementary or replacement Prospectus or allow Applicants one month to withdraw their Applications and be repaid their Application Monies.

In the event the Company is not successful in raising the minimum subscription of \$10 million and the Company and the Odni Sellers do not agree to waive the condition precedent of this minimum capital raising pursuant to the terms of the Share Purchase Agreement, then it is unlikely that the Proposed Transaction will proceed and the Company will seek re-instatement of its securities on the ASX, continue to explore its NSW Projects and continue to look for other acquisition opportunities, consistent with its original charter.

### 2.3 Re-compliance with Chapters 1 and 2 of the ASX Listing Rules

The Company's Shares were suspended from quotation on 24 August 2012, the date of its General Meeting which was held to approve amongst other things, the Proposed Transaction associated with a change to the nature and scale of the Company's activities.

The Company's Shares will not be reinstated to Official Quotation until ASX approves the Company's re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

In the event that the Company does not receive conditional approval for re-quotation on ASX, it will not proceed with the Offer and will repay all Application Monies received without interest. Should this occur, then the change to the nature and scale of the Company's activities will not eventuate and the Company will seek re-quotation of its Shares.



## 2.4 Offer is conditional

The Offer under this Prospectus is also conditional on the satisfaction or waiver of all of the conditions precedent to the Share Sale Agreement, details of which are set out in section 10.5.1 of this Prospectus. In addition, the Offer is conditional on the Company's successful re-compliance with Chapters 1 & 2 of the ASX Listing Rules.

In the event that the relevant conditions are not met, the Company will refund all Application Monies received pursuant to the Offer as soon as practicable in full without interest.

## 2.5 Offer of Odni Securities

By this Prospectus, the Company is also offering 25,000,000 Shares, 10,000,000 Class W Options and 20,000,000 Class X Options to the Odni Sellers. The Company has agreed, subject to satisfaction of conditions precedent to issue the Odni Securities to the Odni Sellers as part consideration pursuant to the terms of the Share Sale Agreement. The issue of the Odni Securities was also approved by Shareholders at the General Meeting. Further details on the Share Sale Agreement are set out in section 10.5.1 of this Prospectus.

The 25,000,000 Shares offered to the Odni Sellers under this Prospectus will rank equally with the existing Shares on issue. Rights and liabilities attaching to the Shares are summarised in section 10.2 of this Prospectus

Each Class W Option entitles the holder to one Share and is exercisable at a price of \$0.20 with an expiry date of two years from the date of issue. Each Class X Option entitles the holder to one Share and is exercisable at a price of \$0.50 with an expiry date of three years from the date of issue. Details of the terms and conditions of the Odni Securities are set out in section 10.3 of this Prospectus.

Application for the Odni Securities is to be made on a separate application form accompanying this Prospectus entitled "Odni Securities Application Form". No consideration is payable and the Odni Securities Application Form can only be completed by the Odni Sellers (or their respective nominees). Upon lodgement of a completed Odni Securities Application Form and following the close of the Offer and completion of the Proposed Transaction, the Company will issue the Odni Securities under this Prospectus.

By lodging the Odni Securities Application Form, the relevant Odni Seller agrees with the Company that upon issue and allotment of the relevant Odni Securities, the Company will have satisfied its obligation to issue those Odni Securities to the relevant Odni Seller under the Share Sale Agreement.

## 2.6 Offer of Tudor Options

By this Prospectus, the Company is also offering 600,000 Class Y Options and 2,400,000 Class Z Options to Barry Tudor. The Company has agreed to issue the Tudor Options to Mr Tudor as part of his remuneration package. The issue of the Tudor Options was also approved by Shareholders at the General Meeting. Further details on Mr Tudor's remuneration are set out in section 10.6.1 of this Prospectus.

Each Class Y Option entitles the holder to one Share and is exercisable at a price of \$0.20 with an expiry date of four years from the date of issue. Each Class Z Option entitles the holder to one Share and is exercisable at a price of \$0.50 with an expiry date of four years from the date of issue. Further details on the terms and conditions of the Tudor Options are set out in section 10.3 of this Prospectus.

Application for the Tudor Options is to be made on a separate application form accompanying this Prospectus entitled “Tudor Options Application Form”. No consideration is payable and the Tudor Options Application Form can only be completed by Mr Tudor (or his nominee). Upon lodgement of a completed Tudor Options Application Form and following the close of the Offer and completion of the Proposed Transaction, the Company will issue the Tudor Options under this Prospectus.

## 2.7 Forecast Financial Information

Given the speculative nature of mineral exploration and development and the fact that the Company is in an early stage of exploration, there are significant uncertainties associated with forecasting future revenues and expenses of the Company. The Directors believe that reliable financial forecasts for the Company cannot be prepared and accordingly have not included financial forecasts in this Prospectus.

## 2.8 How to Apply

If you wish to participate in the Offer, you should complete the Application Form enclosed with or attached to this Prospectus. The Application Form must be completed and payment made in accordance with the instructions set out on the reverse side of the Application Form. Payment for the Shares must be made in full at the issue price of \$0.20 per Share. Applicants may apply for a minimum parcel of 10,000 Shares, and thereafter in multiples of 500 Shares.

Completed Application Forms and accompanying cheques must be mailed to:

**By Mail**                                      Computershare Investor Services Pty Ltd  
GPO Box 2115 Melbourne VIC 3001

Cheques should be made payable to “Exalt Resources Ltd– Share Offer Account” and crossed “Not Negotiable”. Completed Application Forms must reach one of the above addresses by no later than 5.00 pm AEST on the Closing Date. Payments by cheque will be deemed to be made when the cheque is honoured by the bank on which it is drawn.

The Company reserves the right to close the Offer early without prior notice. Applicants are therefore encouraged to submit their Application Forms as early as possible. The Company reserves the right to extend the Offer or accept late Applications.

## 2.9 Allotment

Subject to the Company’s successful re-compliance with Chapters 1 and 2 of the ASX Rules, the satisfaction or waiver of all of the conditions precedent to the Share Purchase Agreement and the Company raising the minimum subscription under the Offer, being \$10 million, allotment of Shares offered by this Prospectus will take place as soon as practicable after the Closing Date. Prior to allotment, all Application Monies shall be held by the Company on trust. The Company, irrespective of whether the allotment of Shares takes place, will retain any interest earned on the Application Monies.

The Directors reserve the right to allot Shares in full for any Application or to allot any lesser number or to decline any Application. The Company, subject to its discretion, will endeavour to allocate the minimum parcel of Shares that can be taken up under the Offer, being 10,000 Shares having a value of \$2,000 and for which an Application is received by the Company in accordance with this Prospectus.

In determining the ultimate allocation of Shares to each Applicant, the Company will endeavour to satisfy as many Applicants as possible but will allocate Shares on a fair and equitable basis, having regard to the requirements of the Listing Rules that the Company has a prescribed minimum number of Shareholders holding a marketable parcel of Shares. There are no provisions to increase the number of Shares in the event of oversubscriptions.

Where the number of Shares allotted is less than the number applied for, or where no allotment is made, the surplus Application Monies (only where the amount is \$1.00 or greater) will be returned by cheque to the Applicant within fourteen days of the allotment date without interest.

If an Application Form is not completed correctly, or if the accompanying payment of the Application Monies is for the wrong amount, it may still be treated as a valid Application. The Directors' decision whether to treat the Application as valid and how to construe, amend or complete the Application Form is final. However, an Applicant will not be treated as having applied for more Shares than is indicated by the sum of the cheque for the Application Monies.

## **2.10 ASX Listing**

The Company will not be reinstated to Official Quotation until satisfaction of the conditions to the Offer and ASX approving the Company's re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

The Company will apply to ASX within seven days after the date of this Prospectus for admission to the Official List and for Official Quotation of the Shares offered under this Prospectus. If ASX does not grant permission for Official Quotation of the Shares within three months after the date of this Prospectus, or such longer period as is permitted by the Corporations Act, none of the Shares offered by this Prospectus will be allotted or issued. In that circumstance, the Company will repay all Application Monies without interest and within the period prescribed by the Corporations Act.

The fact that the ASX may admit the Company to the Official List is not to be taken as an indication of the merits of the Company or the Shares offered.

If the application to list on the ASX is granted, quotation of the Shares will commence as soon as possible after successful Applicants have been issued their holding statements.

## **2.11 CHESS**

The Company participates in the security transfer system known as CHESS. CHESS is operated by ASX Settlement, a wholly owned subsidiary of ASX, in accordance with the Listing Rules and ASX Settlement Operating Rules.

Under this system, the Company will not issue Share certificates to investors. Instead, Shareholders will receive a statement of their holdings in the Company. If an investor is broker-sponsored, ASX Settlement will send them a CHESS statement.

The CHESS statement will set out the number of Shares allotted to each holder under the Prospectus, give details of the Shareholder's Holder Identification Number and give the Participant Identification Number of the sponsor.

If you are registered on the Issuer Sponsored Subregister, your statement will be dispatched by the share registry and will contain the number of Shares allotted under the Prospectus and the Shareholder's Security Holder Reference Number.

A CHESS statement or Issuer Sponsored Statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their holding changes. A Shareholder may request a statement at any other time; however a charge may apply for additional statements.

## **2.12 Opening and Closing Dates**

The proposed opening date for acceptance of the Offer will be 7 September 2012 or such later date as may be prescribed by ASIC.

The Offer will remain open until 5.00pm AEST, 21 September 2012.

The Company reserves the right to open and close the Offer at any other date and time, without prior notice.

Applicants are encouraged to submit their Applications as early as possible.

No Shares will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

## **2.13 Restricted Securities**

Subject to the Shares being re-instated to Official Quotation, certain of the Shares on issue may be classified by the ASX as restricted securities and will be required to be held in escrow for such time as prescribed by ASX. During the period in which these securities are prohibited from being transferred, trading in Shares may be less liquid which may impact on the ability of a Shareholder to dispose of his or her Shares in a timely manner.

The Shares issued to the Odn Sellers as part of the Consideration Securities will be held in escrow for a minimum period of 12 months, or such longer period as may be required by the ASX.

The Company will announce to the ASX full details of the quantity and duration for the securities required to be held in escrow prior to re-quotation of the Company on ASX.

## **2.14 Risk factors**

You should read this entire Prospectus, including section 5 relating to "Risk Factors" before making any decision to invest. Investing in the Shares should be considered as speculative and is not suitable as an investment for investors who require security of capital or income. You may wish to consult your professional advisers before investing.

The risk factors set out in section 5, and other general risks applicable to all investments in listed securities not specifically referred to, may in the future affect the value of the Shares offered pursuant to this Prospectus. Accordingly, an investment in the Company should be considered speculative.

## 2.15 Taxation Implications

The Directors do not consider that it is appropriate to give persons advice regarding the taxation consequences of subscribing for Shares under this Prospectus.

The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to persons. As a result, persons should consult their professional tax adviser in connection with subscribing for Shares under this Prospectus.

## 2.16 Overseas Investors

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No action has been taken to register or qualify the Shares or the Offer, or otherwise to permit an offering of the Shares, in any jurisdiction outside Australia.

The Offer pursuant to an Electronic Prospectus is only available to persons receiving an electronic version of this Prospectus within Australia.

## 2.17 Enquiries

If you have any queries about the Offer or how to apply for Shares under this Prospectus, you may contact the Offer Information Line during normal business hours on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia). You should consult your stockbroker, accountant, or other financial or professional adviser when considering your own circumstances regarding an investment in the Company.

## 2.18 Privacy Statement

If you complete an Application Form for Shares, you will be providing personal information to the Company. The Company collects, holds and will use that information to assess your Application, service your needs as a Shareholder and to facilitate distribution payments and corporate communications to you as a Shareholder.

The information may also be used from time to time and disclosed to persons inspecting the register, including bidders for your Shares in the context of takeovers; regulatory bodies, including the Australian Taxation Office; authorised securities brokers; print service providers; mail houses and the Share Registry.

You can access, correct and update the personal information that we hold about you. If you wish to do so, please contact the Share Registry on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia).

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules. You should note that if you do not provide the information required on the Application, the Company may not be able to accept or process your Application.

### 3. OVERVIEW OF THE COMPANY

#### 3.1 The Company

##### Background

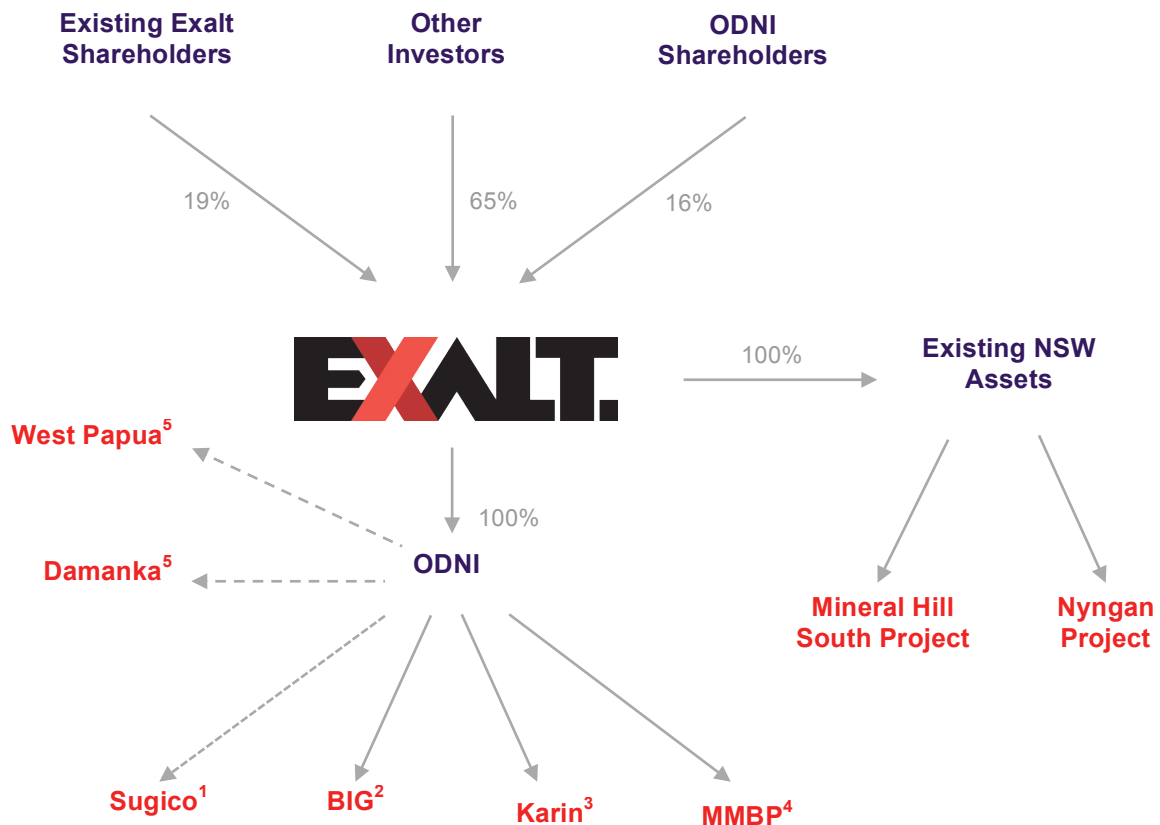
Exalt Resources Limited is a public company listed on the Official List of the ASX (ASX code: ERD). The Company was established in July 2010 as a resource and energy exploration company. The Company’s primary objective is to build a resource and energy business at a time when the global demand for resources and energy is high.

The Company owns 100% of the Mineral Hill South Project covering 112 km<sup>2</sup> of land located 3km to the south of the Mineral Hill Mine in NSW and 100% of the Nyngan Project which covers 160 km<sup>2</sup> of land in central west NSW targeting porphyry copper and epithermal gold mineralisation. A summary of the NSW Projects is set out in section 3.5 below.

The Company has signed a Share Purchase Agreement for the acquisition of 100% of the issued capital of Odni, a Singapore incorporated coal investment company. Odni has secured the conditional right to acquire a 100% interest in Project BIG, Project Karin and Project MMBP. In addition, Odni has substantially negotiated the terms of the acquisition of a 50% interest in Project Sugico. Details of these projects, together with details of the Pipeline Projects, are set out in sections 3.3 and 3.4 below.

##### Structure

Following completion of the Proposed Transaction and the Offer, the corporate structure of the Company is expected to be as follows:



**Notes:**

- (1) Odni is negotiating a Share Purchase Agreement to acquire a 50% interest in the traditional coal mining rights and benefits in the Sugico IUPs.
- (2) Odni has entered into a conditional share purchase agreement to acquire 100% of the shares of PT Bakti Inti Guna, the holder of the BIG IUP.
- (3) Odni has entered into a conditional share purchase agreement to acquire 100% of the shares of PT Karindangan, the holder of the Karin IUP.
- (4) Odni has entered into an option agreement giving Odni the option to enter into a conditional share purchase agreement to acquire 100% of the shares of PT Mitra Maju Bangun Persada by the end of the option period, the holder of the MMBP IUP.
- (5) Project Damanka and West Papua are considered projects of interest for the Company and continue to be reviewed from a commercial, legal and technical due diligence perspective. The Company does not have any legal or beneficial rights to acquire an interest in these projects.

### **Corporate strategy and objectives**

Following the completion of the Proposed Transaction, it is the Company's objective to become a significant mid-tier Indonesian coal developer with a pipeline of compelling projects in strategic locations in proximity to established mining operations, and in locations with access or potential access to existing or developing infrastructure that will assist future growth and expansion.

The Company will look to derive capital growth for Shareholders through achieving exploration success from the proposed Indonesian Projects. The Company is assessing its options in relation to the NSW Projects including potentially attracting a farm-in partner.

The Company's business model is highly dependent on the Company achieving technical and commercial success within its exploration programs as well as being dependent on a number of other fiscal, economic, regulatory and environmental factors. Income growth in the form of dividends to investors will only eventuate if the Company's planned or future exploration programs yield commercial discoveries and are ultimately economically developed.

### **Financing**

The Company is currently involved in prospective gold and base metal exploration in NSW. Following the completion of the Proposed Transaction, the Company will also be involved in the exploration and development of prospective coal mining projects in Indonesia.

None of the projects are yet commercialised and, accordingly, have not generated any revenues or profits. The Company does not have any debt financing or borrowings.

The Directors intend to apply the proceeds from the Offer as outlined at section 1.6 of this Prospectus and in the absence of a successful base metal or coal discovery and subsequent economic development of that discovery, the Company is likely to generate operating losses and may be required to raise additional capital to fund its ongoing commitments. Further, the Company will need to secure additional financing to fund the \$10 million payable by Odni to the Sugico Sellers subject to the Sugico Agreement is being entered into and exploration results.

Given the uncertainty attached to operating in the coal and base metal industry, the Company may be required to contribute additional working capital to projects above that allowed for in the Company's operating budgets.

### 3.2 Summary of the Indonesian Projects and NSW Projects

Project Name	Location	Title (EL / IUP)	Expiry of EL / IUP	Holder of EL / IUP	Area	Ownership Interest
<b>Sugico</b>	Ogan Komaring Ilir Regency, South Sumatra 11 mostly adjacent concessions	No. 540/03/KEP/D PE/2009	Dec 2014	PT Tansri Madjid Energi	250,000 hectares over all concessions	Share Purchase Agreement is currently being negotiated. No agreement has been signed. The commercial proposal is that Odni will acquire a 50% interest in the traditional coal mining rights and benefits in the Sugico IUPs.
		No. 540/08/KEP/D PE/2009	Dec 2014	PT Muara Enim Power Energi		
		No. 540/06/KEP/D PE/2009	Dec 2014	PT Sumber Daya Energi		
		No. 540/09/KEP/D PE/2009	Dec 2014	PT Lion Multi Resources		
		No. 540/05/KEP/D PE/2009	Dec 2014	PT Persada Berau Jaya Sakti		
		No. 540/07/KEP/D PE/2009	Dec 2014	PT Jaya Manggala Sakti		
		No. 540/10/KEP/D PE/2009	Dec 2014	PT Sumber Daya Persada		
		No. 540/04/KEP/D PE/2009	Dec 2014	PT Sugico Pendragon Energi		
		No. 540/0025/KEP/DPE/2010	Feb 2017	PT Lion Global Energi		
		No. 540/26/KEP/D PE/2010	Feb 2017	PT Methane Resources Indonesia		
		No. 540/11/KEP/D PE/2009	Dec 2014	PT Indonesia Multi Energi		
<b>MMBP</b>	Tanjung Palas Barat District, Bulungan Regency, East Kalimantan Province	No:437/K-IV/540/2010	2017	MMBP Company	5,312 hectares	Option Agreement entered into to acquire 100 % of the shares in the relevant holding company
<b>BIG</b>	Tanjung Palas Barat District, Bulungan Regency, East Kalimantan Province	No: 467/K-IV/540/2010	2017	Big Company	4,969 hectares	Share Purchase Agreement entered into to acquire 100 % of the shares in the relevant holding company
<b>Karin</b>	Barito Regency, Central Kalimantan Province	No:188.45/439 /2010	Feb 2014	Karin Company	2,586 hectares	Share Purchase Agreement entered into to acquire 100 % of the shares in the relevant holding company
<b>Mineral Hill South</b>	NSW, Australia	EL 7945	7th June 2014	The Company	112km2	100 %
<b>Nyngan</b>	NSW, Australia	EL 7667	10 Dec 2012	The Company	160km2	100%



### 3.3 Indonesian Projects

#### Project Sugico

##### Commercial Summary

Odni has substantially negotiated the terms of the Sugico Agreement, pursuant to which it will acquire a 50% interest in the traditional coal mining rights and benefits in the IUPs relating to Project Sugico (**Sugico Agreement**). The Sugico Agreement has not been signed. The Company has a letter of intent from the representative of the Sugico Sellers stating that the Sugico Sellers will enter into the Sugico Agreement after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012. These funds will be spent on an exploration program agreed by Odni and the Sugico Sellers. This Sugico Intent Letter does not provide the Company with the exclusive rights to negotiate or enter into an agreement to acquire an interest in Project Sugico. Further, the Sugico Intent Letter may not be enforceable if the representative that signed the Sugico Intent letter is not authorised to agree such a commitment on behalf of the Sugico Sellers. However the Board is of the view that the representative that signed the Sugico Intent Letter has demonstrated commercial representation on behalf of the remainder of the Sugico Sellers and therefore believes that the remaining Sugico Sellers will agree to the content of the Sugico Intent Letter. Details of the negotiated terms of the Sugico Agreement as at the date of this document are set out in section 10.5.4. Subject to receiving valid Applications for \$10,000,000 on or before 28 September 2012, the Company intend to demonstrate to the Sugico Sellers by 28 September 2012 that Odni will have US\$1,500,000 available shortly to be applied towards the agreed exploration program. The Directors believe that if Odni can demonstrate this, the Sugico Sellers will be willing to finalise the negotiations of the terms of the Sugico Agreement with Odni, in particular, the timing of the payments to the Sugico Sellers. If Odni is unable to finalise negotiations of the Sugico Agreement, the Company will not proceed with Project Sugico. The Company will not make any payments to the Sugico Sellers unless the Sugico Agreement is finalised and executed.

##### Technical Background

Details of the locations, concessions, local geology and exploration potential in respect of Project Sugico can be found on page 6 of the Independent Technical Review in section 6.

#### Project BIG

##### Commercial Summary

Odni has entered into a conditional share purchase agreement (**Big Agreement**) with the BIG Sellers to purchase from the BIG Sellers 100% of the shares in PT Bakti Inti Guna, the entity which holds exploration IUP No: 467/K-IV/540/2010. The commercial and financial terms of the BIG Agreement are set out in detail in section 10.5.5.

##### Technical Background

Details of the locations and concessions, local geology and exploration potential in respect of Project BIG can be found on page 12 of the Independent Technical Review in section 6.

## Project MMBP

### Commercial Summary

Odni has entered into an option agreement (**MMBP Agreement**) with the MMBP Sellers, pursuant to which the MMBP Sellers grant Odni an exclusive option to conduct exclusive exploration activities on the IUPs held by the MMBP Company and negotiate on an exclusive basis and use best efforts to enter into a share purchase agreement to purchase 100% of the shares in the MMBP Company from the MMBP Sellers. Odni and Corpac (Exalt's strategic corporate advisor) have provided an undertaking to the Company that they will keep the MMBP Project in good standing by either ensuring Odni complies with its obligations under the MMBP Agreement, or negotiating an extension of the option period. The commercial and financial terms of the MMBP Agreement are set out in detail in section 10.5.6.

### Technical Background

Details of the locations, concessions, local geology and exploration potential in respect of Project MMBP can be found on page 18 of the Independent Technical Review in section 6.

## Project Karin

### Commercial Summary

Odni has entered into a conditional share sale and purchase agreement (**Karin Agreement**) with the Karin Sellers to purchase from the Karin Sellers 100% of the shares of PT Karindangan, which holds the exploration IUP No.188.45/439/2010. The commercial and financial terms of the Karin Agreement are set out in detail in section 10.5.7.

### Technical Background

Details of the locations, concessions, local geology and exploration potential in respect of Project Karin can be found on page 20 of the Independent Technical Review in section 6.

## 3.4 Overview of Pipeline Projects

The Directors consider the Pipeline Projects, being Project Damanka and West Papua Project, to be projects of interest and continue to review these from a commercial, legal and technical due diligence perspective. As at the date of this Prospectus no acquisition agreements have been entered into in respect of these projects.

### Project Damanka

Project Damanka is located in the Sangatta and Bengalon Districts, Kutai Timur Regency, approximately 120 kilometres north of Samarinda, the provincial capital of the province of East Kalimantan, Indonesia. Whilst Project Damanka is a Pipeline Project at this stage, the Independent Technical Review includes preliminary findings in respect of the project. Some of these findings are set out below. Investors should note that these findings are preliminary in nature and that a technical review process is continuing:

- The main coal bearing formation of potential economic significance at Project Damanka is the Balikpapan Formation. Less than 20% of the total concession area overlies the Balikpapan Formation;

- Approximately 170,000 tonnes has reportedly been mined at Project Damanka;
- There are opportunities to find additional coal within the Balikpapan Formation in the Southern parts of the concession, and also potentially in the north and the Independent Technical Review considers Project Damanka to have good coal prospectivity;
- The Independent Technical Review notes that the project's coal is relatively low energy and high sulphur and it may be difficult to find ongoing markets for this coal;
- Shipping certificates indicate a net coal value of approximately US\$65/t FOB. This would appear generally consistent with current world coal pricing, allowing for energy adjustment and possible discounts for high sulphur; and
- Public domain information reveals the Mining and Energy Office of East Kutai temporarily halted mining activity following the operator's failure to fulfill the administrative and technical requirements of good mining practices. The Independent Technical Review notes that this was specifically related to hauling coal on public roads without appropriate permits.

### West Papua Project

The West Papua Project consists of two concessions which are located in different areas; one in West Papua province and one in Papua Province, approximately 500 km apart. One concession, which is owned by PT Delapan Inti Power, is in the Teluk Bintuni, Manokwari Regency, approximately 90 km South of Manokwari, the provincial capital of the province of West Papua, Indonesia. The other concession, which is owned by PT Sumber Daya Energy, is in the Puncak Jaya Regency approximately 300 km South West of Jayapura, the provincial capital of the province of Papua, Indonesia.

## 3.5 NSW Projects

Set out below is an overview of the Company's NSW Projects.

### Mineral Hill South Project – EL 7945

The Company's Mineral Hill South Project is adjacent to the Mineral Hill Project owned by KBL Mining.

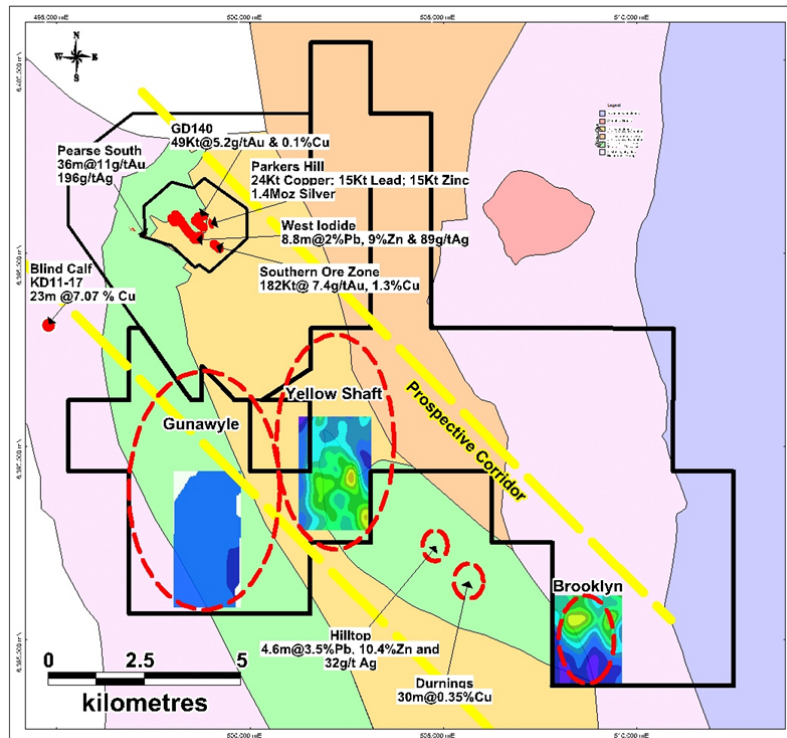
#### Exploration Activity to Date

Exploration at Mineral Hill South commenced shortly after the Company's ASX listing in May 2011 with detailed 3D IP surveys over three prospect areas within EL7945 Mineral Hill South.

The Mineral Hill mineralisation was highlighted as subtle chargeability anomalies in induced polarisation (IP) surveys in 1970 by Cyprus Mines Corporation. Since then sensitivity and modelling of IP surveys has advanced significantly; at Mineral Hill chargeability anomalies are spatially related to the mineralisation. The Mineral Hill South IP surveys are designed to delineate areas of chargeability under shallow cover along strike to the south and south-east of Mineral Hill.

The IP surveys were conducted over three prospect areas, being Gunawalye, Yellow Shaft and Brooklyn.

Results of the surveys highlighted a number of chargeability anomalies within Yellow Shaft and Brooklyn (as shown in figure 1 below).



**Figure 1** – 100m depth slice on 3D IP results overlaid interpreted geology and known mineralisation

Two phases of reverse circulation (RC) drilling were designed to follow up the chargeability anomalies within Yellow Shaft and Brooklyn.

### Yellow Shaft Prospect

Four RC holes were drilled at Yellow Shaft, the first two were designed to drill into the strongest chargeability anomalies, the third was designed to test the margin of chargeability high.

The third hole (YLW003) drilled into a structure with elevated arsenic, the hole was terminated at 127m in the structure because of difficult drilling conditions. Lab results indicated this interval had no gold associated with the elevated arsenic.

The mineralised structure intersected in hole YLW003 was followed up with another hole. YLW004 successfully intersected an 89m zone of anomalous arsenic between 87m and 176m with arsenic values ranging between 45ppm and 971ppm. The arsenic anomalism in hole LYW003 and YLW004 appears to represent a northwest south-east oriented zone of arsenic mineralisation.

Arsenic is often closely related to gold and this is seen at the Pearse Deposit less than 9km to the north-west. Interpretation of the results to date suggest that the arsenic seen in holes YLW003 and YLW004 is similar to and may represent part of a Pearse-like mineralised structure and requires follow-up.

The Pearse Deposit was discovered using conventional soil sampling and was also represented as a northwest south-east oriented zone of arsenic-gold anomalism. The recent results from Pearse include 14m at 25.5g/t Au and 56g/t Ag and 51m at 9.8g/t Au and 72g/t Ag.



Figure 2:

Left - EL7945 Mineral Hill South (drillhole – black points).

Right - Inset Yellow Shaft Arsenic Anomalism in red and interpreted northwest trend (yellow) projected to surface in holes YLW003 and YLW004.

### Brooklyn Prospect

Three of four holes were drilled into chargeability highs at the Brooklyn Prospect and they intersected significant amounts of pyrite within fine grained sediments which explains the results of the IP surveys without any significant economic mineralisation.

One hole was designed to test the L’empires shaft at depth. The L’empires shaft was sunk in 1900-1906 within the Brooklyn iron stone (a known surface hematite deposit which outcrops over a circular area of approximately 150m in diameter). Historical information suggests that the shaft was related to gold mineralisation although no veining was visible at surface. Regional aerial magnetic data shows an unexplained magnetic high below the shaft position which is similar to that seen at Mineral Hill and the Cobar Deposits to the north-west.

The hole collared within the Brooklyn iron stone and successfully intersected two quartz vein zones at 75m vertically beneath the shaft. The veins were very strongly weathered and consisted of quartz crystals and clay. Any sulphide minerals that may have been present in the veins have been completely destroyed, but should persist below the base of weathering.

The drill hole encountered difficult drilling conditions and was terminated at 120m without penetrating through the iron stone. The samples were sent to ALS for XRF iron ore analysis and highlighted significant widths of greater than 50% iron with low contaminants.

From	To	Interval	Fe%	SiO2%	Al2O3%	P%	S%	TiO2%	LOI%
0	39	39	45.4	11.2	4.6	0.13	0.010	0.120	11.38
39	81	42	52.7	4.2	1.7	0.17	0.010	0.022	11.55
87	96	9	52.8	5.3	1.5	0.11	0.014	0.047	11.84
108	120	12	56.0	4.9	1.2	0.08	0.009	<0.005	11.55

Table 2 – Results of BNRC004 analysed by ALS using XRF Fusion

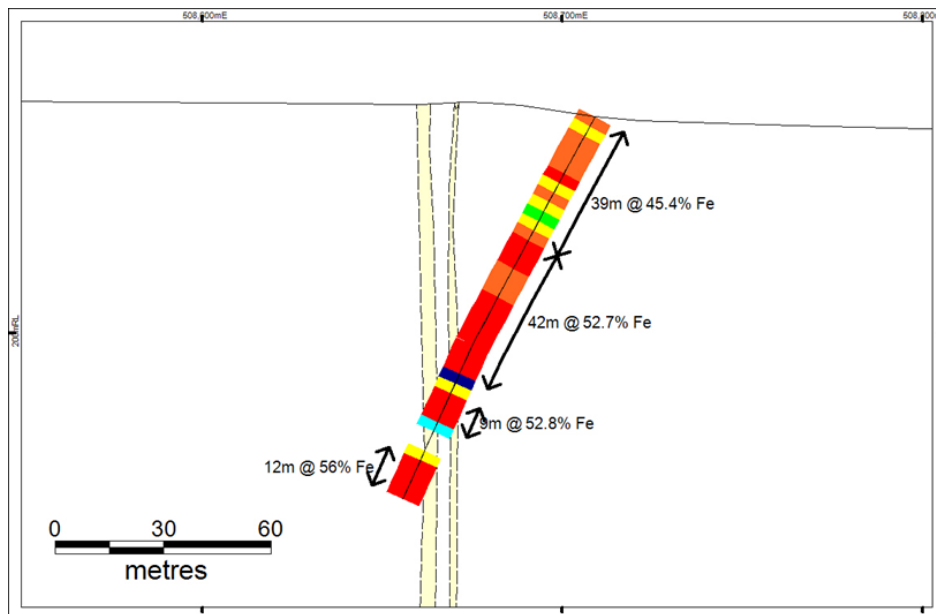
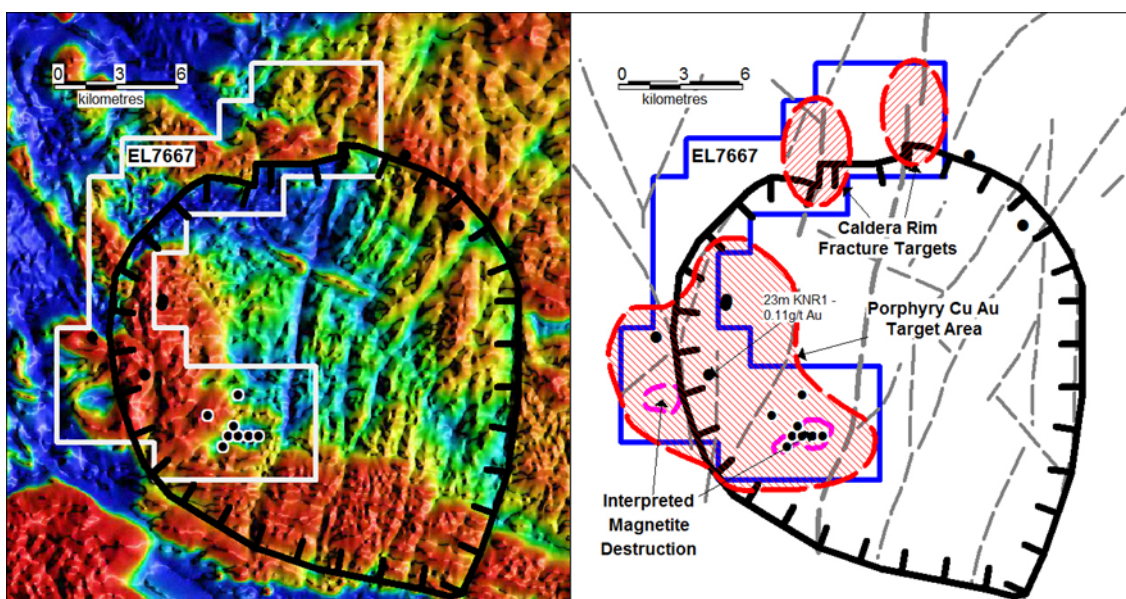


Figure 4 –BNRC004 East West Section 6,384,530N

### Nyngan Project – EL 7667

The Nyngan Project comprises 160km<sup>2</sup> of land located approximately 12km south of Nyngan, in central-west NSW. The land covered by the Nyngan Project is flat and easily accessible by sealed roads. Current land uses consist of grazing and winter cereal cropping. The Nyngan Project covers a magnetic complex which is inferred to be part of the Nyngan Intrusive Complex beneath transported Quaternary alluvium around the Bogan River.

Eight aircore holes (614m) were drilled at the Nyngan Project testing one of the copper-gold porphyry targets.



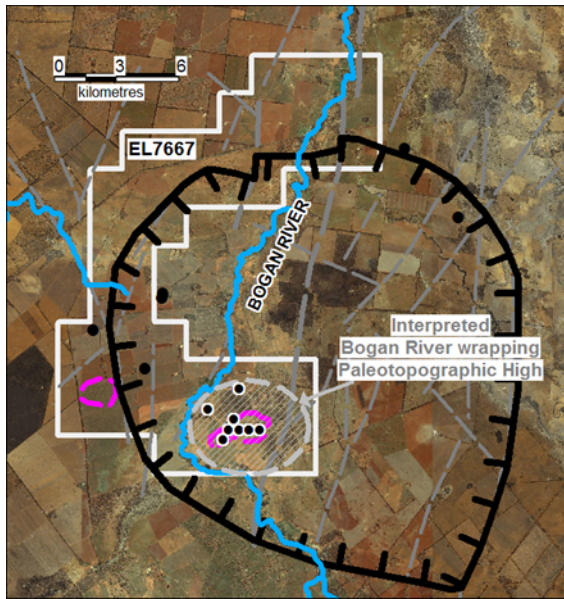


Figure 5- Nyngan Completed AC holes

A – Interpreted Caldera on Regional RTP Magnetics

B – Interpretation and Target Areas

C – Interpreted Zones of Magnetite Destruction on Aerial Photography

Access was limited due to winter cropping. All holes successfully drilled to basement under the transported sand and clay around the Bogan River and intersected unaltered monzogranite without any significant geochemistry.

There is currently a registered native title claim overlapping the areas covered by EL 7667. A registered native title claim allows claimants to access certain procedural rights set out in the *Native Title Act 1993* (Cth) including the right to be consulted on or be involved in future acts or negotiations about certain proposed developments or activities in the claim area while their native title application is underway.

EL 7667 expires on 10 December 2012. The Company intends to renew this license.

Subject to exploration results, the Company expects to expend approximately \$400,000 to \$600,000 on exploration, over the next two years on its NSW Projects

### Competent Person’s Statement

The technical information in this section 3.5 is based on information compiled by Mr David Ward, who is a geological consultant to the Company and a Member of the Australasian Institute of Mining and Metallurgy. Mr Ward has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the JORC Code. Mr Ward consents to the inclusion in this Prospectus of information compiled by him in the form and context in which it appears.

## 4. DIRECTORS, KEY PERSONNEL AND CORPORATE GOVERNANCE

### 4.1 Directors and Key Personnel

The Board and the Company's consultants have a broad experience base covering operational, technical, corporate and commercial backgrounds spanning a number of decades in the Australian and international mining and resources industry. The Directors believe that the Board is well positioned to implement the Company's strategic objective of continuing its planned exploration activities and seeking to acquire or participate in additional resource and energy related projects.

As announced on 23 August 2012, it is intended that the current Board will be strengthened following the Company's re-quotations with the addition of two Indonesian based Proposed Directors, details of whom are set out in section 4.2 below. Following the completion of the Proposed Transaction, the Directors will continue to assess the structure of the Board and make further appointments as necessary.

The Directors' interests in the Company are set out in section 10.8 and their remuneration is set out in section 10.6.

#### **Barry Tudor, Chief Executive Officer and Managing Director**

Mr Tudor has extensive experience in a variety of senior leadership roles in Australian and International coal mining. He has led significant acquisitions, capital raisings and mining expansions, and has demonstrated his ability to formulate strategic vision and advance expansion plans with proven value creation.

Mr Tudor holds a Bachelor of Economics degree from Macquarie University and a Master of Business Administration degree from MGSM. He is a Chartered Accountant and a Member of the Institute of Company Directors in Australia.

Prior to his appointment as the Company's Managing Director and CEO, Mr Tudor was the Managing Director of Noble Resources Australia, responsible for Noble's operations and investments in Australia and the group's strategic expansion into coal asset ownership. He was also Senior Vice President – Strategy for the Energy Coal & Carbon Complex division of the Noble Group.

Prior to this, Mr Tudor was CEO and Managing Director of Gloucester Coal Ltd, an ASX-listed coal producer with operations in NSW and Queensland. In 2007, Mr Tudor was named as a "top 100 value creator" for his role in the executive leadership of Gloucester Coal.

#### **Emmanuel Correia, Non-Executive Chairman**

Emmanuel Correia is a Chartered Accountant and has extensive experience in corporate finance and equity capital markets. Mr Correia holds a Bachelor of Business Degree and has had over 20 years public accounting and corporate finance experience in Australia, North America and the United Kingdom. He has held various senior positions with Deloitte and other accounting firms and boutique corporate finance houses.

Mr Correia provides corporate advice to a diverse client base both in Australia and in overseas markets. Mr Correia has previously held a number of public company directorships and his key areas of expertise include initial public offerings and secondary capital raisings, corporate strategy and structuring and merger and acquisitions.



Mr Correia is also a director of Forge Resources Ltd, Peloton Capital Pty Ltd and Company Secretary of Bluglass Limited and Non-Executive Director/Company Secretary of Ambassador Oil & Gas Limited.

### **James Malone, Non-Executive Director**

James Malone has worked successfully as an accountant, stockbroker, business analyst and CEO of a medium sized business for the past 20 years.

Mr Malone holds a Bachelor of Commerce from the University of Western Australia and is an associate of the Australian Society of Certified Practising Accountants.

Since 2000, Mr Malone has worked in the resources industry and has been involved with the start up, successful listing and ongoing management and development of six ASX listed and two unlisted resource companies and has experience with a diverse range of commodities including gold, base metals, uranium, oil and gas and industrial minerals. These companies have operated projects in Latin America, Europe, Africa, the US and Australia.

Mr Malone is also a director of Australian-American Mining Corporation N.L, Latin Gold Limited and Health Corporation Limited. Mr Malone's previous directorships include Quest Petroleum Limited and Forge Resources Limited.

Mr Malone fulfils the role of an independent Director. The Board considers that Mr Malone is free from any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of his judgement as a Director.

Mr Malone is a member of the Audit and Risk Management Committee.

### **Shane Hartwig, Non-Executive Director and Company Secretary**

Shane Hartwig is a Certified Practising Accountant and Chartered Company Secretary and holds a Bachelor of Business degree, majoring in Accounting and Taxation from Curtin University of Technology in Western Australia.

Mr Hartwig is involved in the areas of initial public offerings, capital raisings, prospectus and information memorandum preparation and project management, company assessments and due diligence reviews, mergers and acquisitions and providing general corporate advice. Mr Hartwig has over fifteen years' experience in the finance industry both nationally and internationally with exposure to both the debt and equity capital markets.

Mr Hartwig is also the Company Secretary of Anteo Diagnostics Limited and Forge Resources Limited on a contract basis.

Mr Hartwig is also a director of SWEL Consulting Pty Ltd and Peloton Capital Pty Ltd.

Mr Hartwig is a member of the Audit and Risk Management Committee.

## **4.2 Proposed Directors**

As announced on 23 August 2012, The Company intends to appoint the following Independent Non-Executive Directors following the reinstatement of trading by the ASX. Both directors are based in Jakarta, and each have sound and long standing relationships within business, government and the wider community within Indonesia and the wider region.

### **Mr Romy H.R Soekarno**

Mr Soekarno is a grandson of first President of Indonesia Soekarno and a nephew of fifth President of Indonesia Megawati Soekarno. Since the mid-1990s, he has had a successful business career in Indonesia where he continues to be involved with a number of private and public sector interests, including the National Demokrat Cultural Department and the Party Demokrasi Indonesia Perjuangan. He is currently President Director of 1945 Nuswantara Investama.

### **Mr Edward Lee Kwong Foo**

Before his retirement from diplomatic service, Mr Edward Lee Kwong Foo had a distinguished career with the Foreign Service Branch of the Singapore Administrative Service in various senior positions across Asia-Pacific, including Singapore's Ambassador to Indonesia.

Since his first posting to Indonesia in 1974, Mr Lee served a total of 18 years in the Singapore Embassy in Jakarta. Among his many honors received across the region, in 2007 he was conferred the highest civilian award by the Indonesian Government, the Bintang Jasa Utama (the Star of Excellent Services) for his many years of contribution towards building up stronger and closer relations with Indonesia.

Mr Lee currently serves on the board of Singapore Listed companies; Indofeed Agri Resources Limited and Kepper Land Limited and is the Chief Executive of PT Ekalimintas, an investment consultancy firm, and a member of the National University of Singapore President's Philanthropic Advisory Council.

## **4.3 Other Key Personnel**

### **Attila Kovago, Director of Exploration**

Mr Kovago has extensive experience as an exploration geologist in Indonesia, Australia and Mongolia. He has spent the last 13 years of his career in Indonesia and is currently based in Kalimantan.

Over the past 31 years, Mr Kovago has worked for a wide variety of leading coal companies including South Gobi (Ivanhoe), Oxbow Coal BV, BHP Billiton Indonesia, PT Kaltim Prima Coal (KPC), Macarthur Coal, Peabody as a consultant and Rio Tinto. He has extensive exploration experience in Indonesia, where he has overseen numerous exploration programs in Kalimantan and Sumatra, including technical due diligence, resource modelling and the issuance of JORC compliant statements as a "Competent Person".

He holds a Master of Science Degree in Geology, a Graduate Diploma in Mining Engineering, and a Graduate Diploma in Coal Geology. He has been a Member of the Australian Institute of Mining and Metallurgy since 1981.

### **David Ward, Consulting Geologist**

David Ward is a geologist with over 15 years' experience in the exploration and mining industry in NSW. In that time he has gained considerable experience in mineral exploration with a number of companies notably Clancy Exploration Limited and significant mining experience both underground and open cut with Newcrest Mining Limited. David was also a founding member of Centaurus Resources Limited.

## **Rob Schnittger, Commercial Manager**

Mr Schnittger has a broad transactional knowledge of commercial and financial transactions in the resources and energy sectors gained from over a decade of experience working for some of Europe and Australia's leading corporate finance and private equity boutiques.

Over the past five years in Australia, Mr Schnittger has been involved in several successful project financings in the energy sector and has acted in an advisory role for some of the country's most successful companies in relation to the development of coal and other mineral resources projects.

Mr Schnittger holds a number of international business and management related qualifications including a Masters in Management (EMIM) from ESCP-EAP (Paris), a Diplôme de Grande Ecole (France), Diplomkaufmann (Germany), European Msc. in Management (UK) and a BA (Mod.) in Business and Economics (Ireland).

## **4.4 Corporate Governance**

### **4.4.1 Approach to Governance**

The Directors monitor the business affairs of the Company on behalf of the Shareholders and have formally adopted a corporate governance policy which is designed to encourage Directors to focus their attention on accountability, risk management and ethical conduct.

The Company has adopted a number of systems and controls as the basis for the administration of corporate governance. The Board is committed to administering the policies and procedures with openness and integrity, pursuing the true spirit of corporate governance commensurate with the Company's needs. To the extent they are applicable, the Company has adopted the Corporate Governance Principles and Recommendations (2nd edition) (Principles & Recommendations) as published by ASX Corporate Governance Council.

The Company's corporate governance principles and policies are structured with reference to the Principles & Recommendations. To the extent that they are relevant to the organisation, the Company has adopted the eight Principles & Recommendations. The Board will consider on an ongoing basis its Corporate Governance procedures and whether they are sufficient as the Company's activities develop in size, nature and scope.

Set out below is a summary of the Principles & Recommendations, including an explanation of why, in the reasonable opinion of the Directors, the Company does not follow certain of the Principles & Recommendations – this is referred to as “if not, why not” analysis.

Principles & Recommendation	Compliance
<b>Recommendation 1: Lay solid foundations for management and oversight</b>	
<b>Recommendation 1.1:</b> Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Y
<b>Recommendation 1.2:</b> Companies should disclose the process for evaluating the performance of senior executives.	Y
<b>Recommendation 1.3:</b> Companies should provide the information indicated in the Principles & Recommendations to reporting on Principle 1.	N/A
<b>Recommendation 2: Structure the Board to add value</b>	
<b>Recommendation 2.1:</b> A majority of the Board should be independent Directors.	N
<b>Recommendation 2.2:</b> The chair should be an independent Director.	N
<b>Recommendation 2.3:</b> The roles of chair and chief executive officer should not be exercised by the same individual.	Y
<b>Recommendation 2.4:</b> The Board should establish a nomination committee.	N
<b>Recommendation 2.5:</b> The Company should disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Y
<b>Recommendation 2.6:</b> Companies should provide the information indicated in the Principles & Recommendations to reporting on Principle 2.	N/A
<b>Recommendation 3: Promote ethical and responsible decision making</b>	
<p><b>Recommendation 3.1:</b> The Company should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the Company’s integrity;</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Y
<b>Recommendation 3.2:</b> The Company should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	Y

<b>Recommendation 3.3:</b> The Company should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Y
<b>Recommendation 3.4:</b> The Company should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Y
<b>Recommendation 3.5:</b> The Company should provide the information indicated in the Principles & Recommendations to reporting on Principle 3.	N/A
<b>Recommendation 4: Safeguard integrity in financial reporting</b>	
<b>Recommendation 4.1:</b> The Board should establish an audit committee.	Y
<b>Recommendation 4.2:</b> The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists only of non-executive Directors;</li> <li>• consists of a majority of independent Directors;</li> <li>• is chaired by an independent chair, who is not chair of the Board; and</li> <li>• has at least three members.</li> </ul>	Y
<b>Recommendation 4.3:</b> The audit committee should have a formal charter.	Y
<b>Recommendation 4.4:</b> The Company should provide the information indicated in the Principles & Recommendations to reporting on Principle 4.	N/A
<b>Recommendation 5: Make timely and balanced disclosures</b>	
<b>Recommendation 5.1:</b> The Company should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Y
<b>Recommendation 5.2:</b> The Company should provide the information indicated in the Principles & Recommendations to reporting on Principle 5.	N/A
<b>Recommendation 6: Respect the rights of shareholders</b>	
<b>Recommendation 6.1:</b> The Company should design a communications policy for promoting effective communication with Shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Y
<b>Recommendation 6.2:</b> The Company should provide the information indicated in the Principles & Recommendations to reporting on Principle 6.	N/A
<b>Recommendation 7: Recognise and manage risk</b>	
<b>Recommendation 7.1:</b> The Company should establish policies for the oversight and management of material business risks and disclose a	Y

summary of those policies.	
<b>Recommendation 7.2:</b> The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Y
<b>Recommendation 7.3:</b> The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Y
<b>Recommendation 7.4:</b> The Company should provide the information indicated in the Principles & Recommendations to reporting on Principle 7.	N/A
<b>Recommendation 8: Remunerate fairly and responsibly</b>	
<b>Recommendation 8.1:</b> The Board should establish a remuneration committee.	N
<b>Recommendation 8.2:</b> The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent Directors;</li> <li>• is chaired by an independent chair; and</li> <li>• has at least three members.</li> </ul>	Y
<b>Recommendation 8.3:</b> The Company should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	Y
<b>Recommendation 8.4:</b> The Company should provide the information indicated in the Principles & Recommendations to reporting on Principle 8.	N/A

The Company complies with Listing Rule 4.10.3 and ASX Guidance Note 9 which require each listed entity to include a statement in each Annual Report indicating the extent to which it complies with the Principles & Recommendations and giving reasons for any departures ('if not, why not' analysis). A copy of the Company's 2011 Annual Report (which incorporates our most recent 'if not, why not' analysis) is available on the Company's website under 'Exalt ASX Announcements' and the Company's most recent 'if not, why not' analysis is separately available on the Company's website under 'Exalt Resources Ltd Corporate Governance Statement'.

**Recommendation 2.1: A majority of the Board should be independent Directors**

**Recommendation 2.2: The Chair should be an independent Director**

**Recommendation 2.4: The Board should establish a nomination committee**

**Recommendation 8.1: The Board should establish a remuneration committee**

Mr Correia and Mr Hartwig do not consider themselves Independent Directors at the date of lodging this Prospectus. Whilst both Directors consider themselves to be independent in terms of their decision making, conduct and free from any business or other relationship that could materially interfere with their exercise of judgment as Directors, they are of the view that they do not technically meet the definition of an Independent Director set out in the Principles & Recommendations. With respect to Mr Correia, this is due to his exercise of executive functions prior to the appointment of Mr Tudor as the Chief Executive Officer and Managing Director of the Company. With respect to Mr Hartwig, this is due to him having undertaken a number of executive duties over the past twelve months, including assisting the Company with the Proposed Transaction.

The Company does not have a majority of independent directors on its Board as recommended by the Principles & Recommendation. However, the Board considers that the individuals on the Board can and do make quality and independent judgments in the best interest of the Company on all relevant issues. The Board intends to increase the number of independent Directors on its Board with the appointment of the Proposed Directors as Directors on Completion. Following this appointment, half of the Board's members will be independent Directors.

The Company has not followed the recommendation in the Principles & Recommendation of having an independent chairman, as the Board considers that Mr Correia, while not an independent Director, can exercise independence when performing his role as chairman of the Board and can commit time to performing that role. The Board believes that Mr Correia is able to facilitate a collaborative Board and constructive relationships between the Board and management.

The Company has not established a separate nomination committee or remuneration committee.

The full Board considers those matters that would usually be the responsibility of a nomination committee and remuneration committee.

Given the size of the Board and the Company's current operations, the Board considers that no efficiencies or other benefits would be gained by establishing separate committees. Items that are usually required to be discussed by a Nomination Committee and Remuneration Committee are marked as separate agenda items at Board meetings when required. When the Board convenes as the Nomination and Remuneration Committee it will operate under the Nomination and Remuneration Committee Charter. The Nomination and Remuneration Committee Charter requires the Board (as the Nomination and Remuneration Committee) to meet at least annually and otherwise as required.

Under Nomination and Remuneration Committee Charter, the role of the Board (when convening as the Nomination and Remuneration Committee) is to review the Company's remuneration practices and policies and establish appropriate remuneration levels including incentive policies for Directors and senior executives.

#### **4.4.2 Website disclosure**

The following corporate governance-related documents can be found on the Company's website under the section marked "Investor Relations":

- (a) Board Charter;
- (b) Code of Conduct;
- (c) Securities Trading Policy;
- (d) Risk Management Policy;
- (e) Audit and Risk Management Committee Charter;
- (f) Nomination and Remuneration Committee Charter;
- (g) Continuous disclosure and Shareholder communication policy; and
- (h) Diversity policy.

#### **4.4.3 Continuous Disclosure Policy**

The Company is a "disclosing entity" for the purposes of Part 1.2A of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations which require it to disclose to the ASX any information which it is or becomes aware of concerning the Company and which a reasonable person would expect to have a material effect on the price or value of the securities of the Company. Consequently, the Company has adopted a continuous disclosure policy in order to comply with its continuous disclosure obligations under the Listing Rules.

In addition to the ongoing role of monitoring information for continuous disclosure purposes, the Board formally considers this issue at each board meeting to ensure ongoing compliance.

All information disclosed to the ASX is available on the ASX website free or charge and is also posted on the Company's website under the section marked "Investor Relations" as soon as practicable after it is disclosed to the ASX. Material used to brief analysts on the Company's operations is released to the ASX when it provides new information and all presentation material is posted on the website.

In addition and as required, Company announcements, annual and half-yearly reports and presentations made at the Company's annual general meetings are available by request to the Company Secretary.



## 5. RISK FACTORS

The Company's operations are subject to a number of risks which may have an impact upon its future performance. Before subscribing for Shares offered under this Prospectus, prospective investors should carefully evaluate the Company's business.

Prospective investors in the Company should consider the risk factors described in this section, together with the information contained elsewhere in this Prospectus before deciding whether to apply for Shares.

The following summary, which is not exhaustive, represents some of the major risk factors which potential investors need to be aware of.

### 5.1 Specific Risk Factors

There are a range of specific risks associated with the Company's business operations and its involvement in the exploration and acquisition of mineral related assets both in Australia and Indonesia. Potential investors in the Company should note the following risks specific to the Company prior to investing.

#### **Specific Risks to the Company's Proposed Indonesian Operations**

##### **Indonesian Agreements**

The MMBP Agreement, BIG Agreement and Karin Agreement contain a number of conditions precedent that need to be completed before Odni can earn its interest in the various Indonesian Projects. These conditions precedent include the requirement to define Resources (as defined by the JORC Code), obtaining several approvals from various Indonesian regulatory bodies relating to the ownership and operations of the various IUP's, and obtaining shareholder approval from each of the relevant Indonesian Companies. Should these conditions precedent not be satisfied (or waived) by the relevant party, then the acquisition of some, or all, of the Indonesian Projects may not be completed and therefore the Company may not be successful in its objective of becoming an Indonesian coal exploration development company.

For example, the option period under the MMBP Agreement expires on 30 September 2012, before which Odni may negotiate and enter into a share purchase agreement in relation to the MMBP Shares. Odni and Corpac (Exalt's strategic corporate advisor) have provided an undertaking to the Company that they will keep the MMBP Project in good standing by either ensuring Odni complies with its obligations under the MMBP Agreement, or negotiating an extension of the option period.

Neither the Company nor Odni have entered into an agreement to acquire the Sugico Interest and the Company does not have any legal or beneficial rights to any interest in Project Sugico. If Odni is unable to finalise negotiations of the Sugico Agreement, in particular with respect to the timing of the payments to the Sugico Seller, the Company will not proceed with Project Sugico. The Sugico Intent Letter does not provide the Company with the exclusive rights to negotiate or enter into an agreement to acquire an interest in Project Sugico. The Sugico Intent Letter may not be enforceable if the representative that signed the Sugico Intent letter is not authorised to agree such a commitment on behalf of the Sugico Sellers. The Company will not make any payments to the Sugico Sellers unless the Sugico Agreement is finalised and executed.

## Completion of the Proposed Transaction

The Proposed Transaction is subject to a number of conditions precedent that are required to be achieved for completion to occur. Key conditions precedent include the Company finalising its due diligence, raising at least \$10,000,000 under the Offer, and obtaining the approval of various Australian and Indonesian regulatory bodies (including the ASX's conditional approval to the Company's admission to the Official List of the ASX and to Official Quotation, on terms and conditions acceptable to the Company). There is a risk that one or more of these conditions precedent may not be met. If this occurs then the Proposed Transaction and/or the Offer may not proceed.

## Funding

Pursuant to the Offer, the Company is proposing to raise a minimum of \$10 million and a maximum of \$20 million.

If the maximum amount is raised under the Offer, the Company expects that there will be sufficient funding to support the initial exploration of the Indonesian Projects considered as part of the Proposed Transaction.

In the event the Company is not successful in raising the minimum subscription of \$10 million and the Company and the Odni Sellers do not agree to resolve to waive the condition precedent of this minimum capital raising pursuant to the terms of the Share Purchase Agreement, then it is unlikely that the Proposed Transaction would proceed and the Company would seek re-instatement of its securities on the ASX, continue to explore its NSW Projects and continue to look for other acquisition opportunities, consistent with its original charter.

The Company may need to raise debt and/or equity capital from time to time in relation to the funding of its projects and business activities. For example, the Company will need to secure additional financing to fund the \$10 million payable by Odni to the Sugico Sellers subject to the Sugico Agreement being entered into and exploration results. The availability of such capital is influenced by numerous factors including, but not limited to, economic, legal and political conditions and investors' and financiers' investment and credit policies. The inability to raise capital on favourable terms, or not at all, may have a negative impact on the Company's project and business development strategies. No assurance can be given that future funding will be made available on acceptable terms (if at all).

## Further Exploration Funding

The Company may have difficulty in obtaining future equity or debt funding to support exploration programs and the evaluation and development of its projects. The Company's ability to raise further equity or debt, or to divest part of its interest in a project, and the terms of such transactions will vary according to a number of factors, including the success of exploration results and the future development of the projects, stock market conditions and prices for commodities.

Should it subsequently be established that a mining production operation is technically, environmentally and economically viable, the Company will require substantial additional financing to establish mining operations and production facilities. The Company may not be able to raise the additional finances that may be required for future activities. Commodity prices, environmental regulations, environmental rehabilitation or restitution obligations, revenues, taxes, transportation costs, capital expenditures, operating expenses and technical aspects are all factors which will impact on the amount of additional capital that may be required.

Additional financing may not be available on terms acceptable to the Company, or at all. Significantly, any additional equity financing or the exercising of options may dilute your existing shareholdings and debt financing, if available, may restrict financing and future activities.

If the Company fails to obtain additional financing, as needed, it may be required to reduce the scope of its operations and scale back its exploration programs as the case may be, which may adversely affect the business and financial condition of the Company and its performance.

### **Projects will not be Wholly-Owned**

Odni has the conditional right to acquire a 100% interest in Projects BIG, Karin and MMBP and is negotiating the right to acquire a 50% interest in Project Sugico. Please refer to section 3.2, which sets out the ownership interest of Odni in each project. In the event that these acquisitions are completed there is a risk the exploration/development activity could be disrupted in situations where there is disagreement on development programs or other issues between Odni, and its partners. Should such disagreements occur, this may have a deleterious impact on the Company's operations and performance generally.

### **Project Sugico's Dual Access Rights**

The Sugico IUPs and MMBP IUPs are currently the subject of Coal Bed Methane Production Sharing Contracts (**CBM PSC**) and/or rights to Underground Coal Gasification (**UCG Rights**) development with third parties. These CBM PSC and UCG Rights currently have precedence over traditional coal development rights within these IUP's. If access to areas covered by the IUP's is denied then there is a risk that the Company will not be in a position to fully explore and/or develop Project Sugico and Project MMBP, which may have a negative impact on the value of the Company and therefore may have a negative impact on the trading price of its Shares. The Board is of the view that should access issues arise in relation to Project Sugico and Project MMBP that the areas are large enough that an agreed exploitation program can be developed between the Company and those parties holding the CBM PSC and/or rights to UCG.

### **Forestry licences**

The IUPs in respect of the Indonesian Projects are located within designated 'production forest' and/or areas of forest known as 'Other Use Areas' or 'ARL'. IUP holders are required to obtain a forestry licence prior to conducting exploration activities within areas designated as 'production forest'. No licences are required for such activities within 'ARL' areas.

None of the Indonesian Companies have obtained the necessary forestry licences in respect of the 'production forest' areas within the relevant IUP project areas. Based on the findings of the Solicitor's Report in Section 9 of this Prospectus, the Company is not aware of any reason as to why these licences cannot be obtained. The Directors understand that Odni is currently seeking the necessary forestry licences for each of the relevant IUPs. The forestry licenses could take at least two months to obtain.

Any delay in obtaining the necessary forestry licences could impact on the Company's proposed exploration activities in respect of the Indonesian Projects and may adversely affect the business and financial condition of the Company and its performance. Undertaking prospecting or exploration in a designated forest area without the relevant forestry licence is a criminal act and subject to certain penalties.

For further information on Indonesia's forestry licence regime, please refer to the Solicitor's Report contained in section 9.

### **'Clean and clear' title**

In an effort to bring licensing into some order, the ESDM has forbidden the issuing of new licences under the Indonesian mining law and has been undertaking limited audits of all licences issued. The intention is to reveal where there are over-lapping licences. As a result of this process, ESDM issues lists, maps and statements on request, indicating that the licence involved is "clean and clear" (**CNC**). The IUP is thereby recognised by ESDM as legitimate, which carries an inference that the IUP has been properly issued, although this is not stated. The CNC lists are an administrative attempt to clear away confusion, and carry no legal status. There is no definition of what "clean and clear" means, but it is understood to mean simply that there are no overlapping issues (with conflicting licences for the same product).

What "clean and clear" does not mean is that the licence holder is up to date with its obligations under the licence, that it has obtained any necessary approvals from the Ministry of Forestry, whether or not the licence holder also owns the land involved, whether or not there are land titles in place, whether there are any disputes with registered or traditional land owners, and whether there is any illegal mining activity taking place.

The Karin Project is not currently included on any CNC list nor is one of the licences constituting Project Sugico. Based on the findings of the Solicitor's Report in Section 9 of this Prospectus, the Directors are not aware of any reason as to why these licences are not included on the relevant CNC lists and it is currently seeking to address this issue. The Company does not intend to expend a substantial amount of funds on exploring and developing an IUP until the IUP is included in a CNC list.

### **Country and Regulatory Risk**

Currently, the Indonesian Government is formulating a new policy with regards to Indonesian mineral and coal resources. Proposed key features of this renewed policy include:

- priority fulfillment of coal for domestic supply;
- certainty and transparency of mining law regulation;
- improved supervision of good mining practice;
- increased investment and State reserves in mining; and
- encouraging development of value added products and maintaining environmental sustainability.

Any actions or policy changes by the Indonesian government in relation to access to lands and infrastructure, compliance with environmental regulations, taxation, royalties and subsidies may adversely affect the Company's operations and financial performance.

As an example, Indonesia has recently changed its Mining Regulations and in particular the aspects relating to the position of foreign investors in relation to Indonesian mining assets. These regulations stipulate, amongst other things, that from 21 February 2012 companies holding IUPs must gradually increase their Indonesian participation to a 51% shareholding by the tenth year following the company entering the production operation phase, in accordance with the following scale:

- 6th year following production commencement – 20%;
- 7th year following production commencement – 30%;
- 8th year following production commencement – 37%;
- 9th year following production commencement – 44%; and
- 10th year following production commencement – 51%.

In certain circumstances, if Odni completes an acquisition of an Indonesian Company and that company enters into a production phase in respect of its coal assets, then from the 6th year following commencement of production, Odni's interest in that Indonesian Company may be diluted.

The Company's operations in Indonesia will be governed by a series of Indonesian laws, regulations and decrees. These laws, regulations and decrees may be amended from time to time, which may have a material adverse impact on the financial position, financial performance, cashflows, growth prospects and share price for the Company. Breaches of, or non-compliance with, these laws, regulations or decrees can result in penalties and other liabilities, which may also have a material adverse impact on the financial position, financial performance, cashflows, growth prospects and share price of the Company.

While the Company is reasonably familiar with the Indonesian regulatory regime and will undertake all reasonable due diligence in assessing and managing the risks associated with investing and operating in Indonesia (and other countries in which it may invest), the legal and political conditions of Indonesia and any changes thereto are outside the control of the Company. Further, the laws, regulations and decrees in Indonesia may not be applied consistently.

### **Change of Activities and Re-quotation of Shares on the ASX**

As the Company has no prior involvement in the coal industry, the Proposed Transaction, if completed, would constitute a change in the nature and scale of the Company's activities to include coal exploration and mining.

In accordance with the requirements of the ASX in relation to this proposed change in activity, the Company must re-comply with Chapters 1 and 2 of the Listing Rules as if it were seeking admission to the Official List. Accordingly, the Company is required to issue a Prospectus to, among other things, assist the Company to re-comply with these admission requirements.

The Company's Shares were suspended from Official Quotation on 24 August 2012, the time of the General Meeting and will not be reinstated until the Company has re-complied with Chapters 1 and 2 of the Listing Rules.

There is a risk that the Company may not be able to meet the requirements of the ASX for re-quotation of its Shares on the ASX. Shares will not be able to be traded on the ASX until such time as the ASX's requirements for re-quotation can be met, if at all.

**Other Specific Risks including those relating to the NSW Projects****Use of Unaudited Accounts**

Prospective investors should be aware that for the purposes of preparing the Independent Accountant's Report in section 6, the Independent Accountant has relied on certain unaudited financial statements of the Company. There is a risk that the use of financial information that has not been subject to independent audit has the potential to be inaccurate.

However, as stated in the Independent Accountant's Report, there is nothing that has caused the Independent Accountant to believe that the Historical Statement of Financial Position as at 30 June 2012, Pro-forma Statement of Financial Position as at 30 June 2012 is not presented fairly in accordance with the recognition and measurement requirements of Australian Accounting Standards and other pronouncements issued by the Australian Accounting Standards Board, the accounting policies of the Company and the basis of preparation described in Section 8.5 of the Prospectus.

**Exploration & Operational Risks**

The business of coal exploration, project development and production involves inherent risks. Success depends on the successful exploration, appraisal, design and construction of efficient recovery and processing facilities, competent operational and managerial performance, and efficient distribution and marketing services. Exploration is a speculative endeavour and production operations can be hampered by engineering difficulties, cost overruns, inconsistent recovery rates and other unforeseen events.

It is noted that currently there has been insufficient exploration to define a coal Resource (as defined by the JORC Code). There is no guarantee that the Company's proposed exploration program will yield a coal Resource from any of the Indonesian Projects.

The outcome of the Company's exploration, project development and production programs will affect the future performance of the Company and the price of its Shares.

If and when the Company commences production, the production may be curtailed or shut down for considerable periods of time owing to a range of factors such as disruptions to transport infrastructure, operational hazards, and lack of market demand, government regulation, production allocations or force majeure events. These curtailments may continue for a considerable period of time, resulting in a materially adverse effect on the operations and/or financial condition of the Company and the trading price of the Shares.

**Title Risks**

Mining and exploration licences are subject to periodic renewal. In particular, there is no guarantee that applications for future exploration licences or production licences will be approved. Renewal and transfer conditions may include increased expenditure and work commitments or compulsory relinquishment of areas of the exploration licences comprising the Company's projects. The imposition of new conditions or the inability to meet conditions may adversely affect the operations, financial position and/or performance of the Company.

As set out in section 3.2 of this Prospectus, the expiry dates of the IUP's relating to the Indonesian Projects range from December 2014 to May 2018. There is no guarantee that the IUP's will be renewed at the end of these expiry dates.

## **Coal Risks**

In the event that the Company is successful in developing its mining operations, the marketability of its coal production will depend on the quality and tonnage demand from international and domestic markets. If the Company fails to secure contracts to sell its coal or the Company does not satisfy conditions in any offtake agreements, this may adversely affect the financial conditions and performance of the Company. The prices the Company receives for its coal are subject to market forces that are beyond the control of the Company. While the Company monitors the stability and trends of market prices closely and, where possible, will negotiate agreements to reflect the movements in market prices and maintain underlying profit margins, should the market prices for coal fall to uneconomical levels, the financial performance of the Company may be materially adversely affected.

To manage the exposure of the Company to price risks, the Company may enter into coal price and or foreign currency hedging arrangements with respect to its production. While intended to reduce the effects of volatile coal prices, these arrangements may limit potential gains if coal prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose the Company to the risk of financial loss.

## **Reliance on Contractors**

The Company will be relying upon the expertise and equipment of various contractors who will be engaged to conduct the different aspects of exploration and mining activity. In the event of a failure of, or by, one of these contractors, or the failure of any equipment used by these contractors, the Company's business, activities and operating results may be adversely affected.

## **Environmental Risks**

The proposed exploration and mining activities of the Company in Indonesia and Australia are subject to Indonesian and Australian laws and regulation concerning the environment. As with most exploration projects and mining operations, the Company's activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all applicable environmental laws.

There is no guarantee that new environmental laws or policies, both in Australia and Indonesia, will not oblige the Company to incur expense in terms of compliance which may have an adverse effect on the Company's operations.

The Company may also become liable for environmental damage caused by previous owners of any tenements/ concessions the Company acquires. As a result, substantial liabilities to third parties or government entities may be incurred, the payment of which could reduce or eliminate funds available for acquisitions, exploration and development.

### **Failure to meet Payment Obligations may result in Dilution or Forfeiture**

Under the tenement/ concession conditions and certain other contractual agreements to which the Company is or may in the future become a party, the Company is or may become subject to payment and other obligations. In particular, the tenement owners are required to expend the funds necessary to meet the minimum work commitments attaching to the tenements. Failure to meet these work commitments will render the tenements liable to be cancelled. Further, if any contractual obligations are not complied with when due, in addition to any other remedies which may be available to the other parties, this could result in dilution or forfeiture of interests held by the Company. The Company may not have, or be able to obtain, financing for all such obligations as they arise.

### **Native Title**

The Company's activities in Australia are subject to the *Native Title Act 1993* (Cth). There is currently a registered native title claim overlapping the areas covered by EL 7667, the exploration licence relating to the Nyngan project. A registered native title claim does not necessarily mean that Native Title exists over the area claimed. However, a registered native title claim does allow claimants to access certain procedural rights set out in the *Native Title Act 1993* (Cth) including the right to be consulted on or be involved in future acts or negotiations about certain proposed developments or activities in the claim area while their native title application is underway. There can be no guarantee that further native title applications will not be made or registered in respect to the land on which the Company's projects are situated in the future. The registered title claim affecting EL 7667 and any future registered native title claim may impact on the Company's ability to gain access to land, or to progress from the exploration phase to the development and mining phases of operations may be adversely affected.

### **Aboriginal sites of significance**

Australian Commonwealth and State legislation obliges the Company to identify and protect sites of significance to Aboriginal custom and tradition. Some sites of significance may be identified within the NSW Projects. It is therefore possible that one or more sites of significance will exist in an area which the Company considers to be prospective. The Company's policy is to carry out clearance surveys prior to conducting exploration which would cause a disturbance to the land surface.

### **Access to Land may be stopped**

Immediate access to the tenements/ concessions in which the Company has an interest cannot in all cases be guaranteed. The Company may be required to seek the consent of, or reach agreement with, landholders or other persons or groups with an interest in the real property encompassed by the licences or persons or groups with a conflicting interest within the licence areas. For example, certain IUPs overlap with timber rights and the MMBP IUP overlaps with an oil palm plantation.

Compensation may be required to be paid by the Company to landholders to allow the Company to carry out exploration and/or production activities. Although the Company has not budgeted for compensation payments, there is no guarantee that additional amounts will not be required. Judicial decisions and legislation could also unforeseeably restrict land access.



## Government, legislation and policy changes

Revenue and expenditure of the Company may be affected by changes in international, federal, state, or local government laws, regulations or policies, or in taxation legislation. Government legislation and policies are subject to review and change from time to time. Such changes are likely to be beyond the control of the Company and may affect industry profitability.

The NSW Government have released a number of policies and plans that deliver on its Strategic Regional Land Use Policy to protect high-quality agricultural land and its water sources from inappropriate mining and coal seam gas projects. The policies, if implemented, will aim to reform mining and coal seam gas legislation to protect land deemed to be 'strategic agricultural land'. If the policies are implemented, they will see all existing exploration licenses reviewed for compliance with the conditions imposed on the relevant licence.

Further, all new mining project applications will be required to undertake explicit agricultural productivity impact assessments as a part of their environmental impact statement. The policy states that during the 'transitional phase', mining project applications will not be granted where there will be a detrimental effect on the agricultural productivity of the land and associated resources. The length of the 'transitional phase' is not defined. The policy also states that future development applications will be required to adhere to new Aquifer Interference Regulations. The policy considers that the mining and agricultural industries can exist in the same areas however such circumstances necessitate careful management.

It is not possible at this stage to predict the impact these policies and plans, if implemented, would have on the Company's Projects.

## 5.2 General Risk Factors

### General risks

Factors such as inflation, interest rates, levels of tax, taxation law and accounting practices, government legislation or intervention, natural disasters, social upheaval, and war may have an impact on prices, operating costs and market conditions generally. Accordingly, the Company's future revenue (if any) and operations can be affected by these factors which are beyond the control of the Company.

### Economic factors

Factors beyond the control of the Directors that could affect the revenues and value of the Company include, but are not limited to, inflation, currency fluctuation, interest rates, supply and demand of relevant inputs and outputs, and industrial disruption.

The market price of listed Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource stocks in particular. Neither the Company nor the Directors warrants the future performance of the Company or any return on an investment in the Company.

## Insurance

The Company may, where economically practicable and available, endeavour to mitigate some project and business risks by procuring relevant insurance cover. However, such insurance cover may not always be available or economically justifiable and the policy provisions and exclusions may render a particular claim by the Company outside the scope of the insurance cover.

While the Company will undertake all reasonable due diligence in assessing the creditworthiness of its insurance providers there will remain the risk that an insurer defaults in a legitimate claim by the Company under an insurance policy.

## Limited Operating History

The Company was established in 2010, and Odni in 2012, and accordingly both entities have limited operating histories. The prospects of the Company and Odni must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of development, particularly in the mineral and coal exploration and production sectors, which have a high level of inherent uncertainty.

## 6. INDEPENDENT TECHNICAL REVIEW

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Ref: ADV-SY-03894

31 August 2012

The Directors  
 Exalt Resources Limited  
 Level 5, 56 Pitt Street  
 Sydney NSW 2000

Dear Sirs,

**RE: INDEPENDENT TECHNICAL REVIEW OF INDONESIAN COAL ASSETS**

Further to our engagement by you we are pleased to report our Independent Technical Review (“ITR”) of four Indonesian Coal Assets known in this report as Sugico, BIG, MMBP, and Karin. MMC understands that the ITR report is likely to be included in a release on the Australian Stock Exchange (“ASX”).

This report has been prepared by Minarco-MineConsult (“MMC”) at the request of Exalt Resources Limited (ACN 145 327 716) (“Exalt”) to undertake a review of four (4) coal assets (the “Relevant Assets”), described below. Locations of the Relevant Assets are given in **Figure 1**.

**Relevant Assets**

Asset Name	Description	Report Section	Figure Nos
Sugico	11 coal concessions, held by different companies, located in South Sumatra	2	1, 2, 3
BIG	Coal concession and exploration area of PT Bakti Inti Guna, located in East Kalimantan	3	1, 4, 5
MMBP	Coal concession of PT Mitra Maju Bangun Persada, located in East Kalimantan	4	1, 4, 5
Karin	Coal concession of PT Karindangan (“Karindangan”), located in Central Kalimantan	5	1, 6, 7

Titles to the Relevant Assets are currently held by others. It is understood that Exalt is considering a transaction which would give them either ownership or options over the titles.

A technical review of a fifth concession, known as Damanka, has been commenced and is ongoing. MMC includes preliminary findings for Damanka in this ITR, but MMC emphasises that the review is incomplete and these findings are only preliminary. Damanka is not one of the Relevant Assets.

This ITR has been a high level desktop study based on information provided in an electronic dataroom (the “Dataroom”). There were no site visits undertaken as part of this review.

The primary purpose of the ITR was to provide an independent technical opinion as to the accuracy and reasonableness of the information contained in the Dataroom and give opinion on the prospectivity of the coal concessions. Prospectivity is defined as the potential to find coal, with no judgement made regarding economic potential.

The review specifically excludes all aspects pertaining to legal issues, land titles and agreements, approvals, including environmental compliance with approvals, excepting such aspects as may directly influence technical, operational or cost issues. MMC has not undertaken a marketing analysis or coal pricing forecasts. This ITR does not consider financial or commercial matters, including without limitation loan funding aspects, cash flows, profit and loss, balance sheet, non-cash items, commodity prices, exchange rates, economic viability or a valuation of the Relevant Assets. MMC reserves the right to change its view of any of the

conclusions set out in this ITR should any of the fundamental information provided to MMC materially change.

MMC has undertaken this review in accordance with the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code, 2004 Edition*, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (“JORC”).

Reference is made in this report to estimated coal quantities and qualities. All estimated coal quantities are based on Exploration Results and represent exploration targets. They are not classified as either Coal Resources or Coal Reserves. Potential coal quantities are conceptual in nature, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of Mineral Resources.

MMC concludes from this ITR that:

- No material flaws or errors on technical aspects of the Relevant Assets were discovered during the review.
- The technical information made available for review was not comprehensive and not suitable for anything more than high level comment regarding coal prospectivity.
- The Relevant Assets have varying degrees of coal prospectivity, defined qualitatively as:
  - good (Sugico, BIG), and
  - reasonable (MMBP, Karin Karindangan).

### **Sugico**

- There are 11 concessions which, in this report, are collectively referred to as Sugico. All of them are IUP's for exploration only; there are no mining permits.
- The total area of all concessions combined is approximately 250,000 ha; the equivalent of an area 50 km long and 50 km wide.
- Because of the very large size of these concessions, any discovery of coal has the potential to be a large coal resource, though there isn't enough information to identify an exploration target.
- The main coal bearing formation of potential economic significance is the Muara Enim Formation. Approximately 44% of the total concession area overlies the Muara Enim Formation.
- There is no evidence of any previous exploration activity. Sugico is vastly unexplored, and therefore represents a very large area of Muara Enim Formation with good potential to discover coal.
- The coals most likely to be found in the Sugico concessions would be lignites. There are no known or identified volcanic intrusions reported in the Sugico concessions area which could improve the quality of the coal. However, as the area is so large and mostly unexplored, intrusions may exist.
- The Sugico concessions represent good coal prospectivity. We cannot estimate an exploration target and we can make no comment on the likelihood of finding economic coal at Sugico.

### **BIG**

- The main coal bearing formation of potential economic significance is the Sembakung Formation. 100% of the concession area overlies the Sembakung Formation.
- Initial geological investigation (outcrop mapping) in the concession area has identified 10 coal horizons within the Sembakung Formation. The coal seams are categorised as multiple, thin seams with moderate to steep dips.
- As mapping has discovered 32 coal outcrops and identified 10 seams, MMC believes BIG has good coal prospectivity.
- We estimate an exploration target of 20 Mt to 30 Mt. All estimated coal quantities are based on Exploration Results and represent exploration targets. They are not classified as either Coal

Resources or Coal Reserves. Potential coal quantities are conceptual in nature, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of Mineral Resources.

- Based on the limited information contained in the Dataroom MMC can make no comment regarding potential coal quality in the BIG concession.

#### MMBP

- The main coal bearing formation of potential economic significance is the Sembakung Formation. Approximately 27% of the total concession area overlies the Sembakung Formation.
- MMC believes MMBP has reasonable coal prospectivity. There is not enough information to estimate an exploration target.

#### Karin

- The main coal bearing formations of potential economic significance in the region are the Tanjung, Warukin and Montalat Formations. Approximately 50% of the total Karin concession area overlies the coal bearing Warukin Formation.
- There is no exploration data within the Karin concession area. However, 50% of Karindangan area overlies the coal bearing Warukin Formation. MMC considers Karindangan has reasonable prospectivity.
- There is not enough data to estimate exploration targets.

#### Damanka

A technical review of a fifth concession, known as Damanka, has been commenced and is ongoing. MMC includes preliminary findings for Damanka in this ITR, but MMC emphasises that the review is incomplete and these findings are only preliminary. Damanka is not one of the Relevant Assets.

- The main coal bearing formation of potential economic significance at Damanka is the Balikpapan Formation. Less than 20% of the total concession area overlies the Balikpapan Formation.
- Approximately 170,000 t has reportedly been mined.
- There are opportunities to find additional coal within the Balikpapan Formation in the southern parts of the concession, and also potentially in the north. We believe Damanka has good coal prospectivity.
- Damanka coal is relatively low energy and high sulphur. It may be difficult to find ongoing markets for this coal.
- Shipping certificates indicate a net coal value of approximately US\$65/t FOB. This would appear generally consistent with current world coal pricing, allowing for energy adjustment and possible discounts for high sulphur.
- This ITR did not include an environmental audit. We can make no detailed comment on Damanka's overall environmental performance. This represents a risk if it proves that there are potential financial liabilities for building environmental structures, for penalties/fines incurred, or for remediation requirements.

#### Exploration

Exalt Resources has prepared budgets to further explore the Relevant Assets (Sugico, BIG, MMBP and Karin) and the Pipeline Prospects (Damanka and others). The stated objective of the exploration programme is to identify the coal resources and classify the coal into the JORC categories of Measured/Indicated Resources and Proved/Probable Reserves. Budgets have been prepared for 2 cases; for a minimum subscription of A\$10 million and for a maximum subscription of A\$20 million. The actual budget will depend on the capital raised. The budgets are summarised in **Table 7.1**.

Having reviewed the proposed budgets, we conclude the following:

- the budgets have been prepared with an appropriate level of estimating detail,
- the budgets appear comprehensive and include all of the items normally incurred in exploration,
- the A\$10 mill Minimum Subscription budget should result in significantly increased knowledge and understanding of the geological setting of each coal prospect,
- the A\$20 mill Maximum Subscription budget should result in still greater knowledge of each asset and should therefore increase the likelihood of identifying JORC Resources, and
- subject to successful exploration, it is reasonable to expect that the A\$20 mill Maximum Subscription budget will achieve the stated objective of quantifying JORC Resources (Measured, Indicated and Inferred) for the Relevant Assets.

The first signatory to this letter, Mr. Ron Siwinski, MAusIMM, is a Member of the Australasian Institute of Mining and Metallurgy, and is a mining engineer and an employee of MMC. He has 40 years' experience as an engineer and over 30 years' experience in the mining industry. He specialises in Project Management with significant experience in technical reviews and due diligence assessments. He has sufficient experience which is relevant to the style of mineralisation and types of coal deposits under consideration, and to the activity he is undertaking for this ITR, to qualify him as a Competent Person (as defined in the 2004 Edition of the JORC Code).

The second signatory to this letter, Mr. Fitherson Rattu, MAusIMM, is a Member of the Australasian Institute of Mining and Metallurgy, and is a geologist and was an employee of MMC at the time of undertaking this review. He has more than 18 years' experience as a geologist. He has managed or contributed significantly to numerous mining/geology studies relating to the estimation of coal resources. He has sufficient experience which is relevant to the style of mineralisation and types of coal deposits under consideration, and to the activity he is undertaking for this ITR, to qualify him as a Competent Person (as defined in the 2004 Edition of the JORC Code).

Yours sincerely,

Ron Siwinski, MAusIMM

**Executive Consultant**

for and on behalf of

minARCO  
mineconsult

Fitherson Rattu, MAusIMM

**Senior Geology Consultant**

for and on behalf of

minARCO  
mineconsult

## IMPORTANT INFORMATION ABOUT THIS DOCUMENT

### 1. Our Client

This report has been produced by or on behalf of Minarco-MineConsult, a trading division of Runge Limited ("MMC"), solely for Exalt Resources Limited (the "Client").

### 2. Client Use

The Client's use and disclosure of this report is subject to the terms and conditions under which MMC prepared the report.

### 3. Notice to Third Parties

MMC prepared this report for the Client only. If you are not the Client:

- MMC has prepared this report having regard to the particular needs and interests of the Client, and in accordance with the Client's instructions. It did not draft this report having regard to any other person's particular needs or interests. Your needs and interests may be distinctly different to the Client's needs and interests, and the report may not be sufficient, fit or appropriate for your purposes.
- MMC does not make and expressly disclaims from making any representation or warranty to you – express or implied – regarding this report or the conclusions or opinions set out in this report (including without limitation any representation or warranty regarding the standard of care used in preparing this report, or that any forward-looking statements, forecasts, opinions or projections contained in the report will be achieved, will prove to be correct or are based on reasonable assumptions).
- MMC expressly disclaims any liability to you and any duty of care to you.
- MMC does not authorise you to rely on this report. If you choose to use or rely on all or part of this report, then any loss or damage you may suffer in so doing is at your sole and exclusive risk.

### 4. Inputs, subsequent changes and no duty to update

- MMC has created this report using data and information provided by or on behalf of the Client [and Client's agents and contractors]. Unless specifically stated otherwise, MMC has not independently verified that data and information. MMC accepts no liability for the accuracy or completeness of that data and information, even if that data and information has been incorporated into or relied upon in creating this report (or parts of it).
- The conclusions and opinions contained in this report apply as at the date of the report. Events (including changes to any of the data and information that MMC used in preparing the report) may have occurred since that date which may impact on those conclusions and opinions and make them unreliable. MMC is under no duty to update the report upon the occurrence of any such event, though it reserves the right to do so.

### 5. Mining Unknown Factors

The ability of any person to achieve forward-looking production and economic targets is dependent on numerous factors that are beyond MMC's control and that MMC cannot anticipate. These factors include, but are not limited to, site-specific mining and geological conditions, management and personnel capabilities, availability of funding to properly operate and capitalise the operation, variations in cost elements and market conditions, developing and operating the mine in an efficient manner, unforeseen changes in legislation and new industry developments. Any of these factors may substantially alter the performance of any mining operation.



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## 1. INTRODUCTION

### 1.1 Background

The Indonesian coal industry continues to prosper and grow. Regional and domestic coal demands provide a strong outlook for coal producers and the industry generally. More than 95% of the world seaborne thermal coal exports come from 6 countries. Indonesia is the world's leading exporter of thermal coals, with a market share of greater than 20%. Coal is sold primarily to China, India, Japan, South Korea and Taiwan; all experiencing strong growth with strong demand likely to continue well into the future.

Indonesian coal production in 2011 was around 350 million tons, with exports of around 265 million tons or 75% of total production. It is predicted that domestic coal markets will continue to grow as well as export markets. It is also expected that much of the increased domestic demand will be met by mining low rank lignite, leaving the higher value sub-bituminous coals for export. Significant low rank lignite coal deposits are found in South Sumatra particularly, and also in all the major producing areas of Kalimantan.

### 1.2 Purpose of Report

This report has been prepared by Minarco-MineConsult ("MMC") at the request of Exalt Resources Limited (ACN 145 327 716) ("Exalt") to undertake a review of four (4) coal assets (the "Relevant Assets"), described below. Locations of the Relevant Assets are given in **Figure 1**.

**Table 1.1 – Relevant Assets**

Asset Name	Description	Report Section	Figure Nos
Sugico	11 coal concessions, held by different companies, located in South Sumatra	2	1, 2, 3
BIG	Coal concession and exploration area of PT Bakti Inti Guna, located in East Kalimantan	3	1, 4, 5
MMBP	Coal concession of PT Mitra Maju Bangun Persada, located in East Kalimantan	4	1, 4, 5
Karin	Coal concession of PT Karindangan ("Karindangan"), located in Central Kalimantan	5	1, 6, 7

Titles to the Relevant Assets are currently held by others. It is understood that Exalt is considering a transaction which would give them either ownership or options over the titles.

A technical review of a fifth concession, known as Damanka, has been commenced and is ongoing. MMC includes preliminary findings for Damanka in this ITR, but MMC emphasises that the review is incomplete and these findings are only preliminary. Damanka is not one of the Relevant Assets.

MMC understands that the ITR report is likely to be included in a release to the Australian Stock Exchange ("ASX").

This ITR has been a high level desktop study based on information provided in an electronic dataroom (the "Dataroom"). There were no site visits undertaken as part of this review.

The primary purpose of the ITR was to provide an independent technical opinion as to the accuracy and reasonableness of the information contained in the Dataroom and give opinion on the prospectivity of the coal concessions. Prospectivity is defined as the potential to find coal, with no judgement made regarding economic potential.

MMC has undertaken this review in accordance with the *Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, The JORC Code, 2004 Edition*, prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia ("JORC").



Figure No. 1 ASSETS LOCATION PLAN

Project : **INDONESIAN COAL ASSETS**

Client : **EXALT RESOURCES LIMITED**

Job No. ADV-SY-03894

Date : June 2012

Reference is made in this report to estimated coal quantities. All estimated coal quantities are based on Exploration Results and represent exploration targets. They are not classified as either Coal Resources or Coal Reserves. Potential coal quantities are conceptual in nature, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of Mineral Resources.

This ITR must be read in its entirety and must be read in recognition of:

- MMC's reliance upon information provided by Exalt and others, which has not been audited.
- The methodology and limitations and assumptions referred to throughout the report.
- The limited scope and high level nature of the ITR.
- Any other relevant issues not within the scope of the ITR.

### **1.3 Scope of Work**

MMC addressed the following scope of work when undertaking the ITR:

- *Preparation and submission of a Request for Information;*
- *A desktop review of information received. Our comments will be confined to the information received;*
- *Consultation with Exalt on key observations, significant issues and matters that may have a material impact on the potential value of the Assets; and*
- *Preparation of a short ITR report, describing the work undertaken and the review findings.*

### **1.4 Capability and Independence**

This ITR was undertaken for and on behalf of MMC by Ron Siwinski and Fitherson Rattu, the signatories to this report. Support from other MMC personnel was provided to complete the work.

MMC operates as an independent technical consultant providing resource evaluation, mining engineering and mine valuation services to the resources and financial services industry. Information received for this review included reports prepared by PT Runge Indonesia ("PTRI"). PT Runge Indonesia is an independent geology and mining consultant company that did their work under contract for services.

PTRI is a wholly owned subsidiary of Runge Limited of Australia; which is also the parent company for Minarco-MineConsult. MMC has considered the matter of a potential conflict of interest in reviewing a report compiled by a related company and has concluded that we are not conflicted as we have only used the earlier PTRI report as a source of information.

To our knowledge, none of MMC's staff or specialists who contributed to this report has any interest or entitlement, direct or indirect, in Exalt, the Relevant Assets, or the outcome of this ITR.

Drafts of this ITR report were provided to Exalt for review as to any material errors of fact, omissions or incorrect or unreasonable assumptions.

### **1.5 Site Inspection**

There were no site visits undertaken as part of this review.

### **1.6 Limitations and Exclusions**

This ITR specifically excludes all aspects of legal issues, land titles and agreements, approvals, including environmental compliance with approvals, excepting such aspects as may directly influence technical, operational or cost issues. MMC has not undertaken an evaluation of marketing or coal pricing forecasts. This ITR does not consider financial or commercial matters, including without limitation loan funding aspects, cash flows, profit and loss, balance sheet, non-cash items, commodity prices, exchange rates, economic

viability or a valuation of the Relevant Assets. MMC reserves the right to change its view of any of the conclusions set out in this ITR should any of the fundamental information provided to MMC materially change.

This ITR is not a JORC Statement of either Exploration Results, Resources or Reserves.

Reference is made in this report to estimated coal quantities. All estimated coal quantities are based on Exploration Results and represent exploration targets. They are not classified as either Coal Resources or Coal Reserves. Potential coal quantities are conceptual in nature, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of Mineral Resources.

## 1.7 Information Sources

The contents of this ITR report are based primarily on the Dataroom established for this purpose. Dataroom information received is recorded in **Table 1.2**.

**Table 1.2 – Dataroom Information Received**

Document Identifier	Document Description
<b>SUGICO</b>	
04.03 Sugico_ConcessionArea_Ranking Summary_2011	Table of Concession Ranking Summary, extracted from SRK report titled "CORPAC Concession Ranking", September 2011 (note: Though not in the Dataroom, MMC has been provided with the complete report direct from Exalt Resources)
04.04 Sugico_Sumatra Concession Area Map	Map of 11 concession areas, collectively referred to as Sugico for this ITR.
04.05 Sumatra_IUP_C039-IUP-ER-OKI-JMS-23600Ha	Exploration license permit issued by local government
04.06 Sumatra_IUP_C095-IUP-ER-OKI-TME-19870Ha	Exploration license permit issued by local government
04.07 Sumatra_IUP_C098-IUP-ER-OKI-SPE-24290Ha	Exploration license permit issued by local government
04.08 Sumatra_IUP_C204-IUP-ER-OKI-MRI-19230Ha	Exploration license permit issued by local government
04.09 Sumatra_IUP_C205-IUP-ER-OKI-LGE-14900Ha	Exploration license permit issued by local government
04.10 Sumatra_IUP_C330-IUP-ER-OKI-SDE-23590Ha	Exploration license permit issued by local government
04.11 Sumatra_IUP_C338-IUP-ER-OKI-PBJS-23600Ha	Exploration license permit issued by local government
04.12 Sumatra_IUP_C353-IUP-ER-OKI-MEPE-24190Ha	Exploration license permit issued by local government
04.13 Sumatra_IUP_C622-IUP-ER-OKI-IME-24130Ha	Exploration license permit issued by local government
04.14 Sumatra_IUP_C627-IUP-ER-OKI-SDP-23860Ha	Exploration license permit issued by local government
04.15 Sumatra_IUP_C630-IUP-ER-OKI-LMR-22740Ha	Exploration license permit issued by local government
<b>BIG</b>	
02.02 Project BIG – Historical Owners Report Executive Summary	Executive Summary asset description from the owners of the PT Bakti Inti Guna concession
02.04 BIG_Mapping Report No. 1_Northern_English Translation	Report on general survey on coal deposit of Bulungan Regency, East Kalimantan Province
02.05 BIG_Mapping Report No. 2_English Translation	Mapping Report of PT Bakti Inti Guna of the Bulungan-Kaltim coal asset
02.07 BIG_Coal Anlyasis_1 Sample PT.BAKTI INTI GUNA	Report Of Analysis, PT Bakti Inti Guna, Coal
02.08 BIG_Coal Sample Analysis_no.2	Report of Laboratory Analysis, PT Bakti Inti Guna, Coal Analysis
02.08 BIG_Coal Sample Analysis_no.3	Report of Laboratory Analysis, PT Bakti Inti Guna, Coal Analysis
02.10 IUP PT Bakti Inti Guna	Exploration license permit issued by local government
<b>MMBP</b>	
03.03 IUP PT Mitra Maju Bangun Persada	Exploration license permit issued by local government
<b>KARIN</b>	
06.02 Project Karin – Runge Tech Review Report DRAFT	GMX/Corpac Pty Ltd North Barito Coal Project Technical Review by PT Runge Indonesia
06.05 IUP PT Karindangan	Exploration license permit issued by local government

MMC has relied on the accuracy of the Dataroom information supplied to it for the purposes of this ITR. In MMC's opinion, to the extent that information requested was in fact made available, the information provided was reasonable and nothing discovered during the review suggested that there was any material error or misrepresentation in respect of that information.

The technical information made available in the Dataroom for review was not comprehensive and not suitable for anything more than high level comment about coal prospectivity.

The other main source of information was the Systematic Geological Map Indonesia, by the Geological Research & Development Centre, Indonesia. All of the Regional Geology drawings and descriptions in this report have been sourced from the Systematic Geological Map Indonesia.

MMC accepts no liability for the accuracy or completeness of data and information provided to it by, or obtained by it from, Exalt or any third parties, even if that data and information has been incorporated into or relied upon in creating this report. The report has been produced by MMC using information that has been provided to MMC as at the date stated on the cover letter. MMC is under no obligation to update the information contained in the report at any time after the date shown on the cover letter, though MMC reserves the right to change its view of any of the conclusions set out in this ITR should any of the fundamental information provided to MMC materially change.

## **1.8 Report Structure**

This ITR report is presented in the following form:

- Cover letter addressed to The Directors of Exalt Resources,
- Section 1; Introduction,
- Section 2; Sugico,
- Section 3; BIG,
- Section 4; MMBP,
- Section 5; Karin, and
- Section 6, Damanka.

Conclusions for each asset are presented in the separate sections for each asset, and also in the Cover Letter to the Directors of Exalt Resources.

## **1.9 Information About This Document**

MMC makes no warranty, express or implied in respect of this ITR, particularly with regard to any commercial investment decision made on the basis of this ITR. This ITR has been prepared without taking into account the objectives, financial situation or needs of any individual, entity or organisation.

This document speaks only as of the date of the report and MMC has no duty to update it.

## 2. SUGICO

### 2.1 Location and Concessions

The Sugico Concessions are located in the Ogan Komering Ilir Regency, approximately 100 km south of Palembang, the provincial capital of the province of South Sumatra, Indonesia. Sugico is made up of 11 Mining License Permits (IUP's). The IUP areas are shown in **Figure 2**.

Details of the IUP's granted for Sugico are given in **Table 2.1**.

**Table 2.1 Sugico Concessions**

Company Name	Map Code	Area (ha)	Date Signed	Term
PT Tensri Madjid Energy	C095_TME	19,870	28-Dec-09	5 Years
PT Muara Enim Power Energy	C353_MEPE	24,190	28-Dec-09	5 Years
PT Sumber Daya Energy	C330_SDE	23,590	28-Dec-09	5 Years
PT Lion Multi Resources	C630_LMR	23,590	29-Dec-09	5 Years
PT Persada Berau Jaya Sakti	C338_PBJS	23,600	28-Dec-09	5 Years
PT Jaya Manggala Sakti	C039_JMS	23,600	28-Dec-09	5 Years
PT Sumber Daya Persada	C627_SDP	23,860	29-Dec-09	5 Years
PT Sugico Pendragon Energy	C098_SPE	24,290	28-Dec-09	5 Years
PT Indonesia Multi Energy	C622_IME	24,130	29-Dec-09	5 Years
PT Methane Resources Indonesia	C204_MRI	19,230	3-Feb-10	7 Years
PT Lion Global Energy	C025_LGE	14,900	3-Feb-10	6 Years

MMC notes that all IUP's are for exploration only; there are no mining permits.

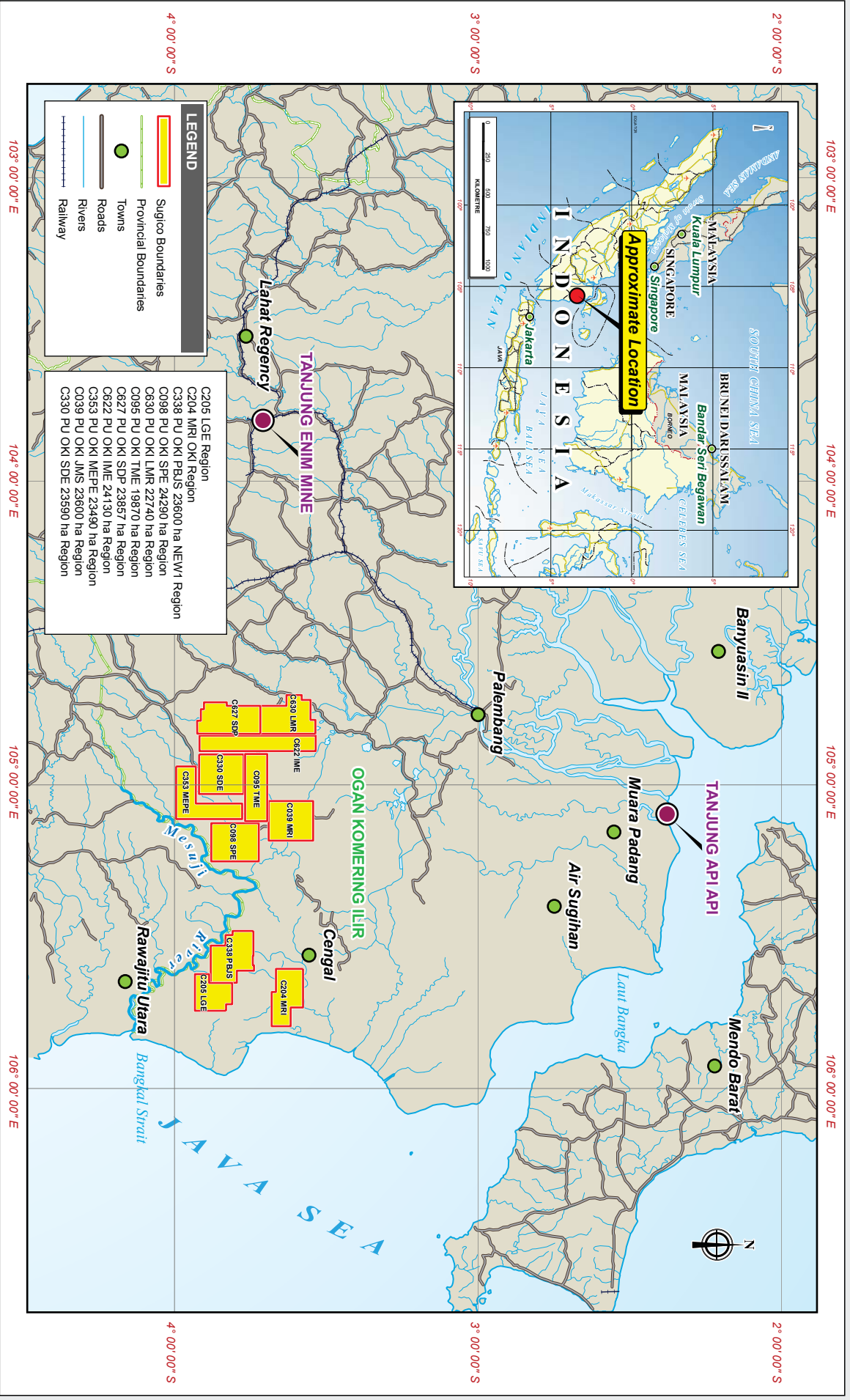
The total area of all concessions combined is approximately 250,000 ha; the equivalent of an area 50 km long and 50 km wide. This is a very large combined concession area.

### 2.2 History

The Dataroom did not contain any history for Sugico. We are therefore not aware of any exploration either in the area generally or specifically for the Sugico concessions.

### 2.3 Regional Geology

Sumatra Island is the northwest oriented physiographic expression of Sunda land, a southern extension of the Eurasian Continental Plate. The island has an area of about 435,000 km<sup>2</sup>, measuring 1650 km from Banda Aceh in the north to Tanjungkarang in the south. Sumatra Island is interpreted to be constructed by collision and suturing of discrete micro-continent in late Pre-Tertiary times. At the present time, the Indian Ocean Plate is being subducted beneath the Eurasian Continental Plate in a N20°E direction at a rate of between 6 cm/yr and 7 cm/yr. This zone of oblique convergence is marked by the active Sunda Arc-Trench system which extends for more than 5000 km, from Burma in the north to where the Australian Plate is in collision with Eastern Indonesia in the south. The basin configuration of Sumatra is directly related to the presence of the subduction-induced non-volcanic fore-arc and the volcano-plutonic back-arc, the morpho-structural backbone of the Island.



**Figure No.2 REGIONAL LOCATION - SUGICO CONCESSIONS**  
 Project : **INDONESIAN COAL ASSETS**  
 Client : **EXALT RESOURCES LIMITED**  
 Job No. ADV-SY-03894  
 Date : June 2012



In general the region can be divided into 5 sub-regions:

- **Sunda outer-arc ridge**, located along the active margin of the Sunda fore-arc basin and separated from the trench slope.
- **Sunda fore-arc basin**, lying between the accreting non-volcanic outer-arc ridge with submerged segments, and the volcanic back arc of Sumatra.
- **Sumatra back-arc basins**, including the North, Central and South Sumatra Basin(s). The system developed as distinct depressions at the foot of the Barisan range. The Muara Enim Formation is considered the most economic coal bearing formation within the South Sumatra Basin.
- **Barisan mountain range**, occupies the axial part of the island and is composed mainly of Permo-Carboniferous to Mesozoic rocks.
- **Sumatra intra-arc basin**, separated by subsequent uplift and erosion from this former depositional area, thus with similar lithologies to the fore-arc and back-arc basins.

## 2.4 Local Geology

The Sugico Concessions are located in the Ogan Komering Ilir (“OKI”) Regency, South Sumatra, which is an administrative district that occupies the south of the South Sumatra Basin. The Sugico coalfield contains coal bearing sediments of the Muara Enim Formation and non-coal bearing sediments of the Kasai Formation. A geology map showing the formations is given in **Figure 3**.

The Muara Enim Formation is defined by the upper and lower occurrence of laterally continuous coal beds. Thickness in the area around Muara Enim and Lahat is around 500 m – 700 m, about 15% of which is potentially coal. Where the formation is thin, coal beds become very thin or are absent; suggesting subsidence rates played an important role in coal deposition and preservation. In most of the basin, the coals are low grade lignites. Only around young volcanic granite intrusions, like those present at the Tanjung Enim Mine 130 km to the west of Sugico (see **Figure 2**), were the lignites altered to become higher grade coal.

In this formation, coal seams occur in four groups: M1, M2, M3 and M4. The M2 and M4 groups are the most potentially economic coals with up to 3 coal seams in the M2 group (Mangus, Suban and Petai Seams) and 2 seams in the M4 group (Enim and Jelawatan Seams). The age of the formation has never been determined accurately, but we believe it is within the Late Miocene - Early Pliocene.

The Kasai Formation sediments are present in much of the South Sumatra basin. The lower 250 m – 350 m is characterised by common fine-grained, rhyolitic tephra (acid air-transported volcanics). Coals are absent. Conglomeratic sandstones and plant material are rare. The upper part of the formation (300 m – 500 m thick) still has common quartz-rich pumice tuffs, but also contains common cross-bedded coarse sandstone and pumice-rich conglomerate beds. Fossils are rare, only some fresh-water molluscs and plant fragments have been observed. The most likely age of the Kasai Formation is Late Pliocene to Pleistocene.

The percentage area of these formations in the Sugico concessions is shown in **Table 2.2**. The main coal bearing formation of potential economic significance is the Muara Enim Formation. Approximately 44% of the total concession area overlies the Muara Enim Formation.

MMC has not been provided with a geology report, or outcrop plan, or a document with exploration results for the Sugico concessions. MMC is therefore unable to review the concessions either individually or collectively.

There is good potential to find coal within the Muara Enim Formation. Sugico is vastly unexplored, and therefore represents a very large area of Muara Enim Formation with good potential to find coal. Further exploration work is required to adequately define the coal measures before prospective coal quantities can be estimated. Scout drilling, with a coal quality sampling programme, and further detailed outcrop mapping needs to be completed before any further assessment can be made regarding potential coal.

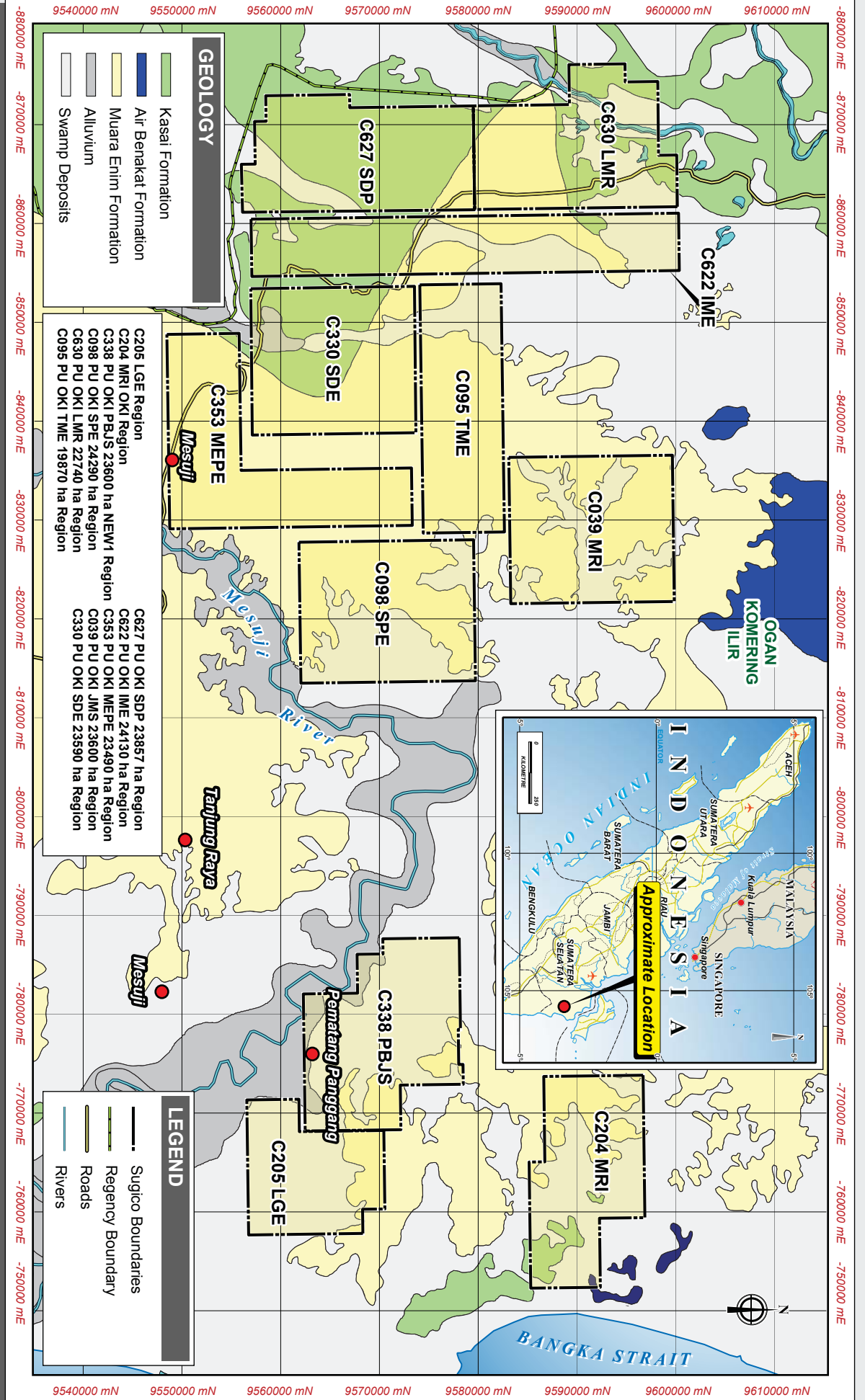


Figure No.3 REGIONAL GEOLOGY - SUGICO CONCESSIONS

Project : **INDONESIAN COAL ASSETS**

Client : **EXALT RESOURCES LIMITED**

Job No. **ADV-SY-03894**

Date : **June 2012**

The nearest operating coal mine to the Sugico concessions is the Tanjung Enim Mine of PT Bukit Asam (“PT BA”) 130 km west of Sugico. It has a very large resource and a very large mineable reserve, with capacity to produce around 20 Mtpa of coal. The coal at the Tanjung Enim Mine is also contained in the Muara Enim Formation and produces lignite, sub-bituminous coal and some coking coal. The high quality coals were created by granite intrusions which altered the lignite into higher quality coal. The known presence of volcanic intrusions at Tanjung Enim suggests there could be other intrusions in the region which are not yet known.

**Table 2.2 - Sugico Geological Formation Percentages**

Company Name	Map Code	Area (ha)	Muara Enim Formation (%)	Kasai Formation (%)
PT Tensri Madjid Energy	C095_TME	19,870	80%	0%
PT Muara Enim Power Energy	C353_MEPE	24,190	95%	5%
PT Sumber Daya Energy	C330_SDE	23,590	50%	30%
PT Lion Multi Resources	C630_LMR	23,590	40%	30%
PT Persada Berau Jaya Sakti	C338_PBJS	23,600	20%	0%
PT Jaya Manggala Sakti	C039_JMS	23,600	60%	0%
PT Sumber Daya Persada	C627_SDP	23,860	10%	80%
PT Sugico Pendragon Energy	C098_SPE	24,290	50%	0%
PT Indonesia Multi Energy	C622_IME	24,130	20%	40%
PT Methane Resources Indonesia	C204_MRI	19,230	30%	20%
PT Lion Global Energy	C025_LGE	14,900	20%	0%
<b>Total Area</b>		<b>244,850</b>	<b>44%</b>	<b>20%</b>

The coals most likely in the Sugico concessions would be lignites, according to MMC experience within the region. Lignites typically have 40% to 50% moisture content and low energy between 2,500 kcal/kg and 3,000 kcal/kg. There are no known or identified volcanic intrusions reported in the Sugico concessions area. However, as the area is so large and mostly unexplored, intrusions may exist.

Sumatra has very large known quantities of lignite; not including what may or may not be found at Sugico. The only current viable use for lignite is power generation. Due to the high cost of transporting coal combined with the low value of lignite, it is likely that future power stations would have to be located at or near the lignite mine. Sumatra could support a very large power generation industry. Very few of Sumatra’s lignite deposits are considered economically viable without construction of power stations.

To help plan a future exploration programme, MMC believes **Table 2.2** can be used as a guide where to focus exploration. For example, there is a much higher likelihood of finding coal in PT Muara Enim Power Energy IUP than there would be in the PT Sumber Daya Persada IUP as it contains a greater area of the Muara Enim Formation.

In MMC’s opinion the concessions with greater than 50% coverage of the Muara Enim Formation have good likelihood of containing coal. Because of the very large size of these concessions, any discovery of coal has the potential to be a large coal resource. If the Sugico coal is all lignite it is unlikely to be high value coal. Therefore, the focus of future exploration must be to identify intrusions with the potential to improve the coal quality.

## 2.5 Mining

Mining generally used in the South Sumatra Province is haul back open cut coal mining using a truck/shovel mining method. After the initial box cut waste is hauled to ex-pit dumps located on the surface, waste is hauled back into the mined out area, when pit void space is available. All dump areas, both in-pit and ex-pit, will need to be rehabilitated. An open cut operation would likely use hydraulic excavators and off road haul trucks of suitable size to mine both the coal and waste. Wastes would consist of both overburden overlying the coals, and interburden between different coal seams.

## 2.6 Infrastructure & Environment

The Mesuji River (see **Figure 2**) passes close to the Sugico concessions and so could be between 0 km and 50 km from a possible Sugico coal mine, depending where coal is found within the very large area of the concessions and where a coal mine might be developed. Portions of the river are navigable and are currently used for commerce, primarily agricultural products, although there is no coal barging. Barging is a common form of coal transport in Indonesia and therefore the Mesuji River represents a potential route for transporting Sugico coal for export.

The South Sumatra government is building the Tanjung Api Api Coal Terminal (see **Figure 2**) with a capacity of 50 million tonnes per annum. Construction of the terminal is planned to finish in 2013. This coal terminal could be available for Sugico export coal if transport to the terminal is constructed; either rail, road, or river transport.

A constraint during mining may be potential overlapping between mining and farming, especially oil palm and rubber plantations. This can in some cases be a significant issue and could incur considerable cost for purchasing land and/or compensating farmers.

Environmental matters will need to be addressed, but the Dataroom documentation identifies no environmental issues.

## 2.7 Sugico Conclusions

The following summarises MMC conclusions from a technical review of the Sugico concessions:

- There are 11 concessions which, in this report, are collectively referred to as Sugico. All of them are IUP's for exploration only; there are no mining permits.
- The total area of all concessions combined is approximately 250,000 ha; the equivalent of an area 50 km long and 50 km wide.
- Because of the very large size of these concessions, any discovery of coal has the potential to be a large coal resource, though there isn't enough information to identify an exploration target.
- The main coal bearing formation of potential economic significance is the Muara Enim Formation. Approximately 44% of the total concession area overlies the Muara Enim Formation.
- There is no evidence of any previous exploration activity. Sugico is vastly unexplored, and therefore represents a very large area of Muara Enim Formation with good potential to discover coal.
- The coals most likely to be found in the Sugico concessions would be lignites. There are no known or identified volcanic intrusions reported in the Sugico concessions area which could improve the quality of the coal. However, as the area is so large and mostly unexplored, intrusions may exist.
- The Sugico concessions represent good coal prospectivity. We cannot estimate an exploration target and we can make no comment on the likelihood of finding economic coal at Sugico.

### 3. BIG

#### 3.1 Location and Concession

PT Bakti Inti Guna ("BIG") holds a mining license permit (IUP) exploration number 467/K-IV/540/2010. The concession is located in the Antutan, Central Tanjung Palas Sub-districts, Bulungan Regency, approximately 340 km north of Samarinda, the provincial capital of the province of East Kalimantan, Indonesia. The concession lies in tropical rain forest with rough terrain and steep slopes with elevations ranging from 190 m to 380 m above sea level. The concession is shown in **Figure 4**.

The concession location is remote and access is considered difficult. Independent review of project permitting was not undertaken as part of this ITR.

#### 3.2 History

An exploration permit was granted by local government to BIG in 2010 covering 4,969 ha for a period of 7 years.

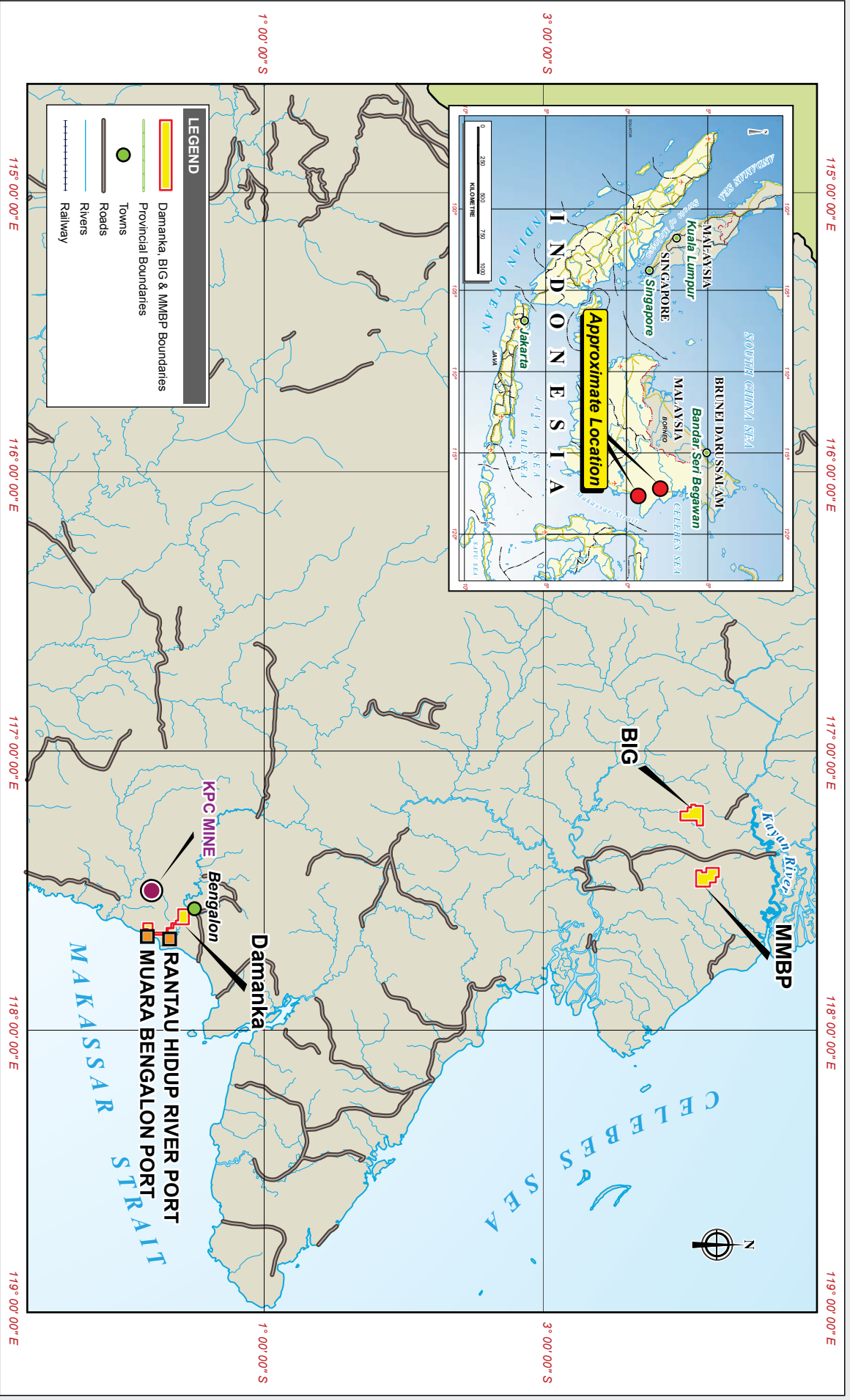
General geological mapping was carried out by BIG in 2011 and 2012 to understand the extent of the deposit within the concession area, the number of coal seams, and the types of rock present. Two mapping reports were given in the Dataroom as shown in **Table 1.2**.

#### 3.3 Regional Geology

Kalimantan can be divided into several roughly east-west trending tectonic provinces. BIG lies within the northeastern portion of the island of Kalimantan and is dominated by the Cretaceous and Eocene to Miocene Crocker-Rajang-Embaluh accretionary complex. This consists primarily of turbidites which were being shed northeastward off the Schwaner and younger volcanic arcs into a paralic to deep marine trench basin. These sediments were deformed and weakly metamorphosed during Cretaceous and Tertiary subduction and finally were intruded by late stage and post subduction intrusions of the Oligo-Miocene Sintang Group.

The Melawi-Ketungau basins and the Kutei basin formed along the southern margin of this complex during the Late Eocene and are separated from it by the Lupar-Lubok Antu and Boyan melange-ophiolitic zones. The Tarakan and Sandakan basins are Tertiary basins developed in the northeast part of Kalimantan. Similar to the Kutai basin, these basins are sourced by deltaic systems from the Kalimantan mainland. The Barito basin formed at the same time but appears to have formed as a back-arc or continental Rift. The eastern margin of the Barito Basin is formed by the Meratus ophiolite. This was emplaced during the Middle Cretaceous, presumably during northwestward directed subduction. The Meratus ophiolite separates the Barito basin from Asem-asem basin in the southeastern portion of Kalimantan. Asem-asem basin is a Tertiary basin which converted eastward gradually to Paternoster carbonate platform.

The Tarakan Basin encompasses the basinal areas in northeast Kalimantan. The basin is subdivided into four sub-basins: the Tidung Sub-basin, the Berau Sub-basin, the Tarakan Sub-basin, and the Muara Sub-basin. The Tarakan Basin is separated from the Kutei Basin by the Mangkalia High or Arch. To the west the basin is terminated by the Sekatak-Berau High of the Central Ranges, the basin hinges on the Semporna High to the north, and opens eastwards and southeastwards into the Straits of Makassar. Deposition in the Tarakan Basin commenced in the Middle Eocene, simultaneously with the rifting of the Makassar Straits which separates Sulawesi from Kalimantan (Lentini and Darman, 1996). The basin subsided and opened to the east. The sea transgressed westwards and shallow marine shales of the Sembakung Formation were deposited, overlying the older Dannu basement rocks. Tectonic inversion is almost absent in this basin. The tectonic history of the Tarakan Basin commenced with extensional tectonics in the Middle Eocene, initiating the basin by block faulting, similar to events in the neighbouring basins. In the Middle Miocene, the Sulu Sea, located to the north of the basin, was subducted below the accreted continental crust of North Kalimantan, and this resulted in the extrusion of Neogene volcanics in the Semporna Peninsula and was responsible for the formation of NW-SE trending, SE plunging folds in the Tarakan Basin.



**Figure No.4 REGIONAL LOCATION - DAMANKA, BIG & MMBP CONCESSIONS**  
 Project : **INDONESIAN COAL ASSETS**  
 Client : **EXALT RESOURCES LIMITED**  
 Job No. ADV-SY-03894  
 Date : June 2012

### 3.4 Local Geology

The BIG area is located in the Antutan, Central Tanjung Palas Sub-district, Bulungan Regency, East Kalimantan, which is an administrative district that occupies the western part of the Tarakan Basin. The BIG concession contains coal bearing sediments of the Sembakung Formation. A geology map showing the formations is given in **Figure 5**.

The Sembakung Formation comprises sandstone, claystone, siltstone, shale, limestone and bituminous /sub-bituminous coal. Fossil evidence indicates a range from Late Paleocene to Eocene age for the formation in a deltaic to deep marine environment. The formation has a thickness of approximately 1000 m.

#### 3.4.1 Exploration, Geological Data and Modelling Process

Surface geological mapping commenced in December 2011 with a total of 32 outcrops discovered within the concession area. There were 10 seams of coal identified with seam dips ranging from 12° to 35°. All 10 of the coal seams collectively comprise the Sembakung Formation. These coal seams are categorised as multiple, thin seams with moderate to steep dips.

Outcrop seam data was given in the mapping reports and is summarised in **Table 3.1**. Recorded individual ply thicknesses vary between 0.8 m and 1.7 m. All of the seam intersections given were determined from outcrop data only. There is no exploration drilling reported at BIG.

**Table 3.1 Outcrop Seam Data**

Seam Name	Average Thickness (m)	Average Dip Angle (degrees)	Average Strike Length (m)
A	1.05	25°	5700
B	0.8	12°	5600
C	1.1	12°	5600
D	1.1	15°	5600
E	1.5	35°	5600
F	0.8	35°	3600
G	0.88	22°	4000
H	1.7	35°	2700
I	1.3	35°	2800
J	1.7	35°	2700

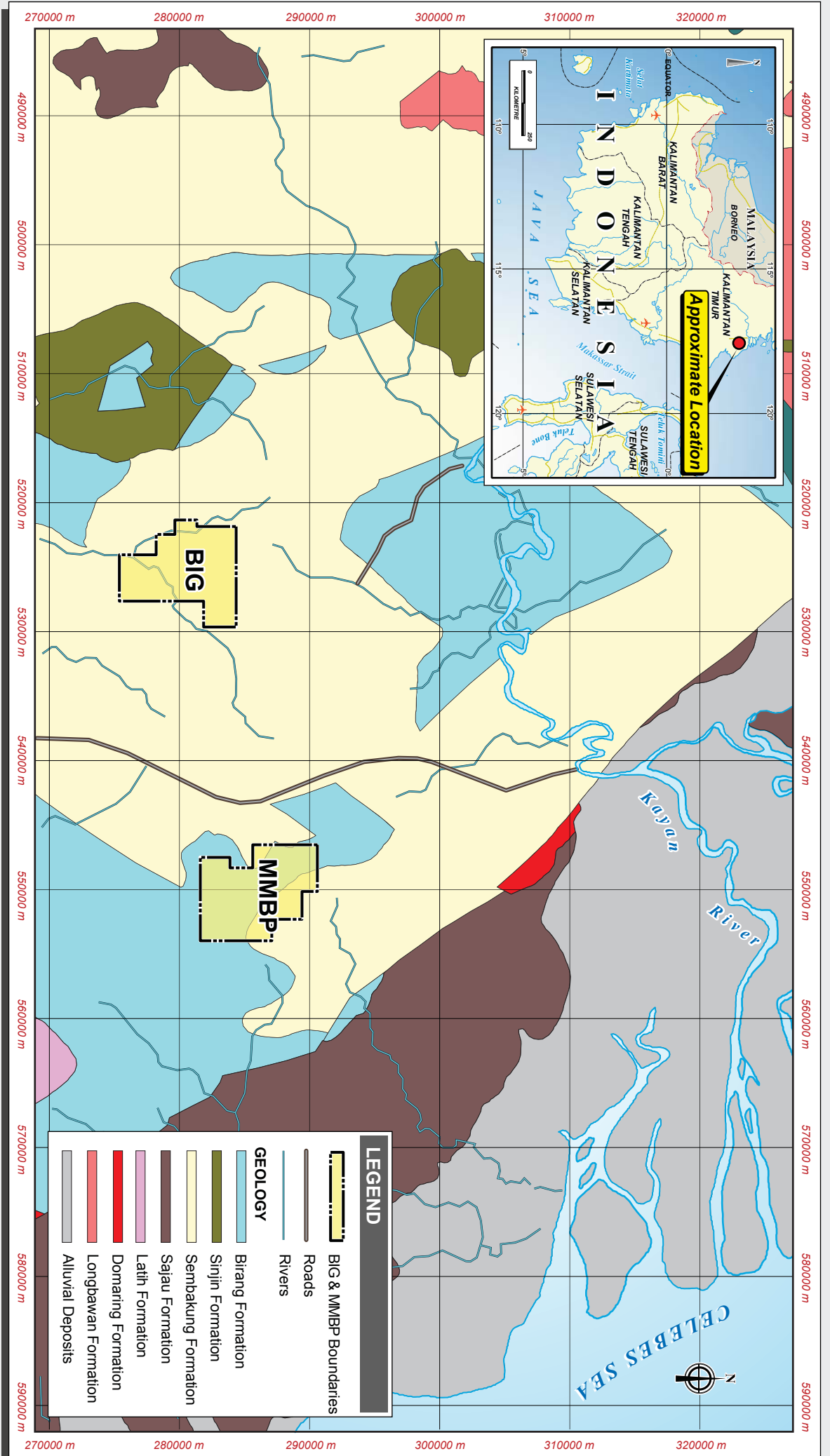
Some samples from outcrops were sent to laboratory for coal quality analysis. Results were included in the Dataroom and are given in **Table 3.2**. The results show that residual moisture ranges from ~3% (ar) to ~13% (ar), with ash from ~10% (adb) to ~18% (adb), sulphur from ~0.8% (adb) to ~3.6% (adb) and energy from ~5600 kcal/kg (ar) to ~6700 kcal/kg (ar). The moisture and energy results are typical of a sub-bituminous coal.

**Table 3.2 Coal Quality**

Sample Code	TM (% ar)	IM (% adb)	Ash (% adb)	VM (% adb)	FC (% adb)	TS (% adb)	CV (kcal/kg adb)	CV (kcal/kg ar)
OC- Kijang 03	2.7	1.4	18.3	16.1	64.2	3.65	6769	6680
OC 16	13.90	6.51	10.20	23.06	60.23	0.82	6086	5605
OC 13	13.99	6.56	10.18	23.13	60.13	0.82	6097	5612



**Figure No.5 REGIONAL GEOLOGY - BIG & MMBP CONCESSIONS**  
Project : **INDONESIAN COAL ASSETS**  
Client : **EXALT RESOURCES LIMITED**





MMC has the following comments regarding coal quality:

- Three (3) analyses from three (3) samples are not adequate to properly define potential coal quality.
- The reported coal quality covered only 2 of the 10 identified seams.
- There is one reported very high sulphur value of 3.65% (adb).
- There is one high ash value of 18.3% (adb).

We have not undertaken an independent field investigation to the concession. MMC is therefore unable to confirm the veracity of the reported seam intersections and coal quality data. Based on the limited information contained in the Dataroom MMC can make no comment regarding potential coal quality in the BIG concession.

We note the BIG Historical Owners Report Executive Summary included in the Dataroom contains the following comment regarding Development Risk Assessment:

- *“The area has complex geological modeling and rough terrain will address disadvantage in resources estimation in particular stripping ratio and mineable reserve,”*

MMC was not able to communicate directly with BIG and therefore was unable to get clarification of this statement (the English language version given above was a translation from the original Indonesian). From our own research we find no evidence that the geology at BIG is complex and see no reason why geology modeling should be complex.

### 3.4.2 Coal Quantities

The second mapping report given in the Dataroom includes an estimate of coal quantities. The estimates are exploration targets only, and not coal resources. The estimating methodology, including MMC comments, was generally as follows:

- used the results of outcrop mapping, given in **Table 3.1**, as the basis for estimating,
  - MMC accepts the outcrop mapping as having been done professionally and therefore the results should be reasonable for estimating,
- assumed the outcrop geometry, particularly seam thickness and seam dip, are consistent down to a depth of 150 m,
  - MMC identifies these assumptions as risks; it is unlikely that all outcrops mapped are continuous down to 150 m,
- estimated the length of each seam in the dip direction, by trigonometry using the individual seam dips given in **Table 3.1**,
  - MMC identifies these calculations as risks and potential inaccuracies, it is unlikely that all seams will be continuous over the entire dip length,
- multiplied seam strike length by seam dip length by seam thickness by an assumed default relative density (“RD”) to estimate coal quantities for each seam,
  - MMC accepts the methodology as reasonable for identifying exploration targets,
  - MMC was unable to duplicate the calculations and reproduce the coal quantity estimated by BIG; MMC calculations result in significantly less coal.

MMC cannot support the estimated coal quantity given in the BIG reports. We believe a reasonable exploration target, estimated by MMC using the same methodology and allowing for risks and calculation discrepancies, is 20 Mt to 30 Mt. All estimated coal quantities are based on Exploration Results and represent exploration targets. They are not classified as either Coal Resources or Coal Reserves. Potential coal quantities are conceptual in nature, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of Mineral Resources.

Based on the limited information contained in the Dataroom MMC can make no comment regarding potential coal quality in the BIG concession.

### 3.5 Mining

Mining generally used in the East Kalimantan Province is haul back open cut coal mining using the truck/shovel mining method. During an initial box cut waste is normally hauled to ex-pit dumps located on the surface. Later, when space is available, waste is hauled back into the mined out area all waste dump areas, both in-pit and ex-pit, need to be rehabilitated.

In the BIG Area, an open cut operation would likely use hydraulic excavators and off road haul trucks of suitable size to mine both the coal and waste. The concession area has rough terrain, and multiple, thin seams with moderate to steep dips. Wastes would consist of both overburden overlying the coals, and interburden between the potentially numerous coal seams.

### 3.6 Infrastructure & Environment

The BIG Historical Owners Report Executive Summary included in the Dataroom contains the following comments regarding Development Risk Assessment:

- A BIG project would need to upgrade at least 40 km of haul road from the mine site to a Kayan River jetty, including approximately 21 middle size bridges.
- Coal stockpiles and barge loading facilities would need to be constructed at the Kayan River.
- Large (300 foot) barges would be required to haul coal 60 km along a river and offshore to ocean going coal ships.

The Kayan River passes in proximity to the BIG concession; as near as 35 km from a potential BIG coal mine. Portions of the river are navigable and are currently used for public transportation and commerce, primarily agricultural products, although no coal barging. Barging is a common form of coal transport in Indonesia. The Kayan River represents a potential route for transporting BIG coal, which would need further investigation.

From the information available, there appears to be little or no existing infrastructure near the concession to support a mining project.

### 3.7 BIG Conclusions

The following summarises MMC conclusions from a technical review of the BIG concession:

- The main coal bearing formation of potential economic significance is the Sembakung Formation. 100% of the concession area overlies the Sembakung Formation.
- Initial geological investigation (outcrop mapping) in the concession area has identified 10 coal horizons within the Sembakung Formation. The coal seams are categorised as multiple, thin seams with moderate to steep dips.
- As mapping has discovered 32 coal outcrops and identified 10 seams, MMC believes BIG has good coal prospectivity.
- We estimate an exploration target of 20 Mt to 30 Mt. All estimated coal quantities are based on Exploration Results and represent exploration targets. They are not classified as either Coal Resources or Coal Reserves. Potential coal quantities are conceptual in nature, there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of Mineral Resources.
- Based on the limited information contained in the Dataroom MMC can make no comment regarding potential coal quality in the BIG concession.

## 4. MMBP

### 4.1 Location and Concession

PT Mitra Maju Bangun Persada (“MMBP”) holds a mining license permit (IUP) exploration number 437/K-IV/540/2010. The concession is located in the Antutan, Central Tanjung Palas Sub-districts, Bulungan Regency, approximately 340 km north of Samarinda, the provincial capital of the province of East Kalimantan, Indonesia. The concession lies in tropical rain forest with rough terrain and steep slopes with elevations ranging from 140 m to 280 m above sea level. The concession is shown in **Figure 4**. MMBP is located 25 km east of BIG concession, described in **Section 3** of this report.

An independent review of project permitting has not been carried out as part of this ITR.

### 4.2 History

An exploration permit was granted by local government to MMBP in 2010 covering 5,312 ha for a duration of 7 years.

The Dataroom did not contain any history for MMBP. MMC is not aware of any exploration either in the area generally or specifically in the MMBP concession, other than the exploration reported in **Section 3** of this ITR for the BIG concession.

### 4.3 Regional Geology

Kalimantan can be divided into several roughly east-west trending tectonic provinces. MMBP lies within the northeastern portion of the island of Kalimantan and is dominated by the Cretaceous and Eocene to Miocene Crocker-Rajang-Embaluh accretionary complex. This consists primarily of turbidites which were being shed northeastward off the Schwaner and younger volcanic arcs into a paralic to deep marine trench basin. These sediments were deformed and weakly metamorphosed during Cretaceous and Tertiary subduction and finally were intruded by late stage and post subduction intrusions of the Oligo-Miocene Sintang Group.

The Melawi-Ketungau basins and the Kutei basin formed along the southern margin of this complex during the Late Eocene and are separated from it by the Lumar-Lubok Antu and Boyan melange-ophiolitic zones. Tarakan and Sandakan basins are Tertiary basins developed in the northeast part of Kalimantan. Similar to Kutai basin, these basins are sourced by deltaic system from the Kalimantan mainland. The Barito basin formed at the same time but appears to have formed as a back-arc or continental Rift. The eastern margin of the Barito Basin is formed by the Meratus ophiolite. This was emplaced during the Middle Cretaceous, presumably during northwestward directed subduction. The Meratus ophiolite separates the Barito basin from Asem-asem basin in the southeastern portion of Kalimantan. Asem-asem basin is a Tertiary basin which converted eastward gradually to Paternoster carbonate platform.

The Tarakan Basin encompasses the basinal areas in north east Kalimantan. Tarakan Basin usually subdivided into four sub-basins: the Tidung Sub-basin, the Berau Sub-basin, the Tarakan Sub-basin, and the Muara Sub-basin. The Tarakan Basin is separated from the Kutei Basin by the Mangkalihat High or Arch. To the west the basin is terminated by the Sekatak-Berau High of the Central Ranges, the basin hinges on the Semporna High to the north, and opens eastwards and southeastwards into the Straits of Makassar.

Deposition in the Tarakan Basin commenced in the Middle Eocene, simultaneously with the rifting of the Makassar Straits which separates Sulawesi from Kalimantan. The basin subsided and opened to the east. The sea transgressed westwards and shallow marine shales of the Sembakung Formation were deposited, overlying the older Danau basement rocks. Tectonic inversion is almost absent in this basin.

### 4.4 Local Geology

The MMBP area is located in the Antutan, Central Tanjung Palas Sub-district, Bulungan Regency, East Kalimantan, which is an administrative district that occupies the western part of the Tarakan Basin. The MMBP coalfield contains potential coal bearing sediments of the Sembakung Formation and non-coal bearing sediments of the Birang Formation. A geology map showing the formations is given in **Figure 5**.

The Sembakung Formation comprises sandstone, claystone, siltstone, shale, limestone and bituminous /sub-bituminous coal. Fossil evidence indicates a range from Late Paleocene to Eocene age for the formation in a deltaic to deep marine environment. The formation has a thickness of approximately 1000 m.

The Birang Formation comprises limestone, tuff and sandy stone. There is no economic coal identified in the Birang Formation.

Considering only the Sembakung Formation, there are 1,450 ha of potential coal bearing area within the total MMBP area of 5,312 ha; representing 27% of the total area.

The MMBP concession area is located 25 km east of the BIG concession (reported in **Section 3**) and both concessions overlie the Sembakung Formation. There is potential to find coal within the Sembakung Formation. Further exploration work is required to adequately define the coal measures before prospective coal quantities can be estimated. Scout drilling, with a coal quality sampling programme, and further detailed outcrop mapping needs to be completed before any further assessment can be made regarding potential coal.

The Dataroom contained no information on potential coal quality at MMBP. However, some indication of potential coal quality for Sembakung Formation coal is given in **Section 3.4** relating to the BIG concession.

#### 4.5 Mining

Mining generally used in the East Kalimantan Province is haul back open cut coal mining using the truck/shovel mining method. During an initial box cut waste is normally hauled to ex-pit dumps located on the surface. Later, when space is available, waste is hauled back into the mined out area. All waste dump areas, both in-pit and ex-pit, will need to be rehabilitated.

In the MMBP area, an open cut operation would likely use hydraulic excavators and off road haul trucks of suitable size to mine both the coal and waste. The concession area has relatively rough terrain. If it is similar to BIG it will contain multiple, thin seams with moderate to steep dips. Wastes would consist of both overburden overlying the coals, and interburden between the potentially numerous coal seams.

#### 4.6 Infrastructure & Environment

There is no information in the Dataroom relating to infrastructure or environment at MMBP. Being in the same region as the BIG concession, we assume that MMBP also has no existing infrastructure and would require major development of all infrastructure in order to develop a coal project. This would likely include:

- A haul road from site to a river jetty.
- Coal stockpiles and barge loading facilities adjacent to the river.
- Large (300 foot) barges would be required to haul coal along a river and offshore to ocean going coal ships.

The Kayan River passes in proximity to both the BIG and MMBP concessions; as near as 35 km from a possible MMBP coal mine. Portions of the river are navigable and are currently used for public transportation and commerce, primarily agricultural products, although no coal barging. Barging is a common form of coal transport in Indonesia. The Kayan River represents a potential route for transporting MMBP coal, which would need further investigation.

#### 4.7 MMBP Conclusions

The following summarises MMC conclusions from a technical review of the MMBP concession:

- The main coal bearing formation of potential economic significance is the Sembakung Formation. Approximately 27% of the total concession area overlies the Sembakung Formation.
- MMC believes MMBP has reasonable coal prospectivity. There is not enough information to estimate an exploration target.

## 5. KARIN

### 5.1 Location and Concessions

The Karin Concession is located in the Barito Utara Regency, approximately 150 km northeast of Palangkaraya, the provincial capital of the province of Central Kalimantan, Indonesia. Karin is made up of only 1 concession, shown in **Figure 6**.

Details of the concession are given in **Table 5.1**. The Dataroom contained the IUP for PT Karindangan.

**Table 5.1 Karin Concession**

Company Name	Area (ha)	Date Signed	Term
PT Karindangan (Karindangan)	2,586	25 Feb 2010	4 Years

The concession area is generally flat lying at low elevations: Karindangan from 20 m to 90 m above sea level.

An independent review of permitting has not been carried out as part of this ITR.

### 5.2 History

The main source of information contained in the Dataroom is a presentation titled, “*GMX/Corpac Pty Ltd North Barito Coal Project Technical Review*”, by PT Runge Indonesia (“PTRI”), dated 18 October 2011.

PTRI is a wholly owned subsidiary of Runge Limited of Australia; which is also the parent company for Minarco-MineConsult. MMC has considered the matter of a potential conflict of interest in reviewing a report compiled by a related company and has concluded that we are not conflicted as we have only used the earlier PTRI report as a source of information.

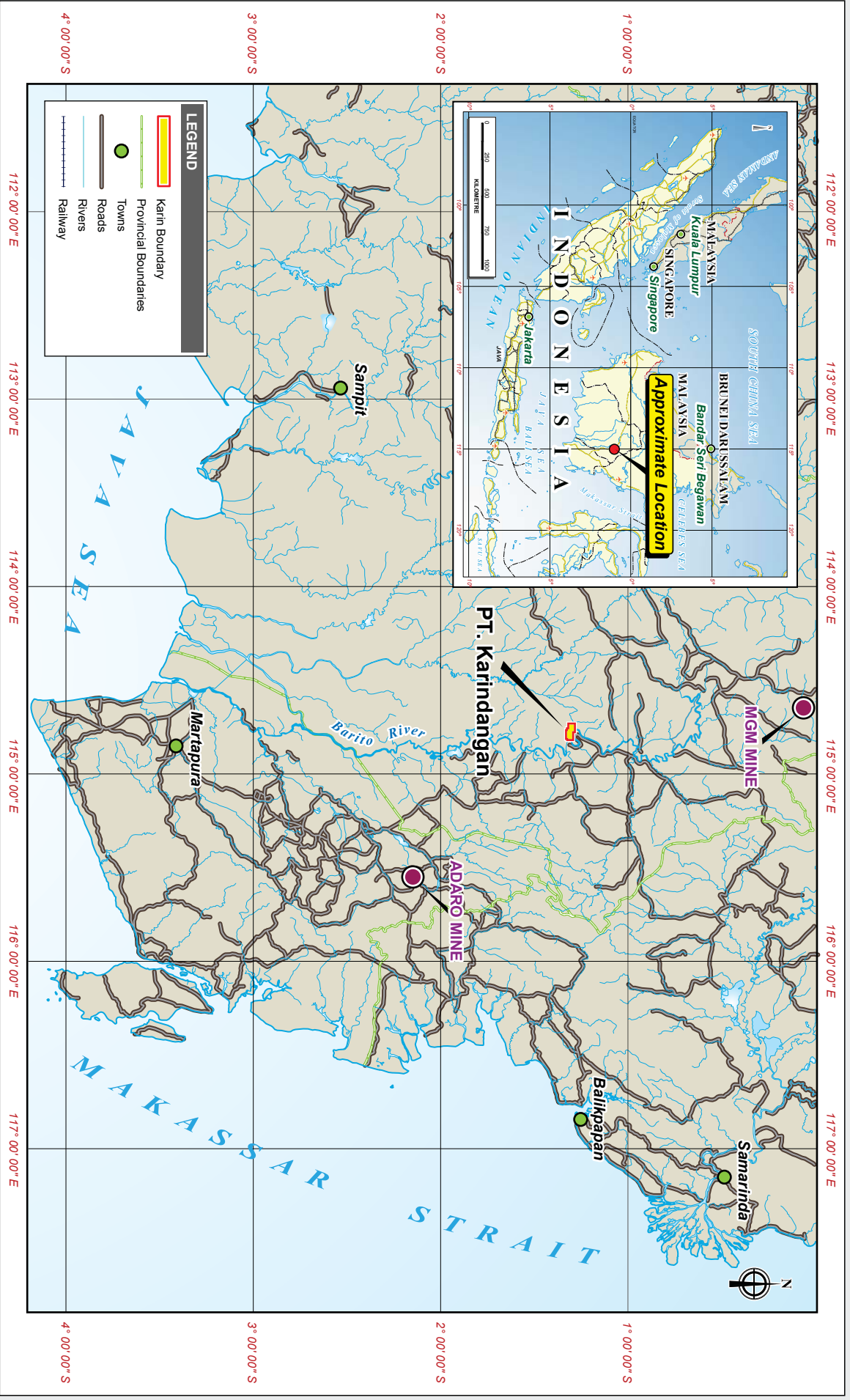
The work undertaken by PTRI was:

- held discussions with client,
- collected and reviewed available data,
- provided professional technical opinion where applicable, and
- provided a summary presentation style report.

The PTRI report covered 3 separate concessions in the same region, one of which was Karindangan. While information for the other concessions is useful from a regional perspective, the only directly relevant information is that related to Karindangan.

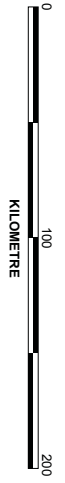
### 5.3 Regional Geology

Kalimantan can be divided into several roughly east-west trending tectonic provinces. Karin lies within the southern portion of the island of Kalimantan and is dominated by the Cretaceous and Eocene to Miocene Crocker-Rajang-Embaluh accretionary complex. This consists primarily of turbidites which were being shed northeastward off the Schwaner and younger volcanic arcs into a paralic to deep marine trench basin. These sediments were deformed and weakly metamorphosed during Cretaceous and Tertiary subduction and finally were intruded by late stage and post subduction intrusions of the Oligo-Miocene Sintang Group.



**LEGEND**

- Karim Boundary
- Provincial Boundaries
- Towns
- Roads
- Rivers
- Railway



**Figure No. 6 REGIONAL LOCATION - KARIN CONCESSION**  
 Project : **INDONESIAN COAL ASSETS**  
 Client : **EXALT RESOURCES LIMITED**

The Melawi-Ketungau basins and the Kutei basin formed along the southern margin of this complex during the Late Eocene and are separated from it by the Lupar-Lubok Antu and Boyan melange-ophiolitic zones. Tarakan and Sandakan basins are Tertiary basins developed in the northeast part of Kalimantan. Similar to Kutai basin, these basins are sourced by deltaic system from the Kalimantan mainland. The Barito basin formed at the same time but appears to have formed as a back-arc or continental Rift. The eastern margin of the Barito Basin is formed by the Meratus ophiolite. This was emplaced during the Middle Cretaceous, presumably during northwestward directed subduction. The Meratus ophiolite separates the Barito basin from Asem-asem basin in the southeastern portion of Kalimantan. Asem-asem basin is a Tertiary basin which converted eastward gradually to Paternoster carbonate platform.

The Barito Basin is situated along the southeastern margin of the Schwaner Shield in South Kalimantan. The basin is defined by the Meratus Mountains to the east and separated from the Kutei Basin to the north by a flexure related to the Adang Fault. The basin has a narrow opening to the south towards the Java Sea. The Barito Basin is an asymmetric basin, forming a fore-deep in the eastern part and a platform approaching the Schwaner Shield towards the west. The Barito Basin commenced its development in the Late Cretaceous, following a micro-continental collision between the Paternoster and SW Borneo micro-continents. Early Tertiary extensional deformation occurred as a tectonic consequence of that oblique convergence. This produced a series of NW–SE trending rifts. These rifts became accommodation space for alluvial fan and lacustrine sediments of the Lower Tanjung Formation, derived from horst areas. The Late Oligocene is characterised by the deposition of platform carbonates of the Berai Formation. In the late Miocene the Meratus Mountains re-emerged, followed by the isostatic subsidence of the basin which was situated in a foreland position in relation to the rising mountains. Sediments shed from this uplift were deposited in the subsiding basin, resulting in the deposition of thousands of meters of the Warukin Formation.

#### 5.4 Local Geology

The Karin Concession is located the Barito Utara Regency, Central Kalimantan, which is an administrative district that occupies the Barito Basin. The Karin coalfield contains coal bearing sediments of the Tanjung Formation, Warukin Formation and Montalat Formation and non-coal bearing Alluvium sediments. Geology is illustrated in **Figure 7**. Karindangan overlies the Warukin Formation and alluvial deposits.

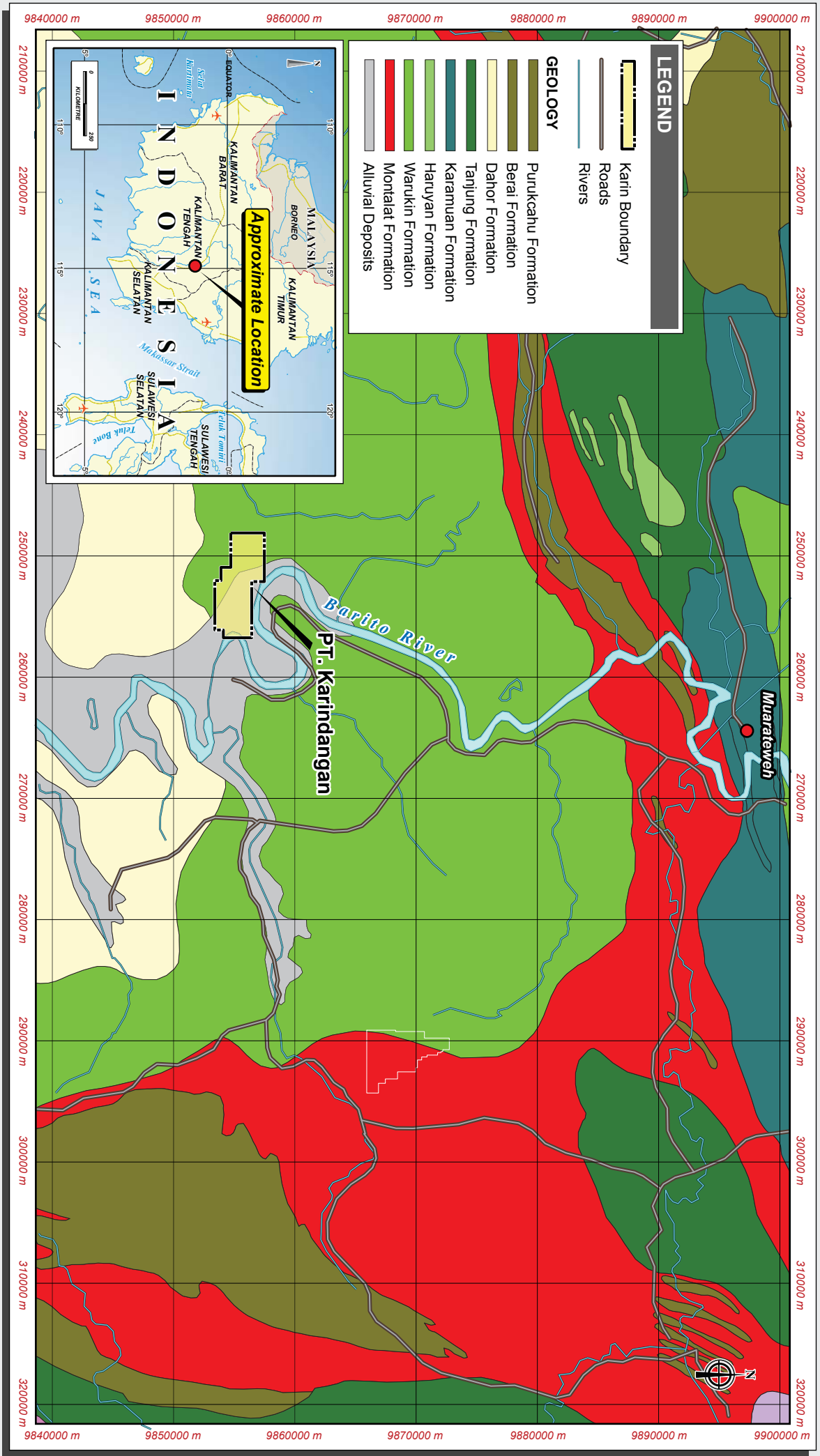
The Tanjung Formation comprises Sandstone (quartz), claystone, siltstone, Interbedded quartz sandstone, claystone and siltstone and interbedded limestone and conglomerate. Thin coal seams, some pyritic, are well bedded. Fossil evidence indicates late Eocene age for the formation in a littoral environment. The formation has a thickness of approximately 1000 m. The Tanjung Formation is conformably overlain by Tuyu and Ujoh Bilang Formations and correlate with Kuaro Formation and Kiham-Haloq Sandstone.

The Warukin Formation comprises quartz sandstone laminations, claystone, shale and limestone. The formation contains a number of thick seams with low energy coal. The Warukin Formation is estimated to be 250 m to 750 m thick, depending on the location and contains fossils of *Miogypsina* sp., *Cyclolypeus* sp., and *lepidocyclina* cf. *sumatrensis*, which are estimated to be of Middle Miocene to Late Miocene age. The formation style and fossil content indicates deposition in a littoral to paralic environment.

The Montalat Formation comprises sandstone (quartz) intercalated by carbonaceous claystone and shaly siltstone. Thin coal seams, some pyritic, are well bedded. Fossil evidence indicates Oligocene age for the formation in a shallow and open marine neritic environment. The formation has a thickness of approximately 1400 m. The Montalat Formation is conformably underlain by the Tanjung Formation and interfingers with the Berai Formation.

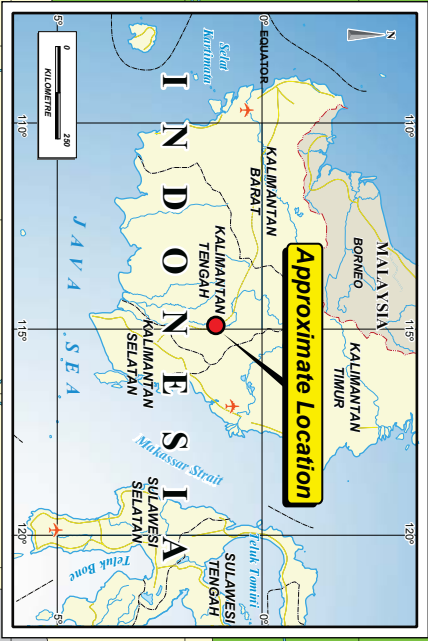
The nearest coal project to the Karin concession is the SMM Project of PT Suprabari Mapanindo Mineral (“SMM”) located approximately 30 km north of Karindangan. Production of semi-hard coking coal and high energy steaming coal is expected from 2012. The coal at the SMM Project is contained in the Tanjung and Montalat Formations; notably not the Warukin Formation. The high quality coals were created by basalt intrusions of Kasale Volcanic which altered the sub-bituminous coal into higher quality coal.

The MGM Project of PT Marunda Grahamineral is located approximately 100 km to the north of SMM (see **Figure 6**). Public domain information suggests MGM is an operating mine supplying good quality coking coal.



**LEGEND**

- Karin Boundary
  - Roads
  - Rivers
- GEOLOGY**
- Purukcahu Formation
  - Berai Formation
  - Dahor Formation
  - Tanjung Formation
  - Karamuan Formation
  - Haruyan Formation
  - Warukin Formation
  - Montalat Formation
  - Alluvial Deposits



**Figure No. 7 REGIONAL GEOLOGY - KARIN CONCESSION**  
 Project : **INDONESIAN COAL ASSETS**  
 Client : **EXALT RESOURCES LIMITED**

Job No. ADV-SY-03894  
 Date : June 2012



Another nearby currently operating coal mine is the Adaro Mine of PT Adaro Energy Tbk (“Adaro”) located 150 km southeast of Karin. It has a large resource and a large mineable reserve, with capacity to produce around 42 Mtpa of coal. The coal at Adaro is from the Warukin Formation and is ranked low ash and low sulphur sub-bituminous coal.

The percentage area of these formations in the Karin concession is shown in **Table 5.2**. Approximately 50% of the total concession area overlies coal bearing formation, with the remainder overlying alluvial deposits.

**Table 5.2 – Karin Geological Formation Percentages**

Company Name	Area (ha)	Tanjung Formation (%)	Warukin Formation (%)	Montalat Formation (%)
PT Karindangan	2,586	0%	50%	0%

The Dataroom did not include a geology report, or outcrop plan, or a document with exploration results for the Karindangan Area.

MMC has not been provided with any estimates of coal exploration targets for the Karin concession. It is uncertain if further exploration will result in the determination of Mineral Resources.

50% of the Karindangan concession overlies the coal bearing Warukin Formation which is known to contain thick, sub-bituminous coal seams. The remaining 50% overlies alluvium. The potential to find coal in the Karindangan area is considered reasonable since 50% of the total concession overlies the Warukin Formation.

## 5.5 Mining

Mining generally used in the Central Kalimantan Province is haul back open cut coal mining using a truck/shovel mining method. After the initial box cut waste is hauled to ex-pit dumps located on the surface, waste is hauled back into the mined out area, when pit void space is available. All dump areas, both in-pit and ex-pit, will need to be rehabilitated.

## 5.6 Infrastructure & Environment

MMC believes there will likely be some environmental issues to be addressed, as with any new Indonesian mining development, but the Dataroom documentation identifies no specific issues.

The Barito River passes adjacent to the Karin concession. The straight line distance from the Karin site to a potential offshore anchorage is approximately 250 km, or approximately 500 km along the winding path of the river. Portions of the river are navigable and are currently used for public transportation and commerce, primarily agricultural products, and importantly, coal barging. Barging along the Barito River is illustrated in **Exhibit 1**.

In the Karin concession area the Barito River is approximately 20 m above sea level. With a distance to the coast of 500 km this means the gradient of the river is 1:25000.

**Exhibit 1 – Coal Barging on the Barito River**

The river experiences significant variations in water levels, and is not open to barges year round. Barging is a common form of coal transport in Indonesia, so the Barito River represents a potential route for transporting Karim coal which would need further investigation.

**5.7 Karim Conclusions**

The following summarises MMC conclusions from a technical review of the Karim concessions:

- The main coal bearing formations of potential economic significance in the region are the Tanjung, Warukin and Montalat Formations. Approximately 50% of the total concession area overlies the coal bearing Warukin Formation.
- There is no exploration data within the Karindangan area. However, 50% of Karindangan area overlies the coal bearing Warukin Formation. MMC considers Karindangan has reasonable prospectivity.
- There is not enough data to estimate exploration targets.

## 6. DAMANKA

A technical review of a fifth concession, known as Damanka, has been commenced and is ongoing. MMC includes preliminary findings for Damanka in this ITR, but MMC emphasises that the review is incomplete and these findings are only preliminary. Damanka is not one of the Relevant Assets.

### 6.1 Location and Concession

PT Damanka Prima holds a Coal Contract of Work, ("CCOW") Generation III, No. 540.1/K.493/HK/V/2010. The concession ("Damanka") is located in the Sangatta and Bengalon Districts, Kutai Timur Regency, approximately 120 km north of Samarinda, the provincial capital of the province of East Kalimantan, Indonesia. The concession location is shown in **Figure 1**.

An independent review of project permitting has not been carried out as part of this ITR. A site visit has not been undertaken.

### 6.2 History

An exploration permit was granted by local government to Damanka in 2003. In 2010, Coal Contract of Work, ("CCOW") Generation III was awarded to PT Damanka Prima covering 4,923 ha and lasting for a period of 8 years.

Small scale mining operations reportedly took place in 2010 with total coal production of less than 100,000 tonnes. This was followed in 2011 once again by mining of less than 100,000 tonnes.

Public domain information reveals the Mining & Energy Office of East Kutai Regency temporarily halted mining activity following Damanka's failure to fulfil the administrative and technical requirements of good mining practices. Information suggests this was specifically related to hauling coal on public roads without appropriate permits. We have no firm evidence that mining has commenced again, though there are unconfirmed reports that the temporary halt has been removed.

### 6.3 Regional Geology

Kalimantan can be divided into several roughly east-west trending tectonic provinces. Damanka lies within the northern portion of the island of Kalimantan and is dominated by the Cretaceous and Eocene to Miocene Crocker-Rajang-Embaluh accretionary complex. This consists primarily of turbidites which were being shed northeastward off the Schwaner and younger volcanic arcs into a paralic to deep marine trench basin. These sediments were deformed and weakly metamorphosed during Cretaceous and Tertiary subduction and finally were intruded by late stage and post subduction intrusions of the Oligo-Miocene Sintang Group.

The Kutei Basin, at the southern margin of the northern portion of the island of Kalimantan, is the largest (165,000 km<sup>2</sup>) and the deepest (12,000 m – 14,000 m) Tertiary sedimentary basin in Indonesia. It developed primarily along an arm of the Makassar rift system while the Melawi-Ketungau basins and the Upper Kutei basins occupy more of a fore-arc to intra-arc position with Tertiary volcanism. The basin is bounded to the north by the Mangklihat High; to the south the basin hinges on the Adang-Flexure (Adang-Paternoster Fault); to the west it is terminated by the Kuching High, part of the Kalimantan Central Ranges; and to the east it opens into the Strait of Makassar.

One of the stratigraphic phases in Kutei Basin development was contemporaneous with basin uplift and inversion, which started in Early Miocene time. During that time, a vast series of alluvial and deltaic deposits were deposited in the basin. They comprise deltaic sediments of the Pamaluan, Pulubalang, Balikpapan and Kampung Baru Formations, prograding eastwards, which range in age from the Early Miocene to Pleistocene times. All of these Formations contain coal sediments, as demonstrated by other mining operations in the region. Deltaic deposition continues to the present day, and extends eastwards into the offshore Kutei Basin.

## 6.4 Local Geology

The Damanka area is located in the Sangatta and Bengalon District, Kutai Timur Regency, East Kalimantan, which is an administrative district that occupies the north margin of the Kutei Basin. The Damanka coalfield contains coal bearing sediments of the Balikpapan and Kampung Baru Formations. A geology map showing the formations is given in **Figure 8**.

The Balikpapan Formation comprises quartz sandstone and claystone with intercalations of siltstone, shale, limestone and bituminous/sub-bituminous coal. Fossil evidence indicates a range from Middle to Late Miocene age for the formation in a deltaic to littoral and shallow marine environment. The formation has a thickness of approximately 1,800 m with fold dips commonly between 35°- 50° and unconformably underlies the Kampung Baru Formation.

The Kampung Baru Formation is quoted to be of Late Miocene to Plio-Pleistocene age, deltaic to shallow-marine depositional environment with a thickness estimated at more than 500 m. It consists mainly of conglomerate, claystone, siltstone and minor coal. The conglomerate contains fragments of quartz, chalcedony, red shale, and clay. The clay is dark grey to blackish and contains plant remains, coal fragments, and corals. The silt is dark grey, slaty, and laminated. The thickness of the lignite coal is generally 1 m – 2 m.

Initial assessment reveals that less than 20% of the Damanka concession overlies the Balikpapan Formation. There is no economic coal identified in the Kampung Baru Formation.

It has been demonstrated that the concession contains 6 identified coal seams; 3 major coal units are considered to be of potential economic significance.

### 6.4.1 Exploration, Geological Data and Modelling Process

Drilling exploration has been limited to an area of approximately 50 ha at the southern part of the lease. The drilling programme commenced in September 2007 with a range of total borehole depths from 14 m to 70 m. There were 6 seams of coal identified in the southern portion of the lease with seam dips ranging from 30° to 35°. Recorded individual ply thickness varies between 0.5 m and 3 m, however there are no geophysical logs. All of the seam intersections are determined from borehole cuttings and borehole core data. A total of 27 boreholes were drilled for a total of 1092.4 m, with 382 m of “full and touch coring” cored sample taken. These samples were sent to a laboratory for coal quality analysis.

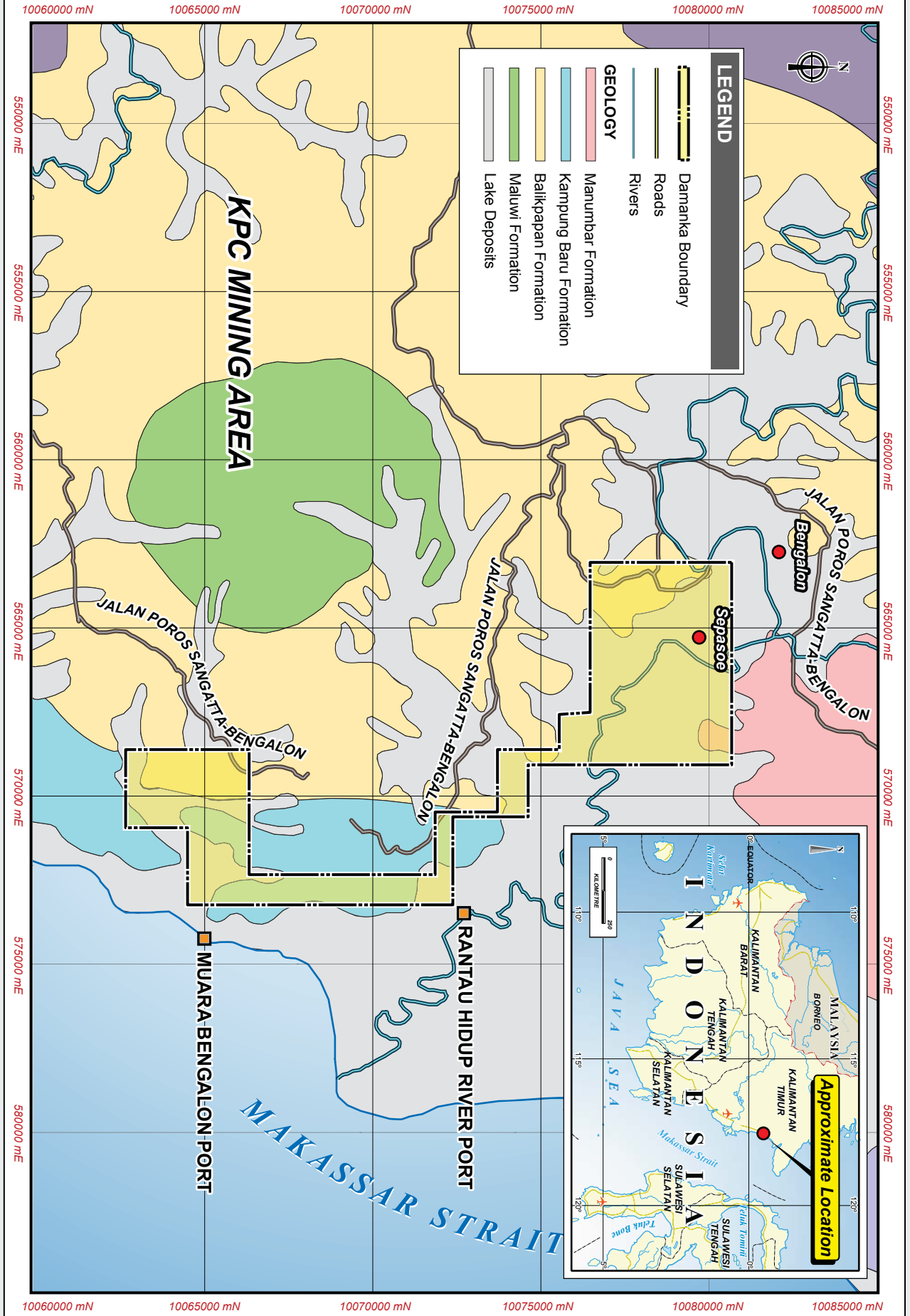
MMC has the following preliminary opinions regarding coal quality, gained from a review of available Dataroom information:

- Reported coal energies vary from 5,800 kcal/kg to 6,000 kcal/kg on an air-dried basis. Adjusted to an as-received basis the energies range from 4,850 kcal/kg to 5,400 kcal/kg.
- MMC believes that the ash content of the Balikpapan Formation in the region is between 3% and 5% (adb).
- There is evidence of high sulphur. This could be a material concern and could require careful mining and blending to get a lower sulphur product coal suitable for markets.

The concern with Damanka coal will be the combination of relatively low energy and high sulphur. It may be difficult to continually find markets for this coal.

### 6.4.2 Coal Quantities

Mincom geological software was used by the project owners to build a geological model and estimate coal tonnage. The geological model was not provided in the Dataroom. The coal quantity estimates have not been reported in accordance with the JORC Code. MMC considers they cannot be considered as exploration targets and therefore cannot be reported in this ITR.



## 6.5 Mining

During 2010 and 2011 Damanka is reported to have mined approximately 170,000 tonnes of coal, with coal sales of approximately 138,000 tonnes. It is assumed that the difference between mined coal and sales must be in stockpile. There is no evidence of a coal wash plant at Damanka.

MMC found no descriptive text to explain the historical coal production. From the schedules we infer the following:

- mining commenced in June 2010,
- we see no evidence of any mining after September 2011, and
- mining has been very sporadic, with monthly output varying between zero and 45,029 t (June 2010).

MMC has no explanation for the sporadic nature of mining. This is subject to further independent technical review.

There are 4 mining pits identified in the documentation, all located in the south of the concession within a relatively small area. The pits generally dip from west to east at a low wall angle of 20° to 30° following the bedding of the coal seams. Highwalls along the eastern side of the pits are at 40° to 45° slope.

Damanka has estimated coal quantities in these pits and forecast coal production over a period of 5 years. The ongoing technical review of the concession will hopefully reveal the methods of estimation used so that MMC can report the estimates.

Calculated strip ratios in the order of 10:1 bcm/t are not inconsistent with other coal mines in the region, including KPC to the southwest, but are considered high for sub-bituminous coal economic viability.

Shipping coal quality information was made available in the Dataroom. In particular, Certificates of Sampling and Analysis were given for 2 shipments; in May 2011 destined for China and in June 2011 bound for India.

The shipping certificates show that shipped coal quality is generally consistent with geological quality estimates, with 2 exceptions:

- Ash of shipped coal is higher than geological estimates. This could be expected as the seams are relatively thin resulting in a significant amount of dilution in the mined ROM coal. Dilution, by definition, is considerably higher in ash than the pure coal.
- Total sulphur is generally consistent with sulphur estimates, though at the high end of the range of laboratory results.

Shipping certificates indicate a net coal value of approximately US\$65/t FOB. This would appear generally consistent with current world coal pricing, allowing for energy adjustment and possible discounts for high sulphur.

## 6.6 Infrastructure & Environment

The Dataroom included very little comprehensive and relevant documentation relating to on-site infrastructure, off-site infrastructure, or environmental management.

The limited information available relating to infrastructure suggests the following:

- A site office and workshop are located at the mine, including an accommodation camp for employees, a canteen and a mosque.
- There are 3 power sets to generate 540 kW.
- Currently, coal transport from the mine site to port is by trucking a distance of 12 km northeast to the Rantau Hidup river port facility; 10 km of which is public road. From there, coal is loaded onto barges for transport offshore to a coal ship loading point.

- A coal stockpile area and a port facility area approximately 7 km from the mine are both owned by Damanka.
- A new port facility, Muara Bengalon, is under construction and was approximately 80% complete at 3<sup>rd</sup> quarter 2011.
- Damanka has utilised the Rantau Hidup river port facility temporarily to ship coal mined in 2010 and 2011.

The limited information available relating to environmental management suggests the following:

- The Dataroom includes an Environmental Management Plan for 2010. The Plan appears comprehensive, well prepared, and addresses all of the most probable environmental issues, including:
  - water quality and management,
  - air quality,
  - noise,
  - land management/erosion,
  - rehabilitation, and
  - social environment.
- Other Dataroom information suggests that Environmental management is primarily separation of topsoil and other materials, so that topsoil can be used to rehabilitate disturbed lands.
- There are two active sediment ponds to control water quality. At the end of September 2011, water quality had not yet met government regulation.
- There is no evidence of any rehabilitation that has been done by Damanka. The rehabilitation process was planned to start in December 2011. Rehabilitation of these areas represents a potential Damanka liability.
- It is understood from public domain information that hauling along public roads is problematic, though the Dataroom contained no specific information on this subject.
- Public domain information reveals the Mining & Energy Office of East Kutai Regency temporarily halted mining activity following Damanka's failure to fulfil the administrative and technical requirements of good mining practices. We understand this was specifically related to hauling coal on public roads without appropriate permits.
- Exalt has advised of unconfirmed press reports in the Indonesian media indicating that ... "Regency administration of East Kutai stated PT Damanka Prima Coal, subsidiary of PT ATPK Resources Tbk (ATPK), may resume its operation with the settlement on the 'good mining practices' and administrative issues".

We note specifically that this ITR did not include an environmental audit. We can make no detailed comment on Damanka's overall environmental performance. We recognise that this represents a risk if it proves that there are potential financial liabilities for building environmental structures, for penalties/fines incurred, or for remediation requirements.

## 6.7 Damanka Conclusions

The following summarises MMC conclusions from a technical review of the Damanka concession:

- The Damanka review is incomplete and these findings are only preliminary.
- The main coal bearing formation of potential economic significance at Damanka is the Balikpapan Formation. Less than 20% of the total concession area overlies the Balikpapan Formation.
- Approximately 170,000 t has reportedly been mined.
- There are opportunities to find additional coal within the Balikpapan Formation in the southern parts of the concession, and also potentially in the north. We believe Damanka has good coal prospectivity.
- Damanka coal is relatively low energy and high sulphur. It may be difficult to find ongoing markets for this coal.
- Shipping certificates indicate a net coal value of approximately US\$65/t FOB. This would appear generally consistent with current world coal pricing, allowing for energy adjustment and possible discounts for high sulphur.
- Public domain information reveals the Mining & Energy Office of East Kutai Regency temporarily halted mining activity following Damanka's failure to fulfil the administrative and technical requirements of good mining practices. We understand this was specifically related to hauling coal on public roads without appropriate permits.
- Exalt has advised of unconfirmed press reports in the Indonesian media indicating that ...*"Regency administration of East Kutai stated PT Damanka Prima Coal, subsidiary of PT ATPK Resources Tbk (ATPK), may resume its operation with the settlement on the 'good mining practices' and administrative issues"*.
- This ITR did not include an environmental audit. We can make no detailed comment on Damanka's overall environmental performance. This represents a risk if it proves that there are potential financial liabilities for building environmental structures, for penalties/fines incurred, or for remediation requirements.



## 7. EXPLORATION BUDGET

Exalt Resources has prepared budgets to further explore the Relevant Assets (Sugico, BIG, MMBP and Karin) and the Pipeline Prospects (Damanka and others). The stated objective of the exploration programme is to identify the coal resources and classify the coal into the JORC categories of Measured/Indicated Resources and Proved/Probable Reserves. Budgets have been prepared for 2 cases; for a minimum subscription of A\$10 million and for a maximum subscription of A\$20 million. The actual budget will depend on the capital raised.

The budgets were prepared to an appropriate level of detail for exploration programmes. **Table 7.1** gives a summary of the budgets; the budgets themselves were issued in greater detail.

**Table 7.1 – Exploration Budgets**

Relevant Asset	A\$10 mill Minimum Subscription	A\$20 mill Maximum Subscription
<b>Sugico</b>		
- Mapping	-	64,000
- Geophysics	-	175,000
- Drilling	-	1,500,000
- Other costs	-	1,261,000
<b>Sugico Total</b>	<b>1,500,000</b>	<b>3,000,000</b>
<b>BIG</b>		
- Mapping	48,000	128,000
- Geophysics	100,000	150,000
- Drilling	557,000	1,640,000
- Other costs	555,400	1,150,400
<b>BIG Total</b>	<b>1,260,400</b>	<b>3,068,400</b>
<b>MMBP</b>		
- Mapping	49,500	132,000
- Geophysics	100,000	150,000
- Drilling	580,000	1,640,000
- Other costs	555,400	1,150,400
<b>MMBP Total</b>	<b>1,284,900</b>	<b>3,072,400</b>
<b>Karin</b>		
- Mapping	24,000	64,000
- Geophysics	70,000	150,000
- Drilling	483,000	1,435,000
- Other costs	430,250	1,007,750
<b>Karin Total</b>	<b>1,007,250</b>	<b>2,656,750</b>
<b>TOTAL BUDGET</b>	<b>5,052,550</b>	<b>11,797,550</b>

Note the estimated costs for Sugico, for the A\$10 mill Minimum Subscription case, were not itemised. MMC does not consider this a material issue as the overall budget has been prepared to a proper level of detail.

The budgets do not give an indication of the proposed number of drillholes. Direct discussion with the Exalt geologist confirmed that the budget is based on metres drilled rather than holes drilled. We accept this as appropriate estimating methodology.

By definition, exploration does not have known outcomes. Therefore, whilst it is reasonable to set objectives such as Measured/Indicated Resources, it is not possible to guarantee that any exploration will achieve those results. There are too many unknowns at the beginning of any exploration programme.

Furthermore, definition of JORC Reserves requires that the JORC Resources be “economically mineable”. This necessitates some level of mine/project planning and forecasting of future coal markets and coal prices. These can’t be determined by exploration alone. There are amounts included in the detailed budget for mining studies to produce JORC Statements.

Exploration is normally undertaken in stages, with increasing knowledge of the deposit at each stage. Some assets may require more exploration than others. This will only be known as the exploration proceeds. It is appropriate to also budget expenditures in stages. The Exalt budgets include what are effectively 3 exploration stages; mapping, geophysics and drilling. We assume these would be staged in time and that budgets would change depending on the outcomes of each stage.

Having reviewed the proposed budgets, we conclude the following:

- the budgets have been prepared with an appropriate level of estimating detail,
- the budgets appear comprehensive and include all of the items normally incurred in exploration,
- the A\$10 mill Minimum Subscription budget should result in significantly increased knowledge and understanding of the geological setting of each coal prospect,
- the A\$20 mill Maximum Subscription budget should result in still greater knowledge of each asset and should therefore increase the likelihood of identifying JORC Resources, and
- subject to successful exploration, it is reasonable to expect that the A\$20 mill Maximum Subscription budget will achieve the stated objective of quantifying JORC Resources (Measured, Indicated and Inferred) for the Relevant Assets.

## 7. INDEPENDENT ACCOUNTANT'S REPORT

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The Directors  
Exalt Resources Limited  
Level 5  
56 Pitt Street  
Sydney NSW 2000

4 September 2012

Dear Sirs

## INVESTIGATING ACCOUNTANT'S REPORT

### 1. Introduction

We have been engaged by Exalt Resources Limited (Company) to prepare this investigating accountant's report on Historical and Pro-forma Financial Information of the Company for inclusion in the Prospectus dated on or about 4 September 2012.

The Company is looking to raise capital via a public offering to raise up to \$20 million before costs.

The Historical and Pro-forma Financial Information included in the Prospectus illustrate the financial position of the Company as at 30 June 2012 and provides investors with a Pro-forma Statement of Financial Position as at 30 June 2012 adjusted to include the Pro-forma Transactions outlined in Section 8.3 of the Prospectus.

The purpose of this report is to report whether anything has come to our attention which causes us to believe that the Historical and Pro-forma Financial Information is not presented fairly in accordance with the recognition and measurement requirements of Australian Accounting Standards and other pronouncements issued by the Australian Accounting Standards Board, the accounting policies of the Company and the basis of preparation described in Sections 8.1 to 8.6 of the Prospectus.

This report does not address the rights attaching to the shares to be issued in accordance with the Prospectus, the risks associated with the investment, nor forms the basis of an independent expert's opinion with respect to a valuation of the Company or a valuation of the share issue price.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus in which this report appears.

### 2. Historical & Pro-forma Financial Information

We have been requested to prepare a report covering the Historical and Pro-forma Financial Information described below and disclosed in the Company's Prospectus at Sections 8.1 to 8.6:

- the Historical Statement of Financial Position as at 30 June 2012;
- the Pro-forma Statement of Financial Position as at 30 June 2012;
- the Pro-forma Transactions described in Section 8.3; and

- the other notes to the Historical and Pro-forma Financial Information.

Together, the above is referred to as the “Historical and Pro-forma Financial Information”.

The Historical and Pro-forma Financial Information presented in the Company’s Prospectus has been derived from the reviewed historical financial information of the Company for the period ended 30 June 2012, adjusted as applicable to reflect the Pro-forma Transactions detailed in Section 8.3 of the Prospectus.

The interim financial statements of the Company for the period ended 31 December 2011 were reviewed by the company’s auditors. The review conclusion issued to the members of the Company relating to this financial statement was unmodified. We have reviewed this financial information and the financial information for the 6 month period ended 30 June 2012 in preparation of this report.

The Historical and Pro-forma Financial Information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to financial reports prepared in accordance with the *Corporations Act 2001*.

### **3. Scope**

We have reviewed the Historical and Pro-forma Financial Information in order to report whether anything has come to our attention which causes us to believe that the Historical and Pro-forma Financial Information set out in the Prospectus, is not presented fairly in accordance with the recognition and measurement requirements of Australian Accounting Standards and other pronouncements issued by the Australian Accounting Standards Board, the accounting policies of the Company and the basis of preparation described in Section 8.1 to 8.6 of the Prospectus.

Our review has been conducted in accordance with Australian Auditing Standards on Review Engagements ASRE 2405 “Review of Historical Financial Information Other than a Financial Report”. We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- Review of the Historical financial information of the Company for the period ended 31 December 2011 and 30 June 2012;
- Review procedures applied to the Historical and Pro-forma Financial Information;
- Review of work papers, accounting records and other documents;
- Review of the Pro-forma Transactions described in Section 8.3 of the Prospectus; and
- Inquiry of Directors, management and others.

These review procedures were substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards and therefore provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express such an opinion on the Company’s Historical and Pro-forma Financial Information.

The review statement expressed in this report has been formed on the above basis.

### **4. Directors’ responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Historical and Pro-forma Financial Information, including the determination of the pro-forma Transactions.

The directors' responsibility includes establishing and maintaining internal controls relevant to the preparation of the financial information in the Prospectus that is free from material misstatement, whether due to fraud or error.

#### **5. Review Statement on Historical and Pro-forma Financial Information**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the Historical and Pro-forma Financial Information set out in Sections 8.1 to 8.6 of the Prospectus is not presented fairly in accordance with the recognition and measurement requirements of Australian Accounting Standards and other pronouncements issued by the Australian Accounting Standards Board, the accounting policies of the Company and the basis of preparation described in Section 8.1 to 8.6 of the Prospectus.

#### **6. Subsequent Events**

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief no material items, transactions or events outside of the ordinary business of the Company have come to our attention which would require comment on, or adjustment to, the information referred to in our report or that would cause the information to be misleading or deceptive.

#### **7. Independence Disclosure**

BDO Audit Pty Ltd does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to this matter. BDO Audit Pty Ltd has provided advisory services and will receive normal professional fees for the preparation of this report. The Directors of BDO Audit Pty Ltd do not hold nor have any interest in any Ordinary Shares of the Company or its subsidiaries.

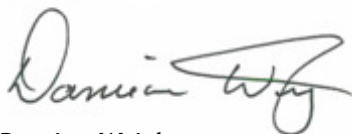
#### **8. Consent**

Consent to the inclusion of the Investigating Accountants Report in the Prospectus in the form and context in which it appears has been given. At the date of this report this consent has not been withdrawn.

Yours faithfully

**BDO Audit Pty Ltd**

BDO



**Damian Wright**

Director

## 8. FINANCIAL INFORMATION

### 8.1 Introduction

This section sets out the historical and pro-forma financial information of the Company. The basis for the preparation and presentation of this information is also set out below.

The financial information has been prepared by management and adopted by the Board. The Board is responsible for the inclusion of all financial information in the Prospectus. BDO Audit Pty Ltd has prepared an Investigating Accountant's Report in respect of the historical and pro-forma financial information. A copy of the report is contained in section 7.

The historical and pro-forma financial information has been prepared in accordance with the measurement and recognition criteria of Australian Accounting Standards and the significant accounting policies set out in section 8.5 below. The historical and pro-forma financial information comprises financial information of the Company. The historical and pro-forma financial information is presented in an abbreviated form insofar as it does not include all the disclosure and notes required in an annual financial report prepared in accordance with Australian Accounting Standards and the Corporations Act.

The information in section 8 has been provided for investors to gain an indication of the financial profile of the Company. It does not necessarily illustrate the future financial performance of the Company because past performance is not a guide to future performance.

### 8.2 Historical Financial Information

The historical financial information for the Company set out below comprises:

- (a) the reviewed Statement of Financial Position as at 30 June 2012; and
- (b) selected notes to the reviewed Statement of Financial Position.

The historical financial information has been extracted from the Company's management accounts for the period ended 30 June 2012. The historical financial information does not include a Statement of Comprehensive Income or a Statement of Cash Flows. The Company is an exploration company. During the period from incorporation to 30 June 2012 the Company has not earned any revenue from operations and therefore presentation of the Statement of Comprehensive Income and Statement of Cash Flows is not considered relevant.

### 8.3 Pro-forma Financial Information

The pro-forma financial information for the Company set out below comprises:

- (a) the unaudited Pro-Forma Statement of Financial Position as at 30 June 2012 based on completion of the minimum subscription under the Offer;
- (b) the unaudited Pro-Forma Statement of Financial Position as at 30 June 2012 based on completion of the maximum subscription under the Offer; and

- (c) selected notes to the unaudited Pro-Forma Statement of Financial Position.

The unaudited Pro-Forma Statement of Financial Position has been derived from the Statement of Financial Position as at 30 June 2012 adjusted for the following transactions as if they had occurred at 30 June 2012 (pro-forma transactions):

- (a) The issue of the maximum subscription under the Offer, being 100,000,000 Shares at an issue price of \$0.20 per Share to raise \$20,000,000 before expenses. All Shares issued pursuant to this Prospectus will be issued as fully paid; or
- (b) The issue of the minimum subscription under the Offer, being 50,000,000 Shares at an issue price of \$0.20 per Share to raise \$10,000,000 before expenses. All Shares issued pursuant to this Prospectus will be issued as fully paid; and
- (c) Peloton Capital will be paid up to \$600,000 in fees associated with raising the capital under the Prospectus (assuming the issue of the minimum subscription). In the event that the maximum subscription is issued the amount payable will be up to \$1,200,000;
- (d) The payment of the following legal and other costs associated with the Offer that remain unpaid:

	Minimum Subscription	Maximum Subscription
	\$	\$
Capital Raising Fees	600,000	1,200,000
Legal costs of the Offer	200,000	200,000
Investigating Accountant's costs	20,000	20,000
ASX and ASIC costs	20,450	25,450
Printing, postage and share registry	50,000	50,000
Total Offer costs	<b>890,450</b>	<b>1,495,450</b>

- (e) GST payable associated with the Offer (assuming the minimum subscription is issued), of \$89,045. In the event that the maximum subscription is issued, GST payable will be \$149,545;
- (f) The issue of 25,000,000 ordinary Shares to existing Odni shareholders in part consideration for 100% of the issued share capital of Odni as per the Share Purchase Agreement;
- (g) The issue of 10,000,000 unlisted Options exercisable at \$0.20 per option expiring two years after date of issue and 20,000,000 unlisted Options exercisable at \$0.50 per option expiring three years after date of issue, to existing Odni shareholders in part consideration for 100% of the issued share capital of Odni as per the Share Purchase Agreement as summarised in section 10.5.1. These options have been valued at \$1,772,052;



- (h) The issue of 66,000,000 Performance Shares to existing Odni shareholders in part consideration for 100% of the issued share capital of Odni as per the Share Purchase Agreement. These Performance Shares have been valued at \$2,640,000;
- (i) The issue of Shares, unlisted Options and Performance Shares to existing Odni shareholders has been accounted for as an asset acquisition given that Odni is not considered to be a Business.
- (j) The issue of 600,000 unlisted Options exercisable at \$0.20 per option and 2,400,000 unlisted Options exercisable at \$0.50 per option, all of which expire 4 years after date of issue, to Barry Tudor, Managing Director. These options have been valued at \$221,614. This value will be expensed over a 3 year period from the date of issue;
- (k) A bonus payable to the Managing Director, conditional on completion of the acquisition of Odni, of \$300,000;
- (l) The issue of 18,000,000 Performance Shares to Barry Tudor, Managing Director. These performance shares have been valued at \$720,000 and will be expensed over a 3 year period from the date of issue. Please refer to section 8.5 for the basis of methodology; and
- (m) The payment to Ruck Pty Ltd as part reimbursement of expenditure incurred by Ruck Pty Ltd in the development of the Indonesian Projects. The amounts taken up are \$1,500,000 if Exalt raises at least \$20,000,000, and between \$750,000 and \$1,500,000 if Exalt raises \$10,000,000 or more but less than \$20,000,000. The amounts to be reimbursed will be subject to review and necessary ASX approvals.

## 8.4 Historical and Pro-forma Consolidated Statements of Financial Position

	Note	30 June 2012 Historical \$	Pro-forma Minimum Subscription 30 June 2012 \$	Pro-forma Maximum Subscription 30 June 2012 \$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	8.6.1	2,556,150	10,526,805	19,111,305
Trade and other receivables		57,826	57,826	57,826
<b>Total current assets</b>		<b>2,613,976</b>	<b>10,584,631</b>	<b>19,169,131</b>
<b>Non-current assets</b>				
Exploration and Development Assets	8.6.2	806,489	10,968,391	11,718,391
<b>Total non-current assets</b>		<b>806,489</b>	<b>10,968,391</b>	<b>11,718,391</b>
<b>TOTAL ASSETS</b>		<b>3,420,465</b>	<b>21,553,022</b>	<b>30,887,522</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		507,826	507,826	507,826
<b>Total current liabilities</b>		<b>507,826</b>	<b>507,826</b>	<b>507,826</b>
<b>TOTAL LIABILITIES</b>		<b>507,826</b>	<b>507,826</b>	<b>507,826</b>
<b>NET ASSETS</b>		<b>2,912,639</b>	<b>21,045,196</b>	<b>30,379,696</b>
<b>EQUITY</b>				
Issued capital	8.6.3	3,820,859	17,841,364	27,175,864
Reserves	8.6.4	23,340	4,435,392	4,435,392
Accumulated losses	8.6.5	(931,560)	(1,231,560)	(1,231,560)
<b>TOTAL EQUITY</b>		<b>2,912,639</b>	<b>21,045,196</b>	<b>30,379,696</b>

## 8.5 Summary of Accounting Policies

The following significant accounting policies have been adopted in the preparation of the financial information. The accounting policies have been consistently applied unless otherwise stated.

### Basis of preparation

#### Going concern

The financial information has been prepared on a going concern basis. The Directors are managing the Company's cash flows carefully to meet its operational commitments. The Directors consider that the going concern basis is appropriate for the following reasons:

- By actively managing its cash flows, controlling costs and revising development plans as necessary the Company believes it has sufficient cash reserves to continue as a going concern through the next 12 months; and
- If the Company undertakes an acquisition of additional project(s) then it may have to raise additional capital to fund the development of these, however no allowance for such circumstances has been made in the financial information.

### Reporting basis and conventions

The financial information has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

### Accounting Policies

#### (a) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue is recognised as it accrues.

#### (b) Income Tax

The income tax expense (revenue) for the period comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax

assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

### **(c) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### **(d) Exploration and development assets**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

## **(e) Foreign currency transactions and balances**

### **Functional and presentation currency**

The functional currency of the Company is measured in Australian dollars. The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

### **Transactions and balances**

Foreign currency transactions during the period are translated into functional currency using the rates of exchange prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income.

## **(f) Financial Instruments**

### **Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

### **Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

## **(g) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expenses. Receivables and payables are stated with the amount of GST included.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

#### **(h) Employee benefits**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

#### **(i) Provisions**

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

#### **(j) Equity-settled compensation**

The Company may operate equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

#### **(k) Accounting Estimates and Judgments**

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

#### **(l) Performance Share Valuation Methodology**

##### **Performance Shares: Barry Tudor**

18 million Tudor Performance Shares have been offered to Barry Tudor, in equal tranches, the terms of which are subject to both the successful completion of the Proposed Transaction, and the satisfaction of various performance related hurdles.

Based on the appropriate accounting treatment required under AASB 2: Share Based Payment, a value for the Tudor Performance Shares will only be recognised in the financial accounts of the Company once it is possible to assess whether the milestones have or have not been met. As at the date of this Prospectus, and for the Company's year end of 30 June 2012, the Company will not record a value for these Tudor Performance Shares as the milestones will not have been achieved.

However, the Company has assigned probabilities to these tranches (consistent with those assigned as noted below for the valuation of the Performance Shares issued to Odni) which has valued these Tudor Performance Shares at \$720,000; note that this value will not be used to value the Tudor Performance Shares in the future accounts of the Company, and is for information purposes only.

In addition, the service component contained in Mr Tudor's employment contract relating to the vesting of the Tudor Performance Shares states that if employment is terminated (subject to certain conditions), then the Performance Shares, in respect of which the milestones permitting conversion have not been achieved, shall be redeemed by the Company.

### Performance Shares: Odni

66 million Odni Performance Shares have been offered to Odni, in equal tranches, the terms of which are subject to both the successful completion of the Proposed Transaction, and the satisfaction of various performance related hurdles.

These have been valued at \$2,640,000.

The Company has assigned probabilities of occurrence to each performance criteria in order to value the performance shares being granted to Odni.

Tranche	No. of Shares	Share Price	Probability of Occurrence	Value
<b>Tranche 1</b>	22,000,000	\$.20	10 %	440,000
<b>Tranche 2</b>	22,000,000	\$.20	30 %	1,320,000
<b>Tranche 3</b>	22,000,000	\$.20	20%	880,000
				<b>\$2,640,000</b>

The value of Tranche 1 of the Odni Performance Shares has been discounted by 90%. The value of Tranches 2 and 3 have been discounted by 70% and 80% respectively. The rationale supporting this approach is set out below:

- With respect to Tranche 1, the Company notes that the 90% discount rate applied to the production-related milestone takes into account the fact that currently none of the four Indonesian Projects to be acquired have any production profile associated with them, and only one of the Pipeline Projects, being Damanka, is at a stage where production may be possible and that the historical production rates at Project Damanka have been highly inconsistent and not at a volume which would trigger the milestone. In addition, Odni may not proceed to acquire Project Damanka should due diligence prove unsatisfactory and therefore considers this discount rate to be appropriate.

- Whilst in the Directors' opinion, the lead time attached to the milestones (two years: Tranche 1; and three years for Tranches 2 and 3) is sufficiently long to allow for industry-specific delays (i.e. licence renewals, exploration in remote areas, etc.), it is reasonable to expect there may be unforeseen delays which may adversely impact the time frames attached to the milestones hence discounting the total values as set out below is seen as appropriate.

The Company believes the probabilities assigned best reflect the likelihood of the performance based criteria being met based on information currently available for all the proposed Indonesian Projects.

Please refer to section 10.3 of this Prospectus for the complete terms and conditions associated with these Performance Shares

### **(m) Option Valuation Methodology**

The Company has valued the Options using the Black Scholes Model. The Black Scholes Model uses the following variables to determine the option price for each class of option:

- i) a share price of \$0.20
- ii) an exercise price of \$.20 per share (Class W and Y options);
- iii) an exercise price of \$.50 per share (Class X and Z options);
- iv) volatility of the Company's share price of 70%
- v) time to maturity for each class of options; and
- vi) the risk free interest rate of 3.0 %

### **Options issued to Odni:**

- i. 10,000,000 Options with an exercise price of \$0.20 and an expiry 2 years from the date of issue.
- ii. 20,000,000 Options with an exercise price of \$0.50 and an expiry 3 years from the date of issue.

These options have been valued at \$1.772 million.

### **Options issued to Barry Tudor:**

- i. 600,000 Options with an exercise price of \$0.20 per option and an expiry 4 years from the date of issue.
- ii. 2,400,000 Options with an exercise price of \$0.50 per option and an expiry 4 years from the date of issue.

These Options have been valued at \$221,614.

Please refer to section 10.3 for the terms and conditions associated with these Options. The Directors believe the model and assumptions used are appropriate in the circumstances.

### **(n) Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.



A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

## 8.6 Notes to Financial Information

### 8.6.1 Cash and cash equivalents

	Minimum Subscription	Maximum Subscription
	\$	\$
Cash and cash equivalents at 30 June 2012	2,556,150	2,556,150
Proceeds from Issue of Shares	10,000,000	20,000,000
Part re-imburement of Ruck Pty Ltd	(750,000)	(1,500,000)
Bonus payable to Managing Director	(300,000)	(300,000)
Payment of Capital Raising Fees	(890,450)	(1,495,450)
Payment of GST	(89,045)	(149,545)
Cash acquired on acquisition of Odni	150	150
<b>Pro-forma cash and cash equivalents</b>	<b>10,526,805</b>	<b>19,111,305</b>

## 8.6.2 Exploration and Development Assets

	Minimum Subscription	Maximum Subscription
	\$	\$
Exploration and Development Assets at 30 June 2012	806,489	806,489
Issue of Shares	5,000,000	5,000,000
Issue of Options	1,772,052	1,772,052
Issue of Performance Shares	2,640,000	2,640,000
Part re-imbursement of Ruck Pty Ltd	750,000	1,500,000
Odni Consolidation	(150)	(150)
<b>Pro-Forma Exploration and Development Assets</b>	<b>10,968,391</b>	<b>11,718,391</b>

## 8.6.3 Issued capital

Minimum Subscription	Number of Shares	\$
Issued Capital at 30 June 2012	28,875,003	3,820,859
Proceeds from Issue of Shares	50,000,000	10,000,000
Shares Issued to Odni Vendors	25,000,000	5,000,000
Payment of Capital Raising Fees	-	(890,450)
Payment of GST	-	(89,045)
<b>Pro-forma Issued Capital</b>	<b>103,875,003</b>	<b>17,841,364</b>

Maximum Subscription	Number of Shares	\$
Issued Capital at 30 June 2012	28,875,003	3,820,859
Proceeds from Issue of Shares	100,000,000	20,000,000
Shares Issued to Odni Vendors	25,000,000	5,000,000
Payment of Capital Raising Fees	-	(1,495,450)
Payment of GST	-	(149,545)
<b>Pro-forma Issued Capital</b>	<b>153,875,003</b>	<b>27,175,864</b>

#### 8.6.4 Reserves

	Minimum Subscription \$	Maximum Subscription \$
Reserves as at 30 June 2012	23,340	23,340
Issue of Options to Odni Vendors	1,772,052	1,772,052
Issue of Performance Shares to Odni Vendors	2,640,000	2,640,000
<b>Pro Forma Reserves</b>	<b>4,435,392</b>	<b>4,435,392</b>

#### 8.6.5 Accumulated Losses

	Minimum Subscription \$	Maximum Subscription \$
Accumulated Losses at 30 June 2012	(931,560)	(931,560)
Bonus Payable to Managing Director	(300,000)	(300,000)
<b>Pro Forma Accumulated Losses</b>	<b>(1,231,560)</b>	<b>(1,231,560)</b>

## 9. SOLICITOR'S REPORT

The report in this section of the Prospectus does not include a schedule of documents the author of the report reviewed when preparing the report. Exalt has lodged Schedule 2 with the ASIC and has made this schedule available to any Applicants who wish to view it through the Company's website, [www.exaltresources.com.au](http://www.exaltresources.com.au). A copy of the schedule has also been lodged with the ASX.

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06 September 2012  
Ref. No.: 1050/ERL-1201/L/IX/12/NNH-PGF

**EXALT RESOURCES LIMITED**

Level 5, 56 Pitt Street  
Sydney NSW 2000  
Australia

Dear Sirs,

**Re.: Legal Report and Opinion on Mining Licences in Indonesia**

This report and opinion ("**Opinion**") has been prepared at the request of Exalt Resources Limited ("**Exalt**"), a publicly listed company incorporated under the laws of Australia, and prepared by us for inclusion in a prospectus ("**Prospectus**") to be lodged by Exalt with the Australian Securities & Investments Commission in connection with Exalt's proposed capital raising of up to A\$20,000,000 (twenty million Australian Dollars) and a change to the nature and scale of Exalt's activities following the proposed acquisition of 100% (one hundred percent) of the issued share capital of Odni Holdings (Pte.) Ltd ("**Odni**"), a coal investment company incorporated in Singapore.

Odni has obtained conditional rights to acquire an interest in the coal mining licences (IUP) listed in paragraph I below. Further, Odni has substantially negotiated the terms of an agreement to acquire a 50% (fifty percent) interest in the rights and benefits in the IUP listed in paragraph II below. The fourteen mining licences involved are:

**I. 3 (three) IUP forming 3 (three) separate Projects:**

1. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 437/K-IV/540/2010 dated 29 April 2010 issued by the District Head (*Bupati*) of Bulungan to PT Mitra Maju Bangun Persada ("**MMBP IUP**");
2. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 467/K-IV/540/2010 dated 29 April 2010 issued by the District Head (*Bupati*) of Bulungan to PT Bakti Inti Guna ("**BIG IUP**");
3. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 188.45/439/2010 dated 25 February 2010 issued by the District Head (*Bupati*) of Barito Utara to PT Karindangan ("**KARIN IUP**");

**II. 11 (eleven) IUP forming the Sugico Project:**

4. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/03/KEP/DPE/2009 dated 28 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Tansri Madjid Energi ("**TME IUP**");
5. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/04/KEP/DPE/2009 dated 28 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Sugico Pendragon Energi ("**SPE IUP**");

6. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/05/KEP/DPE/2009 dated 28 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Persada Berau Jaya Sakti (“**PBJS IUP**”);
7. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/06/KEP/DPE/2009 dated 28 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Sumber Daya Energi (“**SDE IUP**”);
8. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/07/KEP/DPE/2009 dated 28 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Jaya Manggala Sakti (“**JMS IUP**”);
9. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/08/KEP/DPE/2009 dated 28 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Muara Enim Power Energi (“**MEPE IUP**”);
10. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/09/KEP/DPE/2009 dated 29 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Lion Multi Resources (“**LMR IUP**”);
11. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/10/KEP/DPE/2009 dated 29 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Sumber Daya Persada (“**SDP IUP**”);
12. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/11/KEP/DPE/2009 dated 29 December 2009 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Indonesia Multi Energi (“**IME IUP**”);
13. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/0025/KEP/DPE/2010 dated 3 February 2010 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Lion Global Energi (“**LGE IUP**”); and
14. Mining licence (*Izin Usaha Pertambangan* or IUP) for exploration No: 540/26/KEP/DPE/2010 dated 3 February 2010 issued by the District Head (*Bupati*) of Ogan Komering Ilir to PT Methane Resources Indonesia (“**MRI IUP**”).

Licences listed in numbers 1 up to and including 14 above, shall hereinafter be referred to jointly as the “**IUP**”.

Licences listed in numbers 1 and 2 are exploration licences for coal mining in the Bulungan regency/district in the Province of East Kalimantan, licence listed in number 3 is an exploration licence for coal mining in the Barito Utara regency/district in the Province of Central Kalimantan, and licences listed in numbers 4 up to and including 14 are exploration licences for coal mining in the Ogan Komering Ilir regency/district in the Province of South Sumatra.

We are lawyers qualified to practice law in the Republic of Indonesia and we are rendering this Opinion solely with respect to the laws of Indonesia. As used herein, the term “Indonesian Law”, or “the laws of the Republic of Indonesia” shall mean any statute, regulation, decree or other published directive of Indonesia or any sub-division thereof in effect on this date and other sources of Indonesian Law, such as legal doctrine and case law. This Opinion is limited to the laws of Indonesia of general application at the date of this opinion as currently applied by the courts of Indonesia, and is given on the basis that it will be governed by and construed in accordance with the laws of Indonesia.

We have made no investigation of, and do not express or imply any views on, the laws of any other country.

**A. SCOPE OF REPORT AND OPINION**

On the basis of the above, we have been requested to:

1. Advise on the mining and licensing framework in Indonesia;
2. Advise on the status and good standing of the mining licences held (in which ODNI has an interest);
3. Advise on the grant period and renewal conditions of the licences;
4. Advise on any access arrangements applying to the respective holders of the licences;
5. Consider and advise on the effect of any claims that have been made or may be made in respect of the licences by landowners and others;
6. Consider and advise on the requirements for any consents to the transfer of the licences or other interests affecting the licences;
7. Advise on any events that may give rise to the relinquishment or termination of any of the licences; and
8. Advise on the validity and enforceability of the underlying Odni transaction documents and the due incorporation and good standing of the Indonesian companies holding the respective licences.

**B. EXECUTIVE SUMMARY**

1. There are 14 (fourteen) mining licences (IUP) which are the subject of this Opinion. These are licences granted directly by the relevant regional government agency, and are not Coal Contracts of Work (“**CCoW**”), which is the central government scheme under which foreign investors have previously been able to own mining concessions.
2. In order to provide some certainty with regard to the standing of IUP, the Ministry of Energy and Mineral Resources (“**ESDM** – *Energi dan Sumber Daya Mineral*”) has halted the issue of new mining licences and is checking the status of those IUP which have been issued to replace pre-existing licences (known as KP). Where it appears to ESDM that an IUP does not overlap with other IUP or CCoW areas, it lists the IUP as “clean and clear”. This process is described in further detail below.
3. Those two identified as the MMBP Project and the BIG Project (both located in East Kalimantan) are listed by ESDM as clean and clear.
4. That identified as the KARIN Project (in Central Kalimantan) is not shown to be clean and clear, although there is no apparent reason why this cannot be the case.
5. 10 (ten) of the 11 (eleven) licences within the Sugico Project (in South Sumatra) are listed as clean and clear, but one - that is held by PT Lion Multi Resources (LMR IUP) - is not. There is no apparent reason why this is not clean and clear.

6. All of the licence areas are identified as within forestry areas, although none of the licence areas are in Protected or Conservation forest areas. All are in either Production forest areas which are open to mining activity (which require a forestry licence), or in APL areas which do not require a forestry licence. Of the 243,300 ha (two hundred and forty-three thousand three hundred hectares) comprising the Sugico Project, 194,818 ha (one hundred and ninety four thousand eight hundred and eighteen hectares) or 80% (eighty percent), is designated APL (as defined below), which area does not require a forestry licence. The remainder is in Production forest area.
7. None of the licence holders have yet obtained forestry licences (known as *pinjam pakai*) although in our enquiries we detected no reason why such licences cannot be obtained. Where a licence is required, exploration activity must not commence until a licence has been obtained. Experience suggests that obtaining forestry licences may take up to two months.
8. In some cases there are timber rights in place (IUPHHK – as defined below), and in a small part of the MMBP IUP area there is an oil palm plantation. Agreement must be reached with the holders of these rights regarding exploration and mining activity. Such agreement may take the form of a Letter of No Objection directed to Forestry. We have seen no evidence that any such agreements are yet in place.
9. We have seen no evidence that any of the licence holders are up to date in meeting land rent (or deadrent) obligations, although no authority has stated that there is an issue. To the best of our knowledge, no warnings have been issued to any of the licence holders regarding any deficiency in their entitlement to the relevant licences (which is the first formal step taken to correct an issue).
10. We understand that at least in the case of the MMBP IUP and in large parts of the Sugico Project area (located in what is identified by geologists as the South Sumatra CBM Basin) there are Coal Bed Methane Production Sharing Contracts in place. ESDM states that the intention of ESDM Regulation Number 36 of 2008 on *CBM Activity* is that CBM activity takes precedence over coal mining, although a coal miner has the opportunity to participate in this as a separate activity. It is our understanding that agreements are normally easily reached between the miners regarding concurrent access, sometimes leading to joint venturing.
11. To the best of our knowledge there are no registered competing land rights. In some areas there are communities using customary (*adat*) land rights, and there will need to be agreement with these communities re access where needed. Mining licences grant no land rights.
12. To the best of our knowledge, there is no impediment to the various owners accessing their mining areas for exploration purposes, provided of course that borrow-use licences are obtained from Forestry where these are required.
13. To the best of our knowledge, the Indonesian companies holding the licences are legally established and operating.
14. To the best of our knowledge, the transaction documents by which Exalt has or will acquire its interest in the projects are valid and enforceable.

### C. EXAMINATION

For the purpose of this Opinion, we have examined and relied upon copies of the following documents:



1. The IUP.
2. Lists of IUP which are declared clean and clear as published on ESDM's website [www.esdm.go.id](http://www.esdm.go.id).
3. Maps issued to this firm by the Directorate General of Minerals and Coal of ESDM illustrating the location of the various IUP in relation to other mining licences and forestry areas.
4. Letters and maps issued to this firm by the relevant district Forestry offices (*Dinas Kehutanan*) advising of the application of forestry law to the various IUP.
5. Corporate documents of the companies and drafts of the Odni transaction documents.

The documents listed in numbers 1 up to and including 5 above shall hereinafter be referred to jointly as the "**Documents**".

#### **D. ASSUMPTIONS**

For the purpose of preparing and rendering the advice, reports and opinions expressed in this Opinion, we have assumed the following:

1. The genuineness of all signatures, the authenticity of all agreements, certificates, resolutions, instruments and documents and the conformity to the originals of all agreements, certificates, instruments and documents submitted to us as copies.
2. That the Documents which are submitted to us are complete and correct, and that any resolutions, statements, authorizations letters or power of attorney granted, have not been revoked or declared null and void and that the IUP signed before the date of this Opinion have not been amended or supplemented save as indicated by the documents we have received, and have not been terminated, rescinded or declared null and void.
3. The correctness of all facts stated in the Documents.
4. That as from the date of this Opinion, there have not been any amendments to the corporate documents of each of the companies mentioned in Section F below or to the composition of the shareholders, the Board of Directors and the Board of Commissioners of each of the companies mentioned in Section F, which are not reflected in their Articles of Association, as amended and included in the documents referred to as the Corporate Documents as set out in Schedule 2 as attached to this Opinion. Given the length of this schedule, Schedule 2 is not set out in the Prospectus. However, Exalt has lodged Schedule 2 with the Australian Securities and Investments Commission. Further, a copy of Schedule 2 is made available on Exalt's website, [www.exaltresources.com.au](http://www.exaltresources.com.au) and is announced on the Australian Securities Exchange. Applicants who wish to obtain a copy of Schedule 2 can obtain a copy from Exalt's website.
5. We will not conduct the ordinary legal due diligence process, but we will only provide you with a limited legal due diligence report on matters requested and the companies listed in Section F of this Opinion on the subject matters as outlined above.
6. In regards to litigation issues, we will not conduct any court search directly with the relevant courts, but the result of our legal due diligence on this litigation issues will solely depend on

our review of the information made available and the information provided by lawyers representing Odni.

7. The completeness and accuracy of our Opinion will depend on the availability of the documents mentioned in number 6 above.
8. In conducting the legal due diligence, we have not been requested to conduct any site visits to the location of the IUP or the companies listed in Section F.

Wherever the phrase “to the best of our knowledge” appears in this opinion, such phrase means that we have made no or limited independent investigation of the matter, have no such knowledge to the contrary and that our opinion is based solely on the relevant documents, as delivered to us, and/or the representatives of Exalt, and that we have no grounds to doubt the contents of such documents or representations.

## **E. ADVICE AND OPINION**

### **1. THE LEGAL FRAMEWORK FOR MINING**

The following are the keys pieces of legislation relating to mining for the purposes of this discussion:

- a. Law Number 4 of 2009 on *Mineral and Coal Mining* (the “**Mining Law**”).
- b. Government Regulation Number 22 of 2010 on *Mining Areas* (“**Government Regulation 22**”).
- c. Government Regulation Number 23 of 2010 on *Carrying Out Mineral and Coal Mining Business Activity* (“**Government Regulation 23**”), amended by Government Regulation 24/2012 (“**Government Regulation 24**”).
- d. Government Regulation Number 78 of 2010 on *Reclamation and Post-Mining* (“**Government Regulation 78**”).
- e. Minister of Energy and Mineral Resources Regulation Number 28 of 2009 on the *Operation of Mineral and Coal Mining Services* (“**Ministerial Regulation 28**”).
- f. Minister of Energy and Mineral Resources Regulation Number 34 of 2009 on *Prioritising the Supply of minerals and Coal to Domestic Needs* (“**Ministerial Regulation 34**”).
- g. Minister of Energy and Mineral Resources Regulation Number 5 of 2010 on *Delegation to Issue Business Licences in the Field of ESDM to BKPM* (“**Ministerial Regulation 5**”).
- h. Minister of Energy and Mineral Resources Regulation Number 17 of 2010 on *Procedures for Stipulating Benchmark Prices for Minerals and Coal Sales* (“**Ministerial Regulation 17**”).
- i. Minister of Energy and Minerals Resources Regulation Number 7 of 2012 on *Adding Value to Minerals Through Processing and Refining* (“**Ministerial Regulation 7**”).
- j. Minister of Trade Regulation Number 29 of 2012 (“**Trade Regulation 29**”) on *Provisions for the Export of Mining Products*.

## **A New Law**

The Mining Law was introduced to assert state control over the exploitation of non-renewable resources, and thereby to achieve greater national benefit from their exploitation (replacing a 1967 law). This meant that Indonesians must play a greater direct role in this effort – and especially Indonesians living where the resources are to be found– with emphasis on sustainable development (Articles 2 and 106).

The clear intention is that licences be granted to persons with an understanding of the responsibilities involved and the ability to exercise them, and that the areas over which licences are carefully controlled.

The important thing is that an applicant for a right to a mining area (WIUP – to be defined below) must establish through a tender system that they have the financial strength and ability to undertake mining activity – that is, capacity. The licence holder must now be the actual miner.

We do not discuss the system of Contracts of Work and Coal Contracts of Work (CoW and CCoW) which were put in place in 1967 to encourage foreign investment in mining. While many such contracts remain in place, the Mining Law brings to an end the possibility of new contracts. Any such discussion would have no relevance for current purposes, as the licences involved are not based on such contracts.

We note however that there is expectation the current CoW and CCoW will be terminated and rights converted to a licence under the new mining Law at the time when contracts could normally be extended. This issue is yet to be resolved.

## **Reference Terms**

The Mining Law uses these abbreviations, among others. This is a very basic list, suitable for present purposes. References throughout are to the Mining Law unless otherwise stated:

- a. **IUP** (*Izin Usaha Pertambangan*) – a mining business licence.
- b. **WP** (*Wilayah Pertambangan*) – the area with potential for mining and open to mining activity.
- c. **WUP** (*Wilayah Usaha Pertambangan*) – an area within the WP with confirmed potential and open to mining.
- d. **WIUP** (*Wilayah Izin Usaha Pertambangan*) – the area granted to an IUP holder but there may be more than one IUP holder within any WIUP (Government Regulation 23 and Government Regulation 24).

## **Mining Areas**

The central government establishes that an area is open to mining (although does not offer a guarantee that there is no conflict with private ownership, residential, forest and other needs). Within these areas available to mining (WP), areas with confirmed potential (WUP) are identified, again by the central government. Within these areas, a mining area (WIUP, established by the central government) is granted by central or regional government to a successful tenderer. (The procedures for establishing WIUP by the central government are yet to be regulated as required by Article 25 of Government Regulation 22. The procedures for issuing WIUP by central or regional government by tender are yet to be regulated as required by Article 25 of Government Regulation 22). Central control of mining areas (in coordination with regional government) is intended to eliminate overlapping claims.

Mining areas are strictly limited according to the type of mineral known to predominate – which is the target of the potential miner. The areas are generally not less than previously allowed by law, but are far less than was actually being granted to those willing to pay. And less than areas granted under the old develop-at-all-cost Contract of Work system.

The new Mining Law did not provide for transition from the previous licensing system to the new. Government Regulation 23 fills this role and provides that old licences had to be converted into new licences by 1 May 2010, which is three months after the regulation was published. This was not achieved, and is still being achieved.

As just stated, the proposed tender system has not yet been promulgated. Therefore no new licences have been issued since January 2009 – all those in existence are those converted from pre-existing licences. And ESDM is undertaking an exhaustive process of auditing all licences issued, and declaring them “clean and clear” where this is the case. This is an administrative action, not subject to any regulation.

If a licence is declared to be “clean and clear”, it is added to lists published by ESDM on its website, a statement can be obtained that an IUP is included in such a list, and a map can be obtained showing whether the licence area is free (or otherwise) of any overlapping issues, and whether or not it involves a forestry area. It is important to note that an area designated as forest does not necessarily have any trees, but may once have been forest. The map issued does not show any land rights, and no enquiry is made by ESDM in this regard. Separate enquiry can be made at the local land office (BPN) by showing the coordinates of the relevant mining area. Even if there are no registered land rights, there may still be traditional (*adat*) land owners in the area with whom a mine owner will have to negotiate and agree.

If the licence area is in a forest area, a special permit is needed, which is called a “permit to borrow to use” or *Izin Pinjam Pakai*, and separate enquiry must be made. The “clean and clear” process does not reveal whether such a permit is in place, or uncover any disputes with local landowners (whether arising from registered or traditional rights) or arising from illegal mining activity.

ESDM faces the problem that many *bupati* (*aka* regent, or district head) have not yet reported the licences which they have issued. ESDM has granted “clean and clear” status to about half of the 10,000 mining licences it believes exists.

The Director General of Minerals and Coal within ESDM is on record as stating that the Ministry will not step in to rectify overlapping concessions. He has stated that these must be rectified by negotiation or in court.

### **Foreign Ownership**

Under the new law, licences may be granted to Indonesian companies owned by foreigners, which condition has not been possible previously. Previously the foreign miner could not actually own the mine, but depended on a contract with the mine owner if he wished to undertake mining. Nowadays, the foreign miner can own the mine by way of holding shares in the company holding the licence. As will be explained further below, the mine owner (whether domestic or foreign) cannot simply contract out actual mining as distinct from supporting services, but must take direct control of mining (and the responsibilities which go with this). But this gives better control to the foreign miner.

Licences may be granted to companies, cooperatives or individuals (sole traders) (Article 38). But the only way for foreigners to hold a licence is through a company, i.e. being the shareholder(s) of the company – consistent with longstanding practice and the current Law 25/2007 on *Investing*.

While licences cannot be transferred in most circumstances, the Article 93 of the Mining Law allows for ownership of companies owning licences to change “after certain phases of exploration have been carried out”. This is defined to mean after two prospective areas have been discovered. In the case of coal, this is being treated, for practical purposes, as almost immediately, but will depend on the *bupati* involved.

While pursuant to the Mining Law most licences have been and will be granted by the *bupati*, Government Regulation 24 (Article 6.3b) appears to conflict with this with the provision that that licences granted to companies with foreign ownership may be granted only by the Minister. We do not yet know how this will work out in practice.

The general steps and procedure for converting an Indonesian-owned company holding an IUT to a company with any foreign shareholding (“PMA company”) is:

- a. Company applies to the *bupati* (regent) for approval to convert the status of the said company into a PMA company.
- b. After approval of point (a) above, company applies to ESDM for approval.
- c. After ESDM issues its approval, company applies to the Investment Coordinating Board (“BKPM”) for approval - for which process ESDM has granted delegation to BKPM in Ministerial Regulation 5.
- d. After issuance of the BKPM approval, company changes its Articles of Association through the usual resolutions of shareholders and notarial deed submitted to the Ministry of Law and Human Rights (“MoL”).

Whether the Minister will then issue a licence pursuant to Government Regulation 24 to replace that issued by the *bupati* is up to the Minister.

Government Regulation 24 (in Article 97) also provides that foreign ownership must be reduced to 80% in the 6<sup>th</sup> year after production commences and finally to not greater than 49% in the 10<sup>th</sup> year after production. If the company has not voluntarily achieved this in advance, shares to be divested must be offered, in turn, to the central government, provincial government or district government, central or regional government-owned enterprises (by tender), and finally to private business entities (by tender).

### Licences

Experience established long ago that the multiple licence system provided for in the old law was difficult to implement. These licences were known as *Kuasa Pertambangan* or KP for General Survey, Exploration, Exploitation, Processing and Refining, Transportation, Sales. Now, there are just two, namely: the licence to explore (*IUP Eksplorasi*) and the licence for production operation (*IUP Operasi Produksi*). And a notable feature is that there is guaranteed progression from one to the other.

Processing and refining has become an obligation rather than purely a matter for which the company holds a licence, although a company that wishes to specialise in processing and refining for others may obtain an IUP Production Operation for Processing and Refining, and a trader must obtain an IUP Production Operation for Sales.

Pursuant to Article 37 of the Mining Law, licences are to be granted by the Minister, provincial governor or regent, depending on the boundaries of the WIUP sought. If mining, processing and ports are in different regional areas, and are undertaken by different entities, then the IUP production operation is to be granted by the regional government with authority over all areas concerned (Article 35 of Government Regulation 23). However IUP may be granted to companies with foreign ownership only by the Minister, as already mentioned.

The procedure is that a prospective miner must win a WIUP through a tender process and then be issued with IUP for the specific mineral or coal located within the WIUP. As stated above, the procedures for organizing tenders have not yet been established, and no IUP have been issued under the Mining Law. All IUP in place are those issued to replace existing licences issued under the old law.

There are believed to be many mining licences issued in a backdated manner following the enactment of the new law, and it is partly this issue which ESDM’s “clean and clear” audit is trying to straighten out. The problem was compounded because the Mining Law contains no

transitional provisions relating to existing licences (KP) and this was left to subsequent regulation – specifically Government Regulation 23 which was not issued until 1 February 2010. Article 112 of this regulation requires all existing licences to be replaced by IUP by 1 May 2010 and that all miners be prepared to meet their processing obligations by 12 January 2014 which is, 5 years after the Mining Law was enacted. Further explanation regarding this matter will be given below.

There are limits on the time for which a licence is granted. For example, a licence to explore for coal may be granted for up to 7 years - which is divided into time for surveying and extendable times for exploring and time for a feasibility study. The licence to exploit coal deposits may be granted for up to 20 years, extendable twice for 10 years each time. This compares with the initial 30 years which could be granted under the old CoWs.

The Mining Law provides that IUP for exploration may be issued for areas between 5,000 ha and 10,000 ha for ferro-minerals, and for areas between 5,000 ha and 50,000 ha for coal. However on 4 June 2012, the Constitutional Court announced that the provision in Article 52 of the Mining Law setting a minimum area for ferro-mineral mining is invalid. The decision was to favour small-scale mining, even though there are provisions in the Mining Law for small-holder licences – and runs counter to the intent of the law which is to enable responsible mining to be controlled. Coal mining areas are not affected by this decision.

Areas of WIUP are reduced at the transition from exploration to exploitation. For example, coal WIUP are reduced from a maximum of 50,000 ha to a maximum of 15,000 ha.

### **Multiple Licences**

Article 9 of Government Regulation 23 as amended by Government Regulation 24 – in the matter of regulating the provisions of the Mining Law regarding the issue of IUP – states that an entity may hold only one WIUP, except if it is a listed company, and except for WIUP for non-ferrous minerals and/or rock. However, currently there exist miners who already hold more than one licence.

Article 112 of Regulation 23 provides that an owner with more than one licence at the time the Mining Law came into effect on 12 January 2009, may continue to hold those licences until the end of their validity period, and the licences may be ungraded into IUP.

Pursuant to Article 93 of the Mining Law, licence holders may not transfer a licence to another party. But Government Regulation 23 as amended by Government Regulation 24 has stepped in with a provision that this exclusion does not apply to majority-owned subsidiaries of the mine owner. Although this regulation may be seen as being inconsistent with the current law, since it solves a problem, it is most unlikely that its existence would be complained about. On this basis a miner may establish a subsidiary and transfer the licence to that subsidiary.

### **Multiple Deposits**

Article 40 of the Mining Law and Article 9 of the Government Regulation 24 provide that a miner may hold an IUP for only one type of mineral or coal in the relevant mining area (WIUP). If a miner finds other resources in his WIUP, he may apply for another IUP, but must form another company to do so, or may allow another party to do so – in which case the holder of the first IUP has priority (pursuant to Article 44 of Government Regulation 23).

In this connection it should be noted that where there are mining licences (IUP) and Coal Bed Methane Production Sharing Contracts (CBM PSC) in the same area, there is no principle of “first in” and apparently no regulated precedence. However the MIGAS website states categorically that a PSC has priority. The outcome must be negotiated between the parties, and reported experience is that this is achieved easily in most cases, especially when the PSC contractor wishes to include the miner as a joint venturer.

## Land Rights

It is clear that a WIUP or right to a mining area is not a right to soil and is not a land right. The miner must either buy the land or obtain permits to use from or otherwise reach agreement with government or private owners. Post mining land use must be agreed with the landowner before exploitation commences.

Note that while, pursuant to Article 92 of the Mining Law, licence holders own the minerals and coal for which the licence is granted (although not automatically for all minerals found), they never own radioactive minerals. This condition varies from the old law, which stated that the state controlled the minerals and coal, and simply granted the right to sell.

## Obligations of a Miner

A licence holder cannot simply acquire a licence and then sell it, since he has it for its life. And as already mentioned, he can trade shares in his company only after two prospective areas in his mining area have been confirmed - which is considered a minimal practical issue for coal mining.

However a miner may hold only one type of licence (for example, one IUP to explore for or produce coal). Article 7A of Government Regulation 23 as amended by Government Regulation 24 allows a miner to transfer one of the licences which it may be holding, to a majority-owned subsidiary.

The miner has obligations to use good techniques, practice recognised financial management, enhance added value of minerals and coal, develop the local community, and recognise the capacity of the environment to support mining. It is important to note that all exploration and production data becomes the property of the state – so the miner cannot keep it to himself.

The licence holder must be the miner. It is intended that while the licence holder can contract out all other activities, he must actually remove the coal and minerals or mineral-bearing ore himself. While he may wet-lease equipment to do this, he must be seen to be in direct control of this aspect of the operation. So the former “cooperation agreements” whereby a contractor worked semi-independently from start to finish no longer apply as they did.

The miner has obligations to process ore, and to give priority to domestic needs. The miner must contribute to a reclamation guarantee fund, to be used if the miner does not meet his reclamation obligations.

All obligations are gathered into and fully listed in an Attachment to all IUP and set out in **Schedule 1** to this Opinion.

The Mining Law provides for a range of administrative and criminal sanctions.

Administrative sanctions are imposed on the failure to comply with a wide range of obligations under the Mining Law and listed in the attachment to all IUP, including transferring mining company shares without approval, not working within the “tolerable capacity” of the environment, failing to ensure safety, not submitting a reclamation plan, not providing a guarantee fund, not “adding value” processing, not giving local preference and developing the local community, not paying state and regional taxes and fees. This list is not exhaustive but illustrates the breadth of possible breaches.

Administrative sanctions take the form of;

1. Written warning;
2. Suspension of the whole or part of exploration or production operation;
3. Revocation of the IUP;

and may be imposed by the Minister, governor, or *bupati* or mayor. Disputes can be settled through the courts or arbitration.

Criminal sanctions are applied generally to undertaking activity without an IUP. This includes operating outside the limits of the IUP granted. However, criminal sanctions are also applied to submitting false reports on minerals or coal when found, or exploration data, or realization. The sanctions are a sentence of up to 10 (ten) years (of directors and commissioners if the miner is a corporate body), and a fine of up to Rp 10 billion (around US\$1.2 million) – increased by one third if the miner is a corporate body. Specifically for exploring without an IUP, the lesser sanctions of one year and Rp 200 million (around US\$24,000) apply.

In addition to these sanctions, a corporate body may have its licence revoked, or may have its status as a corporate body revoked.

### **Environmental Obligations**

Included within a miner's obligations, is the obligation to manage and monitor the environment, including reclamation and post-mining. It is this latter obligation which was a major factor in the minds of those drafting the Mining Law to have miners themselves undertake mining – so that they are onsite and able to be held responsible.

Obligations regarding environmental management generally are set out in Law 23 of 1997 on *Environmental Management*. With the merging of *Bapedal* (the Environmental Impact Management Agency) into the Ministry in 2002, the means for effective regulation were considered to be significantly compromised. However the Mining Law gives the *bupati* (regent) significant authority to enforce regulation, if he is so inclined.

The basic tools of environmental management are the Environmental Impact Analysis (*AMDAL*) and the Environmental Management Plan (*RKL*) relating to dealing with identified problem areas, and an Environmental Monitoring Plan (*RPL*) which sets out the means for monitoring the handling of identified problem areas of a company's business activities. Since Ministry of the Environment Decree 17 of 2001, mining has been listed as an activity for which an *AMDAL* is required.

Failure to comply with environmental obligations is not a criminal act under the Mining Law, but may be faced with an administrative sanction under that law, which takes the form of a warning, or suspension of the IUP, or cancellation of the IUP.

### **Processing**

Articles 102 and 103 of the Mining Law and Article 93 of Government Regulation 23 establish and spell out the obligation for a miner to add value by processing ore. The regulations do not apply to holders of CoW and CCoW which have their own contractual regimes. However these contracts do contain general requirements regarding processing, and Article 170 of the Mining Law requires CoW and CCoW holders to undertake processing by 12 January 2014 (that is, 5 years after the enactment of the law). And the same article of the Mining Law (Article 103) and Article 8 of Ministerial Regulation 7 allow an IUP holder to use another IUP holder to undertake his processing. An IUP Production Operation may be issued specifically for processing, and companies holding these IUPs are not subject to the divestment requirements imposed on miners.

Ministerial Regulation 7 specifies that the minerals to which the obligation to process applies are the 14 minerals: antimony, bauxite, chromium, copper, gold, iron ore, iron sand, lead, manganese, molybdenum, nickel, platinum, silver and tin. Coal is not included.



### **Value Adding and Domestic Obligations**

While this regulation first prohibited the export of the 14 minerals stated in an unprocessed state from 6 May 2012, Trade Regulation 29 allows “mining products” – which includes non ferro minerals - to be exported on the following basis:

1. The company has an IUP *Operasi Produksi* (licence for production operation) or CoW (CCoW are not involved).
2. The company must be approved as an exporter by the Minister of Trade.
3. The company must obtain an Export Agreement from the Minister of Trade.
4. The company must obtain a recommendation from ESDM.

The Directorate General of Minerals and Coal is required to stipulate procedures for the issue of recommendation letters. The Director stated on 17 April 2012 that companies that could be approved to export are companies:

1. Which hold IUP which are declared “clean and clear”;
2. Are up to date in paying their taxes (which includes a 20% tax on exports applying from 7 May 2012);
3. Have signed an integrity fact agreeing that in 2014 they must stop exporting unprocessed ore; and
4. They must submit a comprehensive proposal as to whether they will build their own smelter, enter a consortium, or sell their ore to smelting companies within the country.

Coal is not mentioned in relation to any immediate restrictions on export and the imposition of an export tax. However it is clear that the requirements of Article 103 of the Mining Law for in-country processing apply to coal, as stated in Article 95 of Government Regulation 23. And ESDM and trade officials have been reported as stating at various times during May and June 2012 in response to queries that a production quota and registration of exporters and an export tax are all under consideration for coal. Although the Ministry of Trade and the Ministry of ESDM seem to have different perspectives on addressing these issues, it is a common opinion that there is an important need to secure an adequate domestic supply to replace the use of oil, and there is the need seen by some in government to raise additional taxes to reduce an income deficit.

While an obligation is stated generally in the Mining law, and spelled out in detail in Ministerial Regulation 34, the obligation to priorities domestic interests is stated by authorities to be an enforcement of long-standing obligations. This view is based on Article 33 of the Constitution, which provides that natural resources must be utilized for the greatest benefit of the people – and more specifically Article 11 of the CoW Gen VII.

Coal miners are required to allocate a proportion of their output to the domestic market. This proportion was set at 24.72% for 2012. Based on statistics, 370 million tons was produced in 2011. PLN alone expects to use 59.3 m tons in 2012, rising to 73.8 m tons in 2013. Therefore it does not appear that the domestic allocation will increase in the near future.

### **Mineral and Coal Sales**

Exports are to be priced according to reference prices set by the Minister for minerals and coal. This is to protect the economy against transfer pricing, but applies to all sales, not just to related parties.

Benchmark prices are set monthly for thermal coal, and coking coal. There are special benchmark prices for low quality coal. Sales may be conducted on the basis of FOB vessel, FOB barge, point of sale if on the same island, or CIF or C&F (now called CFR). Term sales must be adjusted each year. It appears that sales below the benchmark are tolerated in tight times as long as relevant fees and taxes are based on the relevant benchmark.

**Fiscal Obligations**

Taxes

TYPE	RATE	NOTES
Income Tax	Flat 25% for non-listed resident companies 20% for qualified listed resident companies	Based on net income
VAT	10%	Applies to most goods & services, including those provided from offshore Does not apply to direct coal sales, so there is no output tax against which input tax can be credited
Withholding Tax	15% non-final  2% non-final  20% final	Applies to dividends paid to resident corporate shareholders (unless they own at least 25%), and to interest & royalties paid to Indonesian companies.  Most services  Applies to most payments to non residents unless protected by treaty. The Indonesia-Singapore treaty reduces the rate to 10% for interest and dividend payments and to nil for services (subject to a Certificate of Domicile in the required form).
Tax on share sales	5%	Payable by a company based on the gross proceeds of the transfer of (1) shares in an Indonesian company by a foreign shareholder, unless protected by treaty, or (2) shares in a tax haven company which holds shares in an Indonesian company. The Indonesia-Singapore DTA does not reduce this 5% tax.

Non-taxes

Royalties	3% to 7% for coal	Based on selling price and varies with the quality of coal and method of mining.
Land rent	US\$2 per ha per year	During exploration
	US\$4 per ha per year	During production operation (Government Regulation 9/2012 refers)

## **Contracting**

It is not clear what is meant by mining services and what services can be contracted out, and to whom. Ministerial Regulation 28 on *Mining Service Businesses* does not provide the clarity preferred.

The question is debated as to whether the activity of transporting coal from the coal face is mining or mining services. In any case, it appears that ESDM is comfortable with contractual arrangements under which a service contractor wet hires equipment to the miner to undertake actual mining. But the wet hire of equipment (for construction or demolition) is an activity restricted by Presidential Regulation 36 of 2010 on *Activities Closed to Investment or Open with Conditions* (the so-called “negative list”), to 67% foreign capital. This means that the company which is the service contractor must have foreign shareholding of no more than 67% to be able to hire out such equipment. The mine owner must therefore appear to own his own equipment for the actual mining operation, or at least hire from a services company that is qualified to undertake leasing.

The law allows the miner to use another miner (which is a holder of an IUP to exploit) to process his ore and refine his minerals. But the regulation just mentioned requires the miner to process and refine. The law should of course prevail and this is what is being applied in fact. All other activities may be contracted out.

The law describes a range of activities which can be contracted, and these include mine planning and consulting for the actual line process. Exploration, construction, transport, reclamation, and health and safety, are all activities which can be contracted out. Regulation 28 requires such contractors to obtain a license (IUJP), which is good for 3 years at a time.

## **Contractors**

Emphasis is placed by the law on local activity and sourcing.

Contractors are classified into “local” contractors - owned and based in the area, or branches of national contractors, “national” contractors - owned by Indonesians and based outside the area, and “other” contractors – either wholly or partly owned by foreigners). There is debate about the meaning of “national”. But it appears that ESDM would regard a company of which a shareholder is a PMA (foreign shareholding) company is qualified as a “national” company.

Mine owners may use “other” contractors only if local or national contractors are not available. “Not available” is not defined. Clearly the ability to muster capital and equipment must play a key role in determining ‘availability’, along with the ability to manage the use of the equipment. Established contractors should be well qualified in this regard. “Other” contractors must still sub-contract part of the work to a local – not an unreasonable requirement, which many would undertake as a matter of course.

## **Related Companies**

Mine owners may not in any case award contracts within their license area to directly owned affiliates without the approval of the Director General. And such awards must follow a tender process, and all involved must be able to establish that there is no transfer pricing activity – but that the parties are operating at arm’s length on commercial terms.

## **Non-Core Services**

Ministerial Regulation 28 adds a category of non-core mining services, without defining them. They are simply described as “other”. The operators of such services are required to obtain a lesser licence known as a certificate of registration (SKT), which like the IUJP is also good for 3 years. Given the wide range of activities included as mining services (and the list is not stated to be exclusive) it is not at all clear what are non-core mining services.

## Mining in Forest Areas

Relevant law:

1. Law 41 of 1999 on *Forestry Matters* (“**Law 41/1999**”), as amended by Law 19/2004 (“**Law 19/2004**”) only in the matter of protecting existing mining licences
2. Government Regulation 6/2007 on *Forest Arrangement and Management and Exploitation* (“**Government Regulation 6/2007**”), as amended by Government Regulation 3/2008 (“**Government Regulation 3/2008**”)
3. Government Regulation 10/2010 on *Altering the Allocation and Use of Forest Areas* (“**Government Regulation 10/2007**”) as amended by Government Regulation 60/2012 (“**Government Regulation 60/2012**”)
4. Government Regulation 24/2010 on the *Use of Forest Areas* (“**Government Regulation 24/2010**”) as amended by Government Regulation 61/2012 (“**Government Regulation 61/2012**”)
5. Minister of Forestry Regulation 18/2011 on *Guidance for Borrowing and Using Forest Areas* (“**Minister of Forestry Regulation 18/2011**”)

Forest areas can be classified basically as:

1. Production forest (HP or *Hutan Produksi*) - where the main function is to produce forest products.  
  
Forest within these areas may be permanent production forest (*Hutan Produksi Tetap*) or forest with limited production capacity (*Hutan Produksi Terbatas*) or forest which can be converted to use other than forestry-related (HPK or *Hutan Produksi yang dapat dikonversi*).
2. Protected forest (*Hutan Lindung*) – where the main function is to protect life-support systems.
3. Conservation forest (*Hutan Konservasi*) – an area which is set aside to preserve the diversity of plants and wildlife.
4. Areas of forest (or former forest) may be released, and identified as Other Use Area (ARL or *Areal Penggunaan Lain*). In these areas, forestry permits are not required.

None of the mining IUP which are the subject of this opinion are in protected or conservation forest, but are in areas classified as production forest (HP) or ARL.

The types of business licences which may be granted for forest use in protected or production forest areas are:

**IUPK** (*Izin Usaha Pemanfaatan Kawasan*) – licence to use an area

**IUPJL** (*Izin Usaha Pemanfaatan Jasa Lingkungan*) – a licence to use environment services

**IUPHHK** (*Izin Usaha Pemanfaatan Hasil Hutan Kayu*) – a licence to exploit timber in either natural forest (HA) or timber estates (HTI) or smallholder estates (HTR) or in rehabilitated estates (HTHR)

**IUPHHBK** (*Izin Usaha Pemanfaatan Hasil Hutan Bukan Kayu*) – a licence to exploit non-timber products in either natural forest (HA) or timber estates (HTI)

**IUPHHK** for Ecosystem Restoration – a licence to restore ecosystems in forest areas

**IPHHK** (*Izin Pemungutan Hasil Hutan Kayu*) – a licence to collect timber or non-timber forest products

“IUP” as used here is an abbreviation of *Izin Usaha Pemanfaatan* or “business licence to use”, to be distinguished from the IUP used in the Mining Law which is an abbreviation of *Izin Usaha Pertambangan* or “business licence to mine”.

Law 41/1999 provides for various activities in relation to forests. Forest management is stated to be aimed at obtaining the maximum sustainable benefit for the people. Management is divided in Article 10 into planning, management, research and supervision. Management is further divided in Article 21 into planning, utilisation, rehabilitation and conservation.

Article 22 of Law 41/1999 provides that provisions for forest management are to be made in a government regulation; Article 39 provides that business licences shall be regulated in a government regulation. Regulation 6/2007 (as amended by Regulation 3/2008) is this regulation. (A business licence is distinguished in Law 41/1999 from a licence which may be granted for research or education or social or religious purposes).

The IUPHHK is essentially a business licence. Hence it may be held only by entities which are able to undertake business (as distinct from an organization such as an association or a foundation which have primarily social functions).

Articles 26-29 of Law 41/1999 provide for the business licences (IUPHHK) that may be granted in protected and production forest areas, and who may receive them. Business licences may be for area use, or environmental services, or non-timber forest products or timber product, or collection of timber and non-timber products.

Article 38 of Law 41/1999 allows that production and protected forest areas may be used for non-forest purposes (including mining), and for the Minister to grant licences or permits for mining in a forest area (*Izin Pinjam Pakai*). The authority of the Minister may be delegated to the Governors. With the provision that open-pit mining will never be allowed in a protected forest area (while acknowledging 13 pre-existing approvals).

Under Article 6 of Government Regulation 24 and Article 25 of Forestry Regulation 18/2011, licences may be granted without any obligation to pay fees or to plant trees specifically to undertake surveys and exploration for mining purposes. These licences are granted for 2 years.

Licences (other than to explore) may be granted initially on an in-principle basis, and for no more than two years, and can be extended. Note that the Indonesian text is very often and confusingly translated as “principal” instead of “in principle”. The in-principle licence may be followed by borrow-use (*pinjam pakai*) licences. Such licences carry obligations to pay fees, protect forests, plant trees and carry out reclamation.

The period of the borrow-use licence is for the same period as the licence for the activity to which it relates, or up to 20 years.

The Forestry Law also provides that disputes regarding forestry areas may be settled by agreement (except if a criminal act is involved), or through the regular courts.

Undertaking prospecting or exploration and actual mining in a forest area without a Forestry Licence is deemed as a criminal act and the sanction is imprisonment up to 10 years for any or all or the directors and commissioners of the mining company, and a fine of up to Rp 5 billion (around US\$600,000).

## 2. THE INDIVIDUAL LICENCES

### Rights and Obligations

The specific rights and obligations of miners are gathered up from relevant regulation and are set out in a relatively standard attachment to the licences issued. The licence is issued in the form of a Decree of the relevant *bupati* (regent), and therefore itself becomes a regulation. Attached at **Schedule 1** is a translation of a typical attachment to an IUP for exploration.

The core obligations may be summarized as follows:

1. To submit an investment plan.
2. To contribute to a guarantee fund.
3. To submit an annual activity plan and budget (RKAB) which includes community development.
4. To make quarterly reports.
5. To pay dead-rent and tax.
6. To prepare an environmental impact plan (AMDAL).
7. To prepare a post-mining and reclamation plan.
8. To give local preference.
9. To submit all exploration data including maps to the bupati.
10. To compensate land and forest owners.
11. To prepare a detailed feasibility study to cover the proposed production activity, including plans for treatment.
12. To reach binding agreement where there are over-lapping interests.

### Clean and Clear

In an effort to bring licensing into some order, ESDM has forbidden the issuing of new licences under the Mining Law, and has been undertaking (limited) audits of all licences issued. The intention is to reveal where there are over-lapping licences. As a result of the process, ESDM issues lists, and maps and statements on request, indicating that the licence involved is “clean and clear” (“**CNC**”). Although not clearly stated, the IUP is thereby recognized by ESDM as legitimate, which carries an inference that the IUP has been properly issued. The CNC lists are an administrative attempt to clear away confusion, and carry no legal status. Up to 1 August 2012, six lists have been issued – the first covering 30 provinces, province by province, and the subsequent lists adding IUP on a single list basis. The statement which may be issued on request simply states whether or not an IUP is included in a list, which is self-evident.

There is no definition of what “clean and clear” means, but it is understood to mean simply that there are no overlapping issues with conflicting licences for the same product. If there is overlapping, ESDM has stated that it cannot resolve overlapping issues – thus, they have to be settled in court unless there is agreement. ESDM will if requested issue a statement regarding CNC status, but such statement will simply state that the particular IUP is included in the CNC list.

While ESDM maps show forest use (although there are discrepancies with Forestry maps, which should we suggest be taken as prevailing in Forestry matters), CNC status says nothing about whether Forestry permits are in place.

What “clean and clear” does not mean is that: (i) the licence holder is up to date with his obligations under the licence; (ii) he has obtained any necessary approvals from the Ministry of

Forestry; (iii) whether or not the licence holder also owns the land involved; (iv) whether or not there are land titles in place; (v) whether there are any disputes with registered or traditional land owners; and (vi) whether there is any illegal mining activity taking place.

### **Overlapping with CBM Work Area**

CBM activity is regulated by ESDM Ministerial Regulation 36 of 2008 on *CMB Activity* and falls under the direct authority of the central government (Article 2) supervised by BPMigas (Article 5). The regulation is concerned with establishing priority among companies wishing to access CBM, not with establishing priorities between CBM and other activity.

The government must consult with the relevant governor before establishing CBM work areas and with regional administrations as to boundaries of existing IUP before approving Joint Studies and Joint Evaluations.

The area over which a CBM contract may be awarded is up to 3,000 km<sup>2</sup>.

If a coal IUP or other right is issued after a proposal has been made to recover CBM, the proposer has precedence in accessing the CBM. If a coal IUP or other right is already in place, then the proposer does not have priority in accessing the CBM. However the regulation further provides that the holder of a coal IUP must have been in the production phase for 3 years to claim a priority in accessing CBM.

If CBM is known to exist in an IUP area, an oil and gas contractor has prior right to propose to ESDM to recover it. The IUP holder may himself submit a proposal, but he may proceed only if an oil and gas contractor does not within 6 months indicate a wish to take up the opportunity.

Disputes between CBM contractors and IUP holders must be resolved by consensus, or in consultation with the Minister, or by arbitration.

The stated intention of the regulation is to optimise CBM. MIGAS states on its website that oil and gas activity has priority where there is overlapping with coal mining.

### **Offices Visited**

In undertaking investigations regarding the individual licences as described below, we visited the relevant district (aka regency or *kabupaten*) where the IUP are located. The offices we visited in each district were those of the *bupati* (regent) (identified as the “**Bupati’s Office**”), the district mining agency (“**Mines Office**”), the district forestry agency (“**Forestry Office**”) and district land agency (“**BPN**” or *Badan Pertanahan Negara*).

### **MMBP IUP**

Owner	PT Mitra Maju Bangun Persada
Type of Licence	IUP Exploration for coal
Date of Issue	29 April 2010
Validity Period	7 years (2 years for survey, 4 years for exploration, 1 year for feasibility study)
Area	5,312.77 ha.
Location	Antutan Village, Bulungan District, East Kalimantan
Status	Clean and Clear
Competing Rights	IUPHHK for natural timber held by PT Inhutani Sambarata Oil Palm estate of PT Tunas Borneo Plantations

	CBM PSC
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares in the company. On 20 June 2012 Odni signed an option agreement with shareholders of MMBP to buy all their shares.

This IUP was apparently issued on 29 April 2010, being the date on the attachments and the date shown in the CNC list, in place of a pre-existing KP, although the date on the signature page is 20 April 2010. It refers in its preamble to a request of the company concerning a KP for General Survey held by the company. The IUP was listed as clean and clear in ESDM's List 1.

A visit by us to the relevant Bupati's office and Mines Office during the week commencing 25 June 2012, supported by letters requesting advice, revealed no concerns regarding the status of this IUP. Letters confirming this advice are expected to be forthcoming.

A visit by us to the Forestry Office during the same week followed by written advice dated 9 July 2012 advised that MMBP should obtain the relevant permit from the Ministry of Forestry before it proceeds with exploration activities. There was no suggestion that the IUP is in any way in jeopardy.

The core of the precise advice received is:

*"In order to avoid any future problems, before carrying out any field activities in the form of general investigation, survey, exploration and exploitation specifically in the forestry area, it should first obtain an area utilization permit (ijin penggunaan kawasan) and borrow-use permit (ijin pinjam pakai) from the Ministry of Forestry pursuant to the Regulation of the Ministry of Forestry No. P.18/Menhut-II/2011 dated 30 March 2011."*

However the letter lists forest use and oil palm plantation rights, and it is clear that these cover the whole of the IUP area. The forest use right (IUPHHK Hutan Alam) held by PT Inhutani Sambarata, covers a total of 5,210.64 ha of forest area made up of HPT, HP and APL areas, and the oil palm plantation owned by PT Tunas Borneo Plantations covers 102.24 ha. IUPHHK Hutan Alam or *Izin Usaha Pemanfaatan Hasil Hutan Kayu Hutan Alam* means a Licence to Exploit Forest Timber Products in Natural Forest, and is granted pursuant to Government Regulation 6 of 2007 on *Forest Arrangement and Management and Exploitation*. Agreement regarding access with IUPHHK holder is necessary.

As for all IUP following in this opinion, we have submitted a formal request for confirmation to the district BPN to confirm: (i) whether there is any title registered over the land, and if so if there is any mortgage registered, and (ii) whether there is any dispute regarding this title. In all cases the office advised that there were no land titles issued in the areas concerned. While a letter confirming this (in response to our letter) was promised, in each case this has not been received. We are not able to have our follow up requests responded to.

It is not beyond possibility that an old ownership right might surface. Some years ago, attempts were made to persuasively re-distribute the population to parts of Kalimantan, and land rights were issued. The program largely failed and the blocks were abandoned. Occasionally a person surfaces with one of these old title documents, and forces a settlement.

We understand that the IUP area overlaps with oil and gas PSC (production sharing contract) areas, but we have not been able to obtain specific details of PSC areas from ESDM.



**BIG IUP**

Owner	PT Bakti Inti Guna
Type of Licence	IUP Exploration for coal
Date of Issue	29 April 2010
Validity Period	7 years (2 years for survey, 4 years for exploration, 1 year for feasibility study)
Area	4,969.47 ha.
Location	Bulungan District, East Kalimantan
Status	Clean and Clear
Competing Rights	IUPHHK for natural timber of PT Inhutani Samarata
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. On 20 June 2012 Odni signed an agreement with shareholders of BIG to buy all their shares.

This IUP was issued on 29 April 2010 apparently in place of a pre-existing KP. It refers in its preamble to a request of the company concerning a KP for General Survey held by the company. The IUP was listed as clean and clear in ESDM's List 1.

A visit by us to the relevant Bupati's Office and Mines Office during the week commencing 25 June 2012, supported by letters requesting advice, revealed no concerns regarding the status of this IUP. Letters confirming this advice are expected to be forthcoming.

A visit by us to the Forestry Office during the same week followed by written advice dated 9 July 2012 advised that MMBP should obtain the relevant permit from the Ministry of Forestry before it proceeds with exploration activities. There was no suggestion that the IUP is in any way in jeopardy. The same general advice was given as for the MMBP IUP – BIG must obtain a borrow-use permit before it begins exploration. We do not know whether exploration has commenced.

However the letter also shows there is a forest use right apparently over the whole of the IUP area – held by the same company as that over the MMBP IUP, and presumably is the same right. The forest use right (IUPHHK Hutan Alam) covers 5,078.76 ha of natural forest, all with HPT status. The inference from the letter is that the IUP is within this area. IUPHHK Hutan Alam or *Izin Usaha Pemanfaatan Hasil Hutan Kayu Hutan Alam* means a Licence to Exploit Forest Timber Products in Natural Forest, and is granted pursuant to Government Regulation 6/2007 referred to above. Agreement with the licence holder regarding access is needed.

The district BPN office advised that there are no land titles issued in the areas concerned. A letter confirming this advice is expected to be forthcoming.

**KARIN IUP**

Owner	PT Karindangan
Type of Licence	IUP Exploration for coal
Date of Issue	25 February 2010
Validity Period	3 years for exploration, 1 year for feasibility study
Area	2,586 ha (reduced from 6,509 ha)
Location	Barito Utara District, Central Kalimantan
Status	Not declared clean and clear
Competing Rights	IUPHHK of PT Sinergi Hutan Sejati
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares

	of the company. Odni has signed a conditional agreement with the shareholders of KARIN dated 27 June 2012, amended by agreement also dated 27 June 2012, to buy all their shares in the company.
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The IUP was issued on 25 February 2010 in place of a KP for exploration issued on 18 December 2008. The area was at that time reduced from 6,509 ha to 2,586 ha.

A map dated 19 July 2012 issued to us by ESDM (for the area of 2,586 ha) shows no overlaps with other mining licences.

A letter dated 22 May 2012 from the Mines Office in Barito Utara confirms that the IUP dated 25 February 2010 sets out PT Karindangan's rights, and that there is no overlap with other mining or oil and gas rights.

While KARIN does not have the necessary permit from the Ministry of Forestry as yet for the area requiring a licence, verbal advice given to us by the Forestry Office is that this can be obtained.

Notes provided to us by the Forestry Office on 28 June 2012 indicate that the area stated to be 2,576.02 ha - based on the most recent map produced by the Ministry of Forestry dated 31 May 2011 - is comprised of HPK (area able to be converted) 1,976.09 ha, APL 785.97 ha, and DS (water course) 43.33 ha. There is a licence to exploit forest timber products in natural forest (IUPHHK Hutan Alam) which has been granted over 952.62 ha of this area to PT Sinergi Hutan Sejati. Forestry has advised that KARIN must reach agreement with the IUPHHK holder before it will grant a borrow-use licence for this area. A Forestry licence is not required for areas classified as APL.

In any case, there is no apparent reason for not granting CNC status.

By letter dated 28 June 2012 prepared during our visit to the office, the district BPN office advised in response to our specific questions:

1. There is no title registered over the land of the IUT.
2. There is therefore no mortgage registered.
3. As the land is state-controlled land, occupied by the community by local right, if there is any dispute this would be known by the village administration.

### **Sugico Project IUP**

#### **TME IUP**

Owner	PT Tansri Madjid Energi
Type of Licence	IUP Exploration for coal
Date of Issue	28 December 2009
Validity Period	4 years for exploration, 1 year for feasibility study
Area	19,870 ha
Location	Embacang Village, Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the " <b>Sugico</b> ")

	<b>Sellers</b> ) stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).
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This IUP was issued on 28 December 2009 based on a request by TME to adjust its existing KP for general survey. It is listed as clean and clear in ESDM's List 1. A map issued to us by ESDM on 11 May 2012 illustrates this status.

A visit by us to the Bupati's office and the Mines Office supported by letters requesting advice during the week commencing 25 June 2012, revealed no concerns regarding the status of this IUP or any of the following 10 IUP forming part of the Sugico Project. A letter in response confirming this advice for each IUP was assured by the Bupati's office, but has not yet been received. The Mines Office has stated that it cannot respond to our letter and letters regarding the 10 following IUP without our having PoA from the relevant mine owner. Note that since we do not have direct access to any of the mine owners to obtain this PoA, this matter has been left pending.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is partly within production forest (HP) and has not yet but must obtain a permit from the Minister of Forestry to work in this area. Most of the 16,825 ha area is classified as APL, therefore no forestry permit is required in this area.

The district BPN office in the case of each of these eleven IUP advised that there are no land titles issued in the area concerned. There are clearly villages located within some areas, so where this is the case negotiations with traditional land owners will be required.

### SPE IUP

Owner	PT Sugico Pendragon Energi
Type of Licence	IUP Exploration for coal
Date of Issue	28 December 2009
Validity Period	5 years (1 year for survey, 4 years for exploration, 1 year for feasibility study – apparently the survey is intended to be absorbed into the exploration period)
Area	24,290 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the " <b>Sugico Sellers</b> ") stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).

This IUP was issued on 28 December 2009 based on a request by SDE to adjust its existing KP for general survey. It is listed as clean and clear in ESDM's List 1. A map issued to us by ESDM on 10 May 2012 illustrates this status.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is partly within production forest (HP) and has not yet obtained but must obtain a permit from the Minister of Forestry to work in this area. Most of the 21,893 ha area is classified as APL.

### **PBJS IUP**

Owner	PT Persada Berau Jaya Sakti
Type of Licence	IUP Exploration for coal
Date of Issue	28 December 2009
Validity Period	5 years (4 years for exploration, 1 year for feasibility study)
Area	23,600 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Competing Rights	IUPHHK for estate timber rights of PT Bumi Mekar Hijau
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the " <b>Sugico Sellers</b> ") stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).

This IUP was issued on 28 December 2009 based on a request by PBJS to adjust its existing KP for general survey. It is listed as clean and clear in ESDM's List 1. A map issued to us by ESDM on 7 May 2012 illustrates this status. This map also shows the presence of IUP for rock mining also owned by PBJS.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is partly within production forest (HP) and Convertible Production Forest (HPK) and has not yet obtained but must obtain a permit from the Ministry of Forestry to work in these areas. There is a timber right to take timber from a timber estate registered to PT Bumi Mekar Hijau (see MRI IUP below). 7,594 ha of the area is designated APL.

### **SDE IUP**

Owner	PT Sumber Daya Energi
Type of Licence	IUP Exploration for coal
Date of Issue	28 December 2009
Validity Period	5 years (4 years for exploration, 1 year for feasibility study)
Area	23,590 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the " <b>Sugico Sellers</b> ") stating that the Sugico Sellers will enter into the

	Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).
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This IUP was issued on 28 December 2009 based on a request by SDE to adjust its existing KP for general survey. It is listed as clean and clear in ESDM's List 1. A map issued to us by ESDM on 8 May 2012 illustrates this status.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP includes some Convertible Production Forest (HPK) and has not yet but must obtain a permit from the Minister of Forestry to work in this area. Most of the 21,254 ha area is designated APL.

### JMS IUP

Owner	PT Jaya Manggala Sakti
Type of Licence	IUP Exploration for coal
Date of Issue	28 December 2009
Validity Period	5 years (4 years for exploration, 1 year for feasibility study)
Area	23,600 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the " <b>Sugico Sellers</b> ") stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).

This IUP was issued on 28 December 2009 based on a request by JMS to adjust its existing KP for general survey. It is listed as clean and clear in ESDM's List 1. A map issued to us by ESDM on 14 May 2012 illustrates this status.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is wholly within forestry area identified as Other Use Area (APL). Therefore SDE does not need a permit from the Minister of Forestry to work in this area.

### MEPE IUP

Owner	PT Muara Enim Power Energi
Type of Licence	IUP Exploration for coal
Date of Issue	28 December 2009
Validity Period	5 years (4 years for exploration, 1 year for feasibility study)
Area	The IUP text states the area to be 24,190 ha, but the map forming part of the IUP and the map we obtained from ESDM states the area to be 23,490 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear

Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the “ <b>Sugico Sellers</b> ”) stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).
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This IUP was issued on 28 December 2009 based on a request by MEPE to adjust its existing KP for general survey. It is listed as clean and clear in ESDM's List 1. A map issued to us by ESDM on 8 May 2012 illustrates this status.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is partly within production forest (HP) and has not yet but must obtain a permit from the Minister of Forestry to work in this area. Most of the 23,108 ha area is classified as APL. The ESDM map appears to show that this IUP also includes some HPK area, but the Forestry map does not, and that would be definitive in this matter.

#### LMR IUP

Owner	PT Lion Multi Resources
Type of Licence	IUP Exploration for coal
Date of Issue	29 December 2009
Validity Period	5 years (4 years for exploration, 1 year for feasibility study)
Area	22,740 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Not yet declared as clean and clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the “ <b>Sugico Sellers</b> ”) stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).

This IUP was issued on 29 December 2009 based on a request by LMR to adjust its existing KP for general survey. It is not listed as clean and clear. There is no apparent reason why not. A map issued to us by ESDM on 7 May 2012 indicates no competing mining licences or forestry restrictions.

The Bupati's Office undertook during our visit during the week commencing 25 June 2012 to deliver to the Mines Office our formal letter of request that CNC status be granted. The Mines Office advised no reason why CNC status cannot be granted. We have also formally requested ESDM to advise why this IUP is not CNC, but we have not received a response.

A visit by us to the Forestry Office during the same week followed by written advice dated 4 July 2012 advised that the LMR IUP is totally within forestry area known as APL (Other Use Area). Forestry confirmed that LMR does not need a forestry permit.

**SDP IUP**

Owner	PT Sumber Daya Persada
Type of Licence	IUP Exploration for coal
Date of Issue	29 December 2009
Validity Period	5 years (4 years for exploration, 1 year for feasibility study)
Area	23,860 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the “ <b>Sugico Sellers</b> ”) stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).

This IUP was issued on 29 December 2009 based on a request by SDP to adjust its existing KP for general survey. It is listed as clean and clear in ESDM’s List 1. A map issued to us by ESDM on 7 May 2012 illustrates this status.

A visit by us to the Forestry Office during the week commencing 25 June 2012 advised that the SDP IUP is totally within forestry area known as APL (Other Use Area). The ESDM map confirms this status. The Forestry Office confirmed that IUP within APL areas do not need a forestry permit. We have not received formal advice from the Forestry Office, and our contact there no longer responds to attempts to contact him.

**IME IUP**

Owner	PT Indonesia Multi Energi
Type of Licence	IUP Exploration for coal
Date of Issue	29 December 2009
Validity Period	5 years (4 years for exploration, 1 year for feasibility study)
Area	24,130 ha
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the “ <b>Sugico Sellers</b> ”) stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).

This IUP was issued on 29 December 2009 based on a request by IME to adjust its existing KP for general survey. It is listed as clean and clear in ESDM’s List 1. A map issued to us by ESDM on 7 May 2012 illustrates this status.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is partly within production forest (HP) and has not yet obtained, but must obtain, a permit from the Minister of Forestry to work in this area. Most of the 20,609 ha area is classified as APL.

**LGE IUP**

Owner	PT Lion Global Energi
Type of Licence	IUP Exploration for coal
Date of Issue	3 February 2010
Validity Period	The table in the first paragraph of the IUP states 6 years (1 year for survey, 3 years for exploration, 2 years for feasibility study) However the second paragraph states that it is valid until 3 February 2017, which is 7 years.
Area	The IUP text states the area to be 24,190 ha, but the map forming part of the IUP and the map we obtained from ESDM states the area to be 14,900 ha. The map received from Forestry states the area to be 14,900.
Location	Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a representative of the Sugico Project sellers (the “ <b>Sugico Sellers</b> ”) stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).

This IUP was issued on 3 February 2010 apparently based on a pre-existing IUP for exploration held by LGE. It is listed as clean and clear in ESDM’s List 1. A map issued to us by ESDM on 8 May 2012 illustrates this status.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is mostly within production forest (HP) and has not yet obtained but must obtain a permit from the Minister of Forestry to work in this area. 4,464 ha is APL area.

**MRI IUP**

Owner	PT Methane Resources Indonesia
Type of Licence	IUP Exploration for coal
Date of Issue	3 February 2010
Validity Period	7 years (2 years for survey, 4 years for exploration, 1 year for feasibility study)
Area	19,230 ha
Location	Sungai Pasir Village, Ogan Komering Ilir District, South Sumatra
Status	Clean and Clear
Competing Right	IUPHHK for estate timber held by PT Bumi Mekar Hijau
Exalt Interest	Exalt has agreement with Odni Pte Ltd to purchase all shares of the company. Odni has a letter of intent from a



	representative of the Sugico Project sellers (the “ <b>Sugico Sellers</b> ”) stating that the Sugico Sellers will enter into the Sugico Agreement (contemplating Odni buying a 50% interest in the company owning the IUP, represented either by shares or a combination of shares and beneficial interest) after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012 (Sugico Intent Letter).
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This IUP was issued on 3 February 2010 apparently in place of a pre-existing IUP for exploration held by MRI. It is listed as clean and clear in ESDM’s List 1. A map issued to us by ESDM on 10 May 2012 illustrates this status.

A letter dated 4 July 2012 from the Forestry Office (with map) explains that this IUP is partly within production forest (HP) and partly within Convertible Production Forest (HPK) and has not yet obtained but must obtain permits from the Minister of Forestry to work in these areas. A timber right in the HP area is issued to PT Bumi Mekar Hijau. 8,871 ha of the area is designated APL.

## **F CORPORATE**

The fourteen companies which are the holders of the IUP (the “**Project Companies**”) are:

1. PT Mitra Maju Bangun Persada
2. PT Bakti Inti Guna
3. PT Karindangan
4. PT Tansri Madjid Energi
5. PT Sugico Pendragon Energi
6. PT Persada Berau Jaya Sakti
7. PT Sumber Daya Energi
8. PT Jaya Manggala Sakti
9. PT Muara Enim Power Energi
10. PT Lion Multi Resources
11. PT Sumber Daya Persada
12. PT Indonesia Multi Energi
13. PT Lion Global Energi
14. PT Methane Resources Indonesia.

Part of our scope of work has been to undertake limited due diligence on these companies, which we have undertaken. Since we have no direct access to the companies, we have depended upon copies of documents relating to the companies provided by lawyers representing Odni Pty Ltd. These documents are referred to and included in Documents as defined in part C above, and are included in the Assumptions made in Section D, and are listed in Schedule 2. Given the length of this schedule, Schedule 2 is not set out in the Prospectus. However, Exalt has lodged Schedule 2 with the Australian Securities and Investments Commission. Further, a copy of Schedule 2 is made available on Exalt’s website, [www.exaltresources.com.au](http://www.exaltresources.com.au) and is announced on the Australian Securities Exchange. Applicants who wish to obtain a copy of Schedule 2 can obtain a copy from Exalt’s website.

We have not been provided with copies of any documents relating to the financial status or contractual dealings of the companies. Nor have we been in a position to make enquiries regarding any possible litigation involving the companies or their shareholders, although there is nothing we have seen in the documents provided that would lead us to suspect that there would be anything

hidden in this regard. And we note that the companies have provided warranties in relation to their financial status in the documents by which Exalt is acquiring its interest.

We have used the documents provided to review the following aspects of each company:

1. Establishment
2. Structure
3. Management
4. Basic licences

To the best of our knowledge and based on the relevant Documents:

1. Each company is a limited liability company established pursuant to Law 40 of 2007 on the Limited Liability Company (the “**Company Law**”) and has been properly incorporated.
2. As each has been approved by the Minister of Law and Human Rights, it is a legal entity as provided for in Article 7 of the Company Law.
3. Each company has maintained the correct ownership structure of at least two shareholders, and the correct management structure of at least one director and one commissioner.
4. While there are in some cases administrative documents which are required to be updated, there is no reason to believe that any of the companies is exposed to any action which could lead to its suspension or annulment.

## **G TRANSACTION DOCUMENTS**

We have reviewed the following transaction documents:

1. Option Agreement dated 20 June 2012, entered into by and between the shareholders of PT Mitra Maju Bangun Persada and Odni Holdings (Pte.) Ltd, which is governed by Indonesian law.
2. Share Purchase Agreement dated 20 June 2012, entered into by and between the shareholders of PT Bakti Inti Guna and Odni Holdings (Pte.) Ltd, which is governed by Indonesian law.
3. Conditional Share Purchase Agreement dated dated 27 June 2012, entered into by and between the shareholders of PT Karindangan and Odni Holdings (Pte.) Ltd, which is governed by Indonesian law.
4. Sale and Purchase Agreement received as a draft on 28 June 2012, to be entered into by and between the eleven companies represented in the Sugico Project and Odni Holdings (Pte.) Ltd, which is governed by Indonesian law.
5. Share Purchase Agreement dated 23 July 2012 entered into by and between Odni Holdings (Pte.) Ltd and its shareholders and Exalt Resources Limited, which is governed by the law of New South Wales.

The purpose of these documents is enable interest in and shares in the Project Companies to be acquired by Odni which in turn is acquired by Exalt.

To the best of our knowledge and based on our review of the documents made available, there are no issues in the drafts as reviewed which would prevent these agreements from being enforced. In the

case of the draft Sugico Project agreement referred to at item 4 above, there are no issues which would prevent this agreement from being enforced as intended in final form.

#### H. QUALIFICATIONS

The foregoing opinions are subject to the following qualifications:

1. We are lawyers in Indonesia and are not expert in or qualified to render opinions on the laws and regulations of any other jurisdiction than that of Indonesia (and Australia where this is provided by foreign counsel). Accordingly, we have in the foregoing expressed our opinion only as to the law of Indonesia in force on the date of this opinion. We assume no obligation to advise you of any change in the laws of Indonesia subsequent to the delivery of this Opinion, which may have an effect on the opinions herein rendered.
3. This Opinion is strictly limited to the matters stated herein and may not be read as extending by implication to any matters not specifically referred to. Nothing in this Opinion should be taken as expressing an opinion in respect of any representations or warranties, or any other document examined in connection with this opinion, except as expressly confirmed herein.
4. Pursuant to Law No. 3 of 1982 (" **Law 3/1982**"), each company is required to register certain corporate information relating to it. However, Law 3/1982 is not generally abided by, and the relevant registers are not open to public inspection. Therefore, there is no effective registry of companies in Indonesia nor any effective public register for registration or corporate information such as the complete Articles of Association, nor the appointment of receivers, administrators and liquidators which is open to inspection by the public, and our opinion is qualified accordingly.
5. The opinions made in Section E and Section F above are based on our examination of the documents made available. We have assumed that as from the date of this Opinion, the Articles of Association of the companies mentioned in Section F not been amended other than pursuant to the documents made available, and no subsequent events have occurred which can or will affect our reliance thereon.
6. We express no opinion in relation to the commercial merits of the transaction documents and the consequences that Indonesian Law may attach to any deficiency of such merits.

This Opinion is strictly limited to the matters stated herein and may not be read as extending by implication to any matters not specifically referred to.

This Opinion has been prepared for the sole benefit of Exalt for inclusion in the Prospectus and we consent to this use. It may not be used for any other purpose and/or quoted or filed or referred to in any other document without our prior written consent.

Yours faithfully,

**HUTABARAT HALIM & REKAN**



Nini H Halim



Peter G Fanning

*Enclosure(s)*

## SCHEDULE 1

### Provisions of standard IUP for exploration:

#### Rights and Obligations

##### A. Rights:

1. To enter into the mining business permit area (*Wilayah Ijin Usaha Pertambangan-“WIUP”*) according to the map and list of coordinates;
2. To conduct IUP Exploration activities (general investigation, exploration, feasibility studies and Analysis on Environmental Impact – “AMDAL”) pursuant to the provisions of prevailing laws and regulations;
3. To build supporting facilities to perform the IUP Exploration activities (general investigation, exploration, feasibility studies and AMDAL) within the WIUP;
4. To incidentally propose to stop the exploration activities in each or several parts of the WIUP based on the reason that continuity of such exploration activities is unreasonable or commercially impractical or due to *force majeure*, conditions which cause a halt to part or all activities of the mining business;
5. To propose concessions for other minerals, which is not a mineral associated with the main mineral found in the WIUP;
6. To submit a statement regarding disinterest in a concession for the other mineral which is not associated with the main mineral found within the WIUP;
7. To utilize public facilities and infrastructure for the needs of IUP Exploration activities (general investigation, exploration, feasibility studies and AMDAL) in compliance with the prevailing laws and regulations;
8. To submit an application for a temporary license for carrying out the transportation and sale of the excavated mineral or coal;
9. To submit a written application for proceeding or not proceeding to the IUP Exploration stage on part or several areas within the WIUP.

##### B. Obligations:

1. To choose jurisdiction at the district court on where WIUP is located;
2. To establish a representative office where WIUP is located;
3. To submit Investment Plan Report;
4. To allocate some funds as a guarantee for the implementation of the exploration activities in the form of a deposit to the Government Bank appointed by and in the name of the Minister/Governor/Regent/Mayor in accordance with the law and regulations;
5. To submit the Plan of Activities, Budgeting, and Expenses (*Rencana Kegiatan, Anggaran dan Biaya - RKAB*) by no later than November, including the plan for the following year and the realization of the activities for each ongoing year to the Regent with copies to:
  - Minister and Governor if the IUP is issued by Regent/Mayor;
  - Minister and Regent/Mayor if the IUP is issued by Governor;
  - Governor and Regent/Mayor if IUP is issued by Minister.
6. To submit Quarterly Reports which shall be submitted within 30 (thirty) days after the last day of the calendar quarter periodically to the Regent with copies to :
  - Minister and Governor if the IUP is issued by Regent/Mayor;
  - Minister and Regent/Mayor if the IUP is issued by Governor;
  - Governor and Regent/Mayor if the IUP is issued by Minister.

7. If the requirements of the RKAB submission's deadline and the report as abovementioned in number 5 (five) and 6 (six) has passed, written notice shall be given to the holder of IUP Exploration;
8. To submit the Development and Empowerment Plan for the Community around mining area as part of the RKAB to Minister/Governor/Regent/Mayor;
9. To fulfill the tax provisions in accordance with the laws and regulations;
10. To pay a fixed contribution every year in accordance with the laws and regulations;
11. To compose an AMDAL or UKL/UPL in accordance with the laws and regulations to be the part of the feasibility study documents;
12. To stake out the border of the mining business permit area;
13. To draw up reclamation and post-mining documents based on the feasibility studies in accordance with the laws and regulations;
14. To compose the document of the plan for the development and empowerment of the local community;
15. To allocate the reclamation and post-mining guarantee funds in accordance with the laws and regulations;
16. To appoint a technical head of mining who will be responsible for IUP Exploration activities, Mining Work Health and Safety and Mining Environment Management;
17. The Application for Extension of IUP Exploration to IUP Production Operation must be submitted by no later than 3 (three) months before the expiration of this permit and shall be completed with requirements pursuant to the laws and regulations;
18. The default of the provision as stipulated in number 16, shall cause the IUP Exploration to expire under the law and all of the mining activities to be discontinued. Within the maximum period of 6 (six) months after the expiration of this decision, IUP holder shall take out all its belongings, except for the objects/buildings used for public interest;
19. To apply good mining principles;
20. To manage finances in accordance with the Indonesian accounting system;
21. To report the implementation of the development and empowerment of the local community periodically;
22. To report on and to conserve the functions and supporting capacity of water resources in accordance with the laws and regulations;
23. To prioritize the utilization of local labor, domestic goods and services in accordance with the laws and regulations;
24. To optimize the engagement of local entrepreneur in the local area;
25. To prioritize the utilization of local and/or national mining service companies and to submit data and implementation of supporting service utilization periodically or incidentally if required;
26. It is prohibited to engage subsidiaries and/or affiliates in the business of mining services in the WIUP being worked, except with the Minister's approval;
27. To submit all data obtained from the result of the IUP Exploration activities to the Minister, Governor, Regent/Mayor and with copies to:
  - Minister and Governor if the IUP is issued by the Regent/Mayor;
  - Minister and Regent/Mayor if the IUP is issued by the Governor;
  - Governor and Regent/Mayor if the IUP is issued by the Minister
28. To report on the implementation of the development and empowerment of the local communities as part of periodic report;
29. To compensate the holder of land rights and (timber) stands disturbed by IUP Exploration activities;
30. To submit application for the termination of IUP Exploration activities and the return of the WIUP;
31. To report the minerals and coal excavated when the IUP Exploration activities are being executed;

32. To submit the IUP Exploration activities final report in the form of a general investigation activities final report, exploration activities final report, feasibility study final report including mapping report for the whole WIUP including the following:
  - a. Maps showing all places in the exploration activities area where the holder of IUP has conducted drilling or excavated wells.
  - b. Copy of the drilling logs and wells and the result of the testing of the samples taken and analyzed.
  - c. Copy of every geology, geophysics and geochemical map with the scale of 1:50.000 of the exploration activities area;
  - d. Topography map with the scale of 1:50.000
33. To submit a feasibility study, covering:
  - a. In-depth geological investigation and verification of ores sediments in the WIUP including reserves of measurable and estimated ores/coal as far as necessary for the economic feasibility of business to be considered and the examination of the samples of valuable sediments taken in accordance with the agreed plan of work;
  - b. Detail observation and information regarding the locations for operational activities and work and the preparation of maps and pictures in connection with the locations;
  - c. Technical and economic feasibility study regarding mining, transportation, loading, and shipping of ores/coal, concentrates and other results of the WIUP, including technical investigations regarding the possible location of ports, roads connecting mining to river ports and other suitable transporting means;
  - d. Investigation regarding every possible effect of transport using barges or boats;
  - e. Investigation regarding the location and blueprint for airports and including port and landing facilities, if deemed to be necessary;
  - f. Investigation and plan of development in connection with the relevant possibilities, including blueprints for social, and culture facilities as necessary to fulfill peoples needs, which may developed resulting from company activities in the 5 (five) years after the operational period has begun;
  - g. Study regarding future labor needs for the work by estimating the kind and length of necessary training to secure foreign labor substitution by Indonesian labor and the maximum use of local labor while in accordance with a safety and efficient operation;
  - h. Physical effect study regarding the effect that may be had on the environment from work activities, which study shall be done by consulting with an independent consultant that meets requirements;
  - i. Investigation Study regarding the amount and kind of local business that may be necessary to provide the needs of activity and permanent settlement that may be developed in the 5 (five) years after production operational activities have been started;
  - j. Metallurgical and market research to determine the capacity of mineral acquisition and sales and sales contracts;
  - k. Market research to determine the capacity of coal acquisition and the possibility of sales of upgraded coal along with contract requirements in accordance with the products which can be sold;
  - l. A preliminary investigation of the feasibility of establishing smelting and refining facilities which is enough to estimate the capital and operating costs as well as the possible source of electricity that would be needed in the future;

- m. Comprehensive financial analysis, based on appropriate criteria for mining business, on the cash flow prospects and returns from the exploitation;
- n. An investigation of water supply facilities suitable for the purposes of mining, industry, and permanent settlement;
- o. A complete study and investigation regarding as follows:
  - 1) The appropriateness and costs to set up appropriate telecommunication facilities;
  - 2) The appropriateness and cost of development and operation of a facility for the electric power supply required by construction, mining, industry, and permanent settlement in connection with exploitation;
  - 3) The appropriateness and costs to set up water installation in accordance with the exploitation's requirements;
- 34. A plan for smelting and refining in the country;
- 35. It is required to reduce the area in accordance with the laws and regulations.
- 36. To comply with the laws and regulations in the Forestry sector.

There are minimal variations. Note that the attachment made by Bulungan (East Kalimantan) finishes with these two provisions:

- 35. If there is overlapping of the IUP area with other interests, before commencing activity in the area, the holder of the IUP must first resolve the problem with the other interested parties with valid provisions.
- 36. If there is overlapping between the IUP area and Production Forest (KBK) then before commencing activity in the field, the IUP holder must first obtain a permit to use forest area/ borrow-use permit to undertake exploration, from the Minister of Forestry, in accordance with prevailing provisions.

## 10. ADDITIONAL INFORMATION

### 10.1 Incorporation

The Company was incorporated on 21 July 2010.

### 10.2 Rights and Liabilities Attaching to Shares

The following is a summary of the principal rights, privileges, liabilities and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders.

Prior to the issue of the Performance Shares there is one class of share on issue in the Company, being Shares.

The rights attaching to the Shares in the Company are:

- (a) set out in the Constitution, a copy of which is available for inspection at the registered office of the Company during normal business hours; and
- (b) in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASX Settlement Operating Rules and the general law.

#### Voting

Every Shareholder present in person or by proxy or representative at a meeting of Shareholders has one vote on a vote taken by a show of hands, and, on a poll every Shareholder who is present in person or by proxy or representative has one vote for every Share held by him or her, and a proportionate vote for every partly paid share, registered in the Shareholder's name on the Company's Share register.

A poll may be demanded by the chairperson of the meeting, by any five Shareholders present in person or by proxy or representative, or by any one or more Shareholders who are together entitled to not less than 5% of the total voting rights of, or paid up value of, the Shares of all those Shareholders having the right to vote at that meeting.

#### Dividends

Dividends are payable out of the Company's profits and are declared by the Directors. Dividends declared will be paid according to the amounts paid or credited as paid on the Shares for which the dividends are paid.

#### Transfer of Shares

A Shareholder may transfer all or any of their Shares by any method of transferring or dealing in Shares introduced by the ASX or operated according to the Listing Rules or the Corporations Act for the purpose of facilitating transfers in shares or by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors.



The Directors may refuse to register any transfer of Shares where to do so would not contravene the Corporations Act, the Listing Rules or ASX Settlement Operating Rules. The Company must not refuse to register or give effect to or delay or in any way interfere with a proper ASX Settlement transfer of Shares or other securities.

### **Meetings and Notice**

Each Shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the Listing Rules.

### **Liquidation Rights**

Prior to the issue of the Performance Shares the Company has only issued one class of Shares, which all rank equally in the event of liquidation. Once all the liabilities of the Company are satisfied, a liquidator may, with the authority of a special resolution of Shareholders divide the whole or any part of the remaining assets of the Company. The liquidator can, with the sanction of a special resolution of the Shareholders, vest the whole or any part of the assets in trust for the benefit of Shareholders as the liquidator thinks fit, but no Shareholder of the Company can be compelled to accept any Shares or other securities in respect of which there is any liability.

Despite the power of the liquidator to distribute the remaining assets of the Company, if there remains a surplus on winding up, that surplus will be divided among Shareholders in proportion to the issued Share capital paid up on their Shares.

### **Shareholder Liability**

As the Shares under the Prospectus are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

### **Appointment of Directors**

The Company must have not less than three, and not more than twelve, Directors at least two of whom must ordinarily reside in Australia. The Company in general meeting may, by ordinary resolution, appoint any person as a Director. The Directors may appoint any person as a Director, but any Directors appointed by the Directors must retire at the next annual general meeting and are eligible for re-election at that meeting.

### **Variation or Cancellation of Rights**

Subject to the Listing Rules, if at any time the share capital of the Company is divided into different classes of shares, the rights attached to shares in any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied or cancelled by special resolution of the Company and (i) by special resolution passed at a separate meeting of shareholders holding shares in that class; or (ii) with the written consent of shareholders with at least 75% of the votes attaching to shares in the class.

### **Alteration to the Constitution**

The Constitution can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting.

## ASX Listing Rules

If the Company is admitted to the Official List of ASX, then despite anything in the Constitution of the Company, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules require to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain a provision or not to contain a provision, the Constitution is deemed to contain that provision or not to contain that provision (as the case may be). If a provision of the Constitution is or becomes inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

## 10.3 Terms and Conditions of Options and Performance Shares

Following completion of the Offer and the Proposed Transaction, the Company will have the following Options and Performance Shares on issue:

Options	Number	Performance Shares	Number
Existing options <sup>1</sup>	16,008,568	Existing Performance Shares	Nil
Options offered to Odni Sellers <sup>2</sup>	30,000,000	Performance Shares issued to Odni Sellers <sup>4</sup>	66,000,000
Options offered to Barry Tudor <sup>3</sup>	3,000,000	Performance Shares issued to Barry Tudor <sup>5</sup>	18,000,000
<b>Total number of options</b>	<b>49,008,568</b>	<b>Total number of Performance Shares</b>	<b>84,000,000</b>

Notes:

- (1) Options exercisable at \$0.20 on or before 31 December 2015.
- (2) 10,000,000 Class W Options and 20,000,000 Class X Options to be issued pursuant to the Share Sale Agreement and this Prospectus.
- (3) 600,000 Class Y Options and 2,400,000 Class Z Options to be issued pursuant to the Share Sale Agreement and this Prospectus.
- (4) 22,000,000 Class A Performance Shares, 22,000,000 Class B Performance Shares and 22,000,000 Class C Performance Shares to be issued pursuant to the Share Sale Agreement.
- (5) 6,000,000 Class A Performance Shares, 6,000,000 Class B Performance Shares and 6,000,000 Class C Performance Shares.

### 10.3.1 Terms and Conditions of Options

#### Summary of Options

The Company will, pursuant to this Prospectus, issue Options (i) to Barry Tudor as part of his remuneration package; and (ii) to the Odni Sellers as part consideration pursuant to the Share Sale Agreement.

The key terms of the Options to be issued are as follows:

Field	Odni Options		Tudor Options	
<b>Class</b>	Class W Options	Class X Options	Class Y Options	Class Z Options
<b>Number</b>	10,000,000	20,000,000	600,000	2,400,000
<b>Issue price</b>	Nil	Nil	Nil	Nil
<b>Exercise price (per Option)</b>	\$0.20	\$0.50	\$0.20	\$0.50
<b>Entitlement</b>	1 Share per Option	1 Share per Option	1 Share per Option	1 Share per Option
<b>Expiry date (from date of issue)</b>	2 years	3 years	4 years	4 years

### Terms and Conditions of the Odni Options

The terms and conditions of the Odni Options are set out below:

- (a) **(Entitlement)** Each Odni Option entitles the holder to one Share.
- (b) **(Expiry Date)** The exercise period for the Odni Options commences on the Odni Completion Date and expires at 5.00pm AEST on:
  - (i) if a Recommended Proposal (as defined in paragraph (j) below) is announced and becomes unconditional, the date three business days after that Recommended Proposal becomes unconditional; or
  - (ii) otherwise:
    - A. in relation to the Class W Options, the date two years after the Odni Completion Date ; and
    - B. in relation to the Class X Options, the date three years after the Odni Completion Date.
- (c) **(Expiry)** The Odni Options will expire on the Expiry Date (as set out in paragraph (b) above) if not exercised by such date.
- (d) **(Exercise Price)** The exercise price of the:
  - (i) Class W Options is \$0.20 each; and
  - (ii) Class X Options is \$0.50 each.
- (e) **(Manner of exercise)** A holder of Odni Options may exercise one or more of their Odni Options at any time during the exercise period by:

- (i) delivering to the registered office of the Company a written notice executed by an authorised person of the Odni Option holder, stating that the Odni Option holder wishes to exercise one or more of their Odni Options and specifying the relevant number of Odni Options to be exercised; and
  - (ii) paying to the Company an amount equal to the relevant exercise price multiplied by the total number of Odni Options which the Odni Option holder notifies the Company that it will exercise in accordance with sub-paragraph (e)(i).
- (f) **(Ranking)** All Shares issued upon the exercise of Odni Options will rank equally in all respects with the Shares on issue at that time.
- (g) **(Issue of Shares)** Within two business days of the provision by an Odni Option holder of an exercise notice in accordance with sub-paragraph (e)(i) and paying the relevant amount under sub-paragraph (e)(ii), the Company must:
  - (i) issue the relevant number of Shares to the Odni Option holder; and
  - (ii) register the Odni Option holder as the holder of those Shares and update the Company's registers to reflect the issue of those Shares to the Odni Option holder.
- (h) **(Official Quotation)** The Company will not apply for Official Quotation on the ASX of the Odni Options. The Company will apply for Official Quotation on the ASX of all Shares issued upon exercise of the Odni Options, and lodge any required notices with the ASX as soon as reasonably practicable following (and in any event within five business days of) the issue of the Shares.
- (i) **(New issues)** There are no participating rights and entitlements inherent in the Odni Options and Odni Option holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Odni Options without exercising their Odni Options. However, the Company will ensure that Odni Option holders are provided with at least 10 business days' notice prior to the record date for any new rights or entitlement issue, in order to provide Odni Option holders with an opportunity to convert their Odni Options to Shares to participate in any such rights or entitlement issue on the same basis as Shareholders.
- (j) **(Takeover)** If a proposal for any person to acquire relevant interests in 90% or more of the Shares in the Company (including by way of takeover (as defined in the Corporations Act) or by way of scheme of arrangement) is publicly announced and the Board recommends that Shareholders accept or vote in favour of (as applicable) that proposal (a **Recommended Proposal**), then the Company must promptly give written notice of the Recommended Proposal to each Odni Option holder.
- (k) **(Reorganisation of capital)** In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company prior to the relevant expiry date of the Odni Options, the number of Odni Options or the relevant exercise price of the Odni Options, or both, shall be reconstructed in accordance with the Listing Rules (as amended).
- (l) **(Adjustment for bonus issues)** If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu of, or in satisfaction of, dividends or by way of dividend reinvestment):

- (i) the number of Shares which must be issued on the exercise of an Odni Option will be increased by the number of Shares which the Odni Option holder would have received if the Odni Option holder had exercised the Odni Option before the record date for the bonus issue; and
- (ii) no change will be made to the exercise price of the Odni Options.
- (m) **(Adjustment for pro rata issue)** If the Company makes a pro rata issue of Shares or other securities to existing Shareholders (other than a bonus issue or an issue in lieu of satisfaction of dividends or by way of dividend reinvestment) the relevant exercise price of the Odni Options will be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2 (as amended).
- (n) **(Notice of adjustment)** If an adjustment is required pursuant to (k), (l) or (m) above, the Company must, within a reasonable period of (and in any case by no later than five business days after) such adjustment, give notice of such adjustments to the Odni Option holders.
- (o) **(Governing law)** These terms of the Odni Options and the rights and obligations of the Odni Option holders are governed by the laws of NSW.

### Terms and conditions of the Tudor Options

The Tudor Options consist of 600,000 Class Y Options and 2,400,000 Class Z Options. The terms and conditions of the Tudor Options are set out below:

- (a) **(Entitlement)** Each Tudor Option entitles the holder to one Share.
- (b) **(Manner of exercise)** The Tudor Options are to be exercised by completing an option exercise form and providing payment for the number of Shares in respect of which the Options are exercised, to the registered office of the Company.
- (c) **(Exercise Price)** The exercise price of the:
  - (i) Class Y Options is \$0.20 each; and
  - (ii) Class Z Options is \$0.50 each.
- (d) **(Expiry date)** The exercise period for the Tudor Options commences when the Tudor Options are issued and expires at 5.00pm AEST on:
  - i. in relation to the Class Y Options, four years from the date of issue; and
  - ii. in relation to the Class Z Options, four years from the date of issue.
- (e) **(Not transferable)** The Tudor Options are not transferable.
- (f) **(Ranking)** All Shares issued upon exercise of the Tudor Options will rank pari passu in all respects with the Company's then issued Shares.
- (g) **(Official Quotation)** The Company will not apply for the Official Quotation of the Tudor Options. The Company will apply for Official Quotation of all Shares issued upon exercise of the Tudor Options.

- (h) **(New issues)** There are no participating rights and entitlements inherent in the Tudor Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Tudor Options without exercising their Tudor Options. However, the Company will ensure that Mr Tudor will be allowed ten business days' notice to convert the Tudor Options to Shares to participate in an entitlement issue on the same basis as Shareholders.
- (i) **(Takeover)** If any takeover bid (including by way of scheme of arrangement or otherwise) is publicly announced in respect of the Company, then the following provisions apply in relation to the takeover bid:
- (i) the Company must promptly give written notice of the takeover bid to Mr Tudor whereupon all Tudor Options (which have not lapsed or expired), notwithstanding anything to the contrary, must be exercised at any time prior to the expiry of the later of:
    - A. 60 days after receiving such notice; and
    - B. the date that a takeover bid (which is recommended for acceptance by the Board) becomes unconditional,(Takeover Exercise Period) or, if applicable, within the further seven day period referred to in (iv) below.
  - (ii) The dates referred to in paragraph (i)(i)(A) and (B) above only apply where they occur before the relevant expiry date. For the avoidance of doubt, where the expiry date occurs before a date referred to in (i)(i)(A) or (B), the Tudor Options must be exercised on or before the expiry date.
  - (iii) If, during the Takeover Exercise Period, the person making the takeover bid (bidder) offers to grant options in the capital of the bidder (Replacement Options) to Mr Tudor (and, for the avoidance of doubt, this does not obligate the Company in any way to procure such an offer from the bidder) in consideration for the cancellation or acquisition of the Tudor Options, Mr Tudor may, in his discretion, accept such Replacement Options instead of exercising the Tudor Options.
  - (iv) If no offer of Replacement Options is made during the Takeover Exercise Period and accepted, Mr Tudor has (other than in the case of a scheme of arrangement) a further seven days' grace after the expiry of the Takeover Exercise Period within which to exercise the Tudor Options (Grace Period), whereupon unexercised Tudor Options will lapse. For the avoidance of doubt, where the expiry date occurs before the end of the Grace Period, the Tudor Options must be exercised on or before the expiry date. In the case of a scheme of arrangement, the Tudor Options will lapse at the end of the Takeover Exercise Period.
  - (v) If the takeover bid lapses or is withdrawn or closes without being recommended for acceptance by the Board, whether the bid is conditional or unconditional, then the provisions of all the paragraphs hereof will revive in respect of any unexercised Tudor Options which Tudor Options will remain on foot.

- (j) **(Reorganisation of capital)** In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the relevant expiry date, the number of Tudor Options or the exercise price, or both, shall be reconstructed in accordance with the Listing Rules.
- (k) **(Adjustment for bonus issues)** If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu of, or in satisfaction of, dividends or by way of dividend reinvestment):
- (i) the number of Shares which must be issued on the exercise of a Tudor Option will be increased by the number of Shares which Mr Tudor would have received if he had exercised the Tudor Option before the record date for the bonus issue; and
  - (ii) no change will be made to the exercise price.
- (l) **(Adjustment for pro rata issue)** If the Company makes a pro rata issue of Shares or other securities to Shareholders (other than a bonus issue or an issue in lieu of in satisfaction of dividends or by way of dividend reinvestment) the exercise price of a Tudor Option will be reduced according to the following formula:
- $$\text{New exercise price} = O - \frac{E [P - (S + D)]}{N + 1}$$
- O = the old exercise price of the Tudor Option.
- E = the number of underlying Shares into which one Tudor Option is exercisable.
- P = average market price per Share weighted by reference to volume of the underlying Shares during the five trading days ending on the day before the ex rights date or ex entitlements date.
- S = the subscription price of a Share under the pro rata issue.
- D = the dividend due but not yet paid on the existing underlying Shares (except those to be issued under the pro rata issue).
- N = the number of Shares with rights or entitlements that must be held to receive a right to one new share.

### 10.3.2 Terms and Conditions of Performance Shares

The terms and conditions of the Performance Shares are set out below:

- (a) **(Performance Shares)** Each Performance Share is a share in the issued share capital of the Company but is not a Share. Each Performance Share will convert into a Share upon the fulfillment of the performance criteria set out at (l) below.
- (b) **(General meetings)** The Performance Shares shall confer on the holder (Holder) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to Shareholders. Holders have the right to attend general meetings of Shareholders.
- (c) **(No voting rights)** The Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of Shareholders.

- (d) **(No dividend rights)** The Performance Shares do not entitle the Holder to any dividends.
- (e) **(Rights on winding up)** Upon winding up of the Company, the Performance Shares may participate in the surplus profits or assets of the Company only to the extent of \$0.000001 per Performance Share.
- (f) **(Not transferable)** The Performance Shares will not be transferable.
- (g) **(Reorganisation of capital)** In the event that the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the Listing Rules at the time of reorganisation.
- (h) **(Official Quotation)** The Performance Shares will not be quoted on the ASX. Upon conversion of the Performance Shares into Shares in the Company in accordance with these terms, the Company must, within seven days after the conversion, apply for the official quotation of the Shares arising from the conversion on the ASX.
- (i) **(New issues)** Holders of Performance Shares will not be entitled to participate in new issues of capital offered to holders of the Shares such as bonus issues and entitlement issues.
- (j) **(Change in control)** The Performance Shares will not automatically convert into Shares in the event of a change in control of the Company.
- (k) **(No other rights)** The Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.
- (l) **(Performance Criteria)** Each Performance Share will convert into one Share if :
  - (i) in relation to Class A Performance Shares, a minimum of 500,000 tonnes of coal production and coal sales is attained within two years of the Odni Completion Date, from the Indonesian Projects;
  - (ii) in relation to Class B Performance Shares, a minimum JORC measured or indicated coal resource of 50 million tonnes (MT) is delineated from the Initial Acquisition Projects within three years of the Odni Completion Date; and
  - (iii) in relation to Class C Performance Shares, a minimum JORC inferred coal resource of 400 MT is delineated from the Indonesian Projects within three years of the Odni Completion Date.
- (m) **(Expiry Date)** The Performance Shares will expire:
  - (i) in relation to Class A Performance Shares, two years from the Odni Completion Date.
  - (ii) in relation to Class B Performance Shares, three years from the Odni Completion Date.
  - (iii) in relation to Class C Performance Shares, three years from the Odni Completion Date.
- (n) **(Forfeiture)** In the event that the performance criteria is not achieved prior to the Expiry Date then all Performance Shares will automatically be forfeited.



- (o) **(After conversion)** The Shares issued on conversion of the Performance Shares will, as and from 5.00pm AEST on the date of allotment, rank equally with and confer rights identical to all other Shares then on issue. Following allotment, the Company will apply to the ASX for Official Quotation of the Shares issued upon conversion.
- (p) **(Conversion procedure)** Following fulfillment of the relevant Performance Criteria, the Company will issue each Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Performance Shares into Shares.
- (q) **(Variation of terms and conditions)** The terms and conditions of the Performance Shares will not be changed without the approval of the ASX and the Shareholders.

## 10.4 Rules of the Company's Incentive Option Scheme

The Board adopted the Company's Incentive Option Scheme on 2 November 2010 (**Plan**).

The Plan is designed to:

- (a) provide eligible participants with an ownership interest in the Company;
- (b) provide additional incentives for eligible participants; and
- (c) attract, motivate and retain eligible participants.

As at the date of this Prospectus, 300,000 options have been granted under the Plan.

The material terms of the Plan are set out below.

### 10.4.1 General

The Plan relates to the grant of options to subscribe for Shares. The Board may, from time to time, in its absolute discretion, offer to grant options to eligible participants under the Plan. Each option granted under the Plan will be issued for no consideration and will carry the right in favour of the option holder to subscribe for one Share.

### 10.4.2 Eligible Participants

Full or part time employees, Directors and consultants of the Company or an associated body corporate will be entitled to participate in the Plan.

### 10.4.3 Options to be issued under the Plan

The formula by which the entitlements of eligible participants shall be determined will be at the absolute discretion of the Board and shall take into account skills, experience, and length of service with the Company, remuneration level and any other criteria the Board considers appropriate in the circumstances.

The Board will not issue options under the Plan if the total number of Shares the subject of the options, when aggregated with:

- the number of options to be granted;
- the number of Shares which would be issued if all current options granted under any employee incentive scheme, including the Plan, were exercised; and

- the number of Shares which have been issued as a result of the exercise of options granted under any employee incentive scheme, including the Plan, where the options were granted during the preceding five years,

would exceed 5% of the total number of issued Shares at the time of the issue.

#### **10.4.4 Option Terms**

Options issued under the Plan will be subject to the terms determined by the Board in its sole discretion, which may include exercise conditions to be satisfied prior to the vesting of the options.

Each option issued under the Plan will be exercisable for one Share each at an exercise price to be determined by the Board at the time of issue.

The Company will not seek Official Quotation of any options granted under the Plan, although it will apply for the Official Quotation of the Shares arising from the conversion.

The Shares issued on the exercise of an option will rank equally with the other Shares on issue, and the Company will apply to the ASX for Quotation of those Shares.

#### **10.4.5 Lapse of Options**

Unless the Board in its absolute discretion determines otherwise, options granted under the Plan shall lapse on the date which is the earlier of:

- two years after the date of the grant of that option, or such other date as the Board determines in its discretion with respect to that option at the time of the grant of that option;
- the option holder ceases to be an employee or Director of, or to render services to, the Company for any reason whatsoever (including without limitation resignation or termination for cause) and the exercise conditions imposed at the time of the grant of the option have not been met; or
- the exercise conditions of options are unable to be met.

#### **10.4.6 Participation in Future Issues**

There are no participating rights or entitlements inherent in the options granted under the Plan and holders will not be entitled to participate in the new issues of capital offered to Shareholders during the currency of the options. However, the Company will ensure that, for the purposes of determining entitlements to any such issue, the record date will be at least seven business days after the issue is announced. This will give option holders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue. If the Company makes a pro rata issue of securities (except a bonus issue) to Shareholders (other than an issue in lieu or satisfaction of dividends or by way of dividend reinvestment) the exercise price of the options shall be adjusted in accordance with the formula in the Listing Rules.

In the event of a bonus issue of Shares being made pro rata to Shareholders (other than an issue in lieu of dividends), the number of Shares issued on exercise of each option will include the number of bonus Shares that would have been issued if the option had been exercised prior to the record date for the bonus issue. No adjustment will be made to the exercise price per Share of the option.

### 10.4.7 Reorganisation

The terms upon which options will be granted will not prevent the options being reorganised as required by the Listing Rules on the reorganisation of the capital of the Company.

### 10.4.8 Management of the Plan

The Board may appoint for the proper administration and management of the Plan, such persons as it considers desirable and may delegate such authorities as may be necessary or desirable for the administration and management of the Plan. The Board may amend the rules of the Plan subject to the requirements of the Listing Rules. The Board may terminate the Plan, or suspend its operation for any period it considers desirable, at any time that it considers appropriate.

## 10.5 Material Contracts

### 10.5.1 Share Purchase Agreement

The Company has entered into the Share Purchase Agreement with Odni and the Odni Sellers through which the Company will acquire 100% of the Odni Shares. The entry into the Share Purchase Agreement is central to the proposed change in nature and scale of the Company's activities. The material terms of the Share Purchase Agreement are as follows:

- (a) **(Conditions precedent):** settlement of the Share Purchase Agreement is subject to and conditional upon, among other things:
  - (i) the Company completing legal, financial, technical and general due diligence on Odni, the Indonesian Companies, the IUPs and the Indonesian Projects;
  - (ii) the Odni Sellers completing legal, financial, technical and general due diligence on the Company;
  - (iii) the Company allotting and issuing the Consideration Securities (subject to Shareholder approval at the General Meeting) to the Odni Sellers in the proportions set out further below;
  - (iv) approval of the Share Purchase Agreement by the board of Odni and the Board; and
  - (v) all regulatory and other approvals required by the Company or Odni having been received, including the conditional approval of the ASX to the Company's admission to the Official List and to Official Quotation on terms and conditions acceptable to the Company.
- (b) **(Conditions satisfaction)** the conditions precedent must be satisfied (or waived) on or before 21 September 2012, except for conditions (iii), (iv) and (vi), which must be satisfied (or waived) on or before 14 December 2012, in each case subject to any later date to be agreed by the parties.
- (c) **(Purchase of Odni shares)** Each Odni Seller agrees to sell their Odni Shares to the Company and the Company agrees to purchase the Odni Shares from each Odni Seller.
- (d) **(Consideration)** As consideration for the Odni Shares, the Company will allot and issue the Consideration Securities to the Odni Sellers in the proportions set out below.

Odni Seller	Shares	Class W Options	Class X Options	Class A Performance Shares	Class B Performance Shares	Class C Performance Shares
Sandford Pte. Ltd.	7,625,000	3,050,000	6,100,000	6,710,000	6,710,000	6,710,000
Universal Coal Holdings Ltd	5,750,000	2,300,000	4,600,000	5,060,000	5,060,000	5,060,000
Viceroy Investments Pte. Ltd.	5,750,000	2,300,000	4,600,000	5,060,000	5,060,000	5,060,000
Ruck Pty Ltd	3,625,000	1,450,000	2,900,000	3,190,000	3,190,000	3,190,000
Corpac Partners Pty Limited	2,250,000	900,000	1,800,000	1,980,000	1,980,000	1,980,000
<b>Total</b>	<b>25,000,000</b>	<b>10,000,000</b>	<b>20,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>	<b>22,000,000</b>

- (e) **(Escrow)** The Shares issued as part of the Consideration Securities acquired by each Seller will be held in escrow for a minimum period of 12 months, or such longer period as may be required by the ASX.
- (f) **(Reimbursement)** As part reimbursement of the expenditure incurred by Ruck Pty Ltd to date in the development of the Indonesian Projects, upon the provision of reasonable evidence of such expenditure, the Company will pay Ruck Pty Ltd on the Odni Completion Date either:
- (i) \$1.5 million if the Company has raised at least \$20 million through the Offer;
  - (ii) a pro-rated amount between \$750,000 and \$1.5 million if the Company has raised \$10 million or more, but less than \$20 million through the Offer; or
  - (iii) an amount agreed by the Company, Ruck Pty Ltd and Odni, acting in good faith and reasonably, if the Company raises less than \$10 million through the Offer.
- (g) **(Completion)** Completion is to occur on the business day following the date on which all of the conditions have been satisfied or waived, or a later date agreed to between the parties.
- (h) **(Change to board)** With effect from completion, the Odni Sellers are entitled to nominate two persons as Directors. As at the date of this Prospectus, the Odni Sellers have not nominated any persons as Directors..
- (i) **(Warranties)** The Odni Sellers have provided standard warranties and representations in favour of the Company in relation to, amongst other things, their good standing and their ability to transfer their Odni Shares to the Company, the good standing and ownership of Odni,

Odni's assets, the agreements to which Odni is a party in respect of the Indonesian Projects, insurance and litigation.

The Share Purchase Agreement otherwise contains standard clauses typical for an agreement of this nature.

### 10.5.2 Corpac Services Agreement

The Company has entered into the Corpac Services Agreement by which the Company exclusively engages Corpac as an independent contractor to provide corporate financial advisory services to the Company. The material terms of the Corpac Services Agreement are as follows:

- (a) **(Services)** Corpac will provide corporate advisory services to the Company including:
  - (i) advice on the development of a financing strategy that deals with the key phases of any relevant projects;
  - (ii) advice on the creation of an efficient financing structure in respect of relevant projects;
  - (iii) liaising with existing and potential new investors both in Australia and Indonesia;
  - (iv) advice in relation to mergers, acquisitions and disposals including ongoing support for the Company's business development, assistance in identifying, evaluating and negotiating prospective project agreements, and assistance in relation to conducting due diligence investigations on prospective projects;
  - (v) preparation of project risk allocation matrices which take into account regulatory and commercial risks associated with current and prospective projects;
  - (vi) financial analysis and modeling (where appropriate); and
  - (vii) general strategic corporate advice.
- (b) **(Condition precedent)** The Corpac Services Agreement will not be binding until the completion of the Share Purchase Agreement. Please refer to section 10.5.1(a) for further details on the conditions precedent to completion of the Share Purchase Agreement.
- (c) **(Term)** The Corpac Services Agreement is an evergreen agreement which means that it will continue until terminated by either the Company or Corpac in accordance with the principles set out below.
- (d) **(Termination)** The Company or Corpac may terminate the Corpac Services Agreement:
  - (i) by the terminating party providing six months' notice to the non-terminating party. Neither the Company nor Corpac may terminate the Corpac Services Agreement within the first 12 months; or
  - (ii) (despite (i) above) immediately and at any time if a party becomes insolvent or has an administrator, controller, liquidator, receiver or receiver and manager appointed, or threatened to be appointed, in relation to all or any of its assets or undertakings; or
  - (iii) for breach of a material term of the Corpac Services Agreement if the breach is not remedied within 30 days.

- (e) **(Annual review)** The Company and Corpac will review the terms of the Corpac Services Agreement annually including the scope of the services, and the performance of Corpac and its personnel.
- (f) **(Exclusive Investment Opportunities)** Corpac may identify new investment opportunities to acquire Indonesian coal projects. Before Corpac may present such opportunities to third parties, it must present such opportunities to the Company. In relation to the relevant opportunity, the Company must enter into:
  - (i) a term sheet within 20 business days of being notified of the opportunity; and
  - (ii) binding documentation in respect of any opportunity presented to it within 90 days of the date of the relevant term sheet.

Failure to comply with these deadlines enables Corpac the unrestricted right to present such opportunity to any third party.

- (g) **(Fees)** The Company will pay Corpac the Base Fee (defined below), the Success Fee (defined below), and must reimburse Corpac for all travel, accommodation and other expenses reasonably and properly incurred by Corpac in providing the Services.
- (h) **(Base Fee)** The Company will pay Corpac A\$40,000 per month (indexed annually).
- (i) **(Success Fee)** The Company will pay Corpac a Success Fee for any transaction or project which requires Corpac to:
  - (i) provide advice in relation to bank or other forms of debt to support exploration programs and corporate development; or
  - (ii) advice in relation to mergers, acquisitions and disposals.

The Success Fee will be an amount equal to fees charged at the time by corporate advisers for transactions or projects of an equivalent size and type. If Corpac is co-mandated with a third party to advise on a transaction or project, the Success Fee payable to Corpac in relation to that transaction will be shared between the co-mandated parties in accordance with standard market practice.

- (j) **(Deferral of fees)** The payment of the Base Fee will be deferred in certain situations. If the Company:
  - (i) fails to raise at least \$10 million (before costs) pursuant to the Offer or otherwise fails to raise at least \$7 million before 31 August 2012, then the Company may elect to defer its obligation to pay an amount of up to 50% of the Base Fee (**Deferred Amount**) in a 12 month period (**Deferral Period**);
  - (ii) (together with its Related Bodies Corporate) has more than \$7 million cash in its bank account at any time during the Deferral Period, then it shall resume paying Corpac 100% of the Base Fee; and
  - (iii) (together with its Related Bodies Corporate) does not have more than \$7 million in cash 12 months after the commencement of the Corpac Services Agreement, it shall issue Shares to Corpac using the following formula:

$$\text{Number of new Shares to be issued} = \frac{\text{Deferred Amount}}{\text{Deferred Exercise Price}}$$

where:

Deferred Exercise Price means the higher of:

- (A) the amount equal to 85% of the 10 day VWAP of the Company's shares as at the date 12 months after the Effective Date; and
- (B) \$0.20 per share.

- (k) **(Intellectual property)** All advice, documents and financial models prepared by Corpac in providing the Services will remain the property of Corpac.
- (l) **(Governing law)** The Corpac Services Agreement is governed by the laws of NSW.

### 10.5.3 Ex Mining Services Agreement

The Company has entered into the Ex Mining Services Agreement with EX Mining Services by which the Company will engage Ex Mining Services to provide business and project development services in Indonesia. The material terms of the Ex Mining Services Agreement are as follows:

- (a) **(Services)** EX Mining will provide business and project development services to the Company including:
  - (i) assisting in the management of various project share purchase agreements and other agreements including monitoring and liaising with counterparties;
  - (ii) advice in relation to commercial aspects of exploration and development programs;
  - (iii) advice in relation to various commercial structures and arrangements required for development of coal projects in Indonesia;
  - (iv) assistance in obtaining necessary local permits and permissions required for coal project development in Indonesia;
  - (v) defining and agreeing upon exploration programs with project vendors;
  - (vi) advice in relation to the selection and negotiation of agreements with exploration contractors including specialist geological experts, mine developers and mining production contractors;
  - (vii) general consulting and advisory services in relation to the development of the Indonesian Projects; and
  - (viii) representing the Company on various industry bodies.
- (b) **(Condition precedent)** The provisions of the EX Mining Services Agreement will not be binding until the completion of the Share Purchase Agreement.
- (c) **(Term)** The Ex Mining Services Agreement is an evergreen agreement which means that it will continue until terminated by either the Company or Ex Mining Services in accordance with the principles set out below.

- (d) **(Termination)** The Company or Ex Mining Services may terminate the EX Mining Services Agreement:
- (i) by the terminating party providing six months' notice to the non-terminating party. Neither the Company nor Ex Mining Services may terminate the Ex Mining Services Agreement within the first 30 months; or
  - (ii) (despite (i) above) immediately and at any time if a party becomes insolvent or has an administrator, controller, liquidator, receiver or receiver and manager appointed, or threatened to be appointed, in relation to all or any of its assets or undertakings; or
  - (iii) for breach of a material term of the Ex Mining Services Agreement if the breach is not remedied within 30 days.
- (e) **(Annual review)** The Company and Ex Mining Services will review the terms of the Ex Mining Services Agreement annually including the scope of the services, and the performance of Ex Mining Services and its personnel.
- (f) **(Fee)** The Company will pay Ex Mining Services \$60,000 per month (indexed annually) and must reimburse Ex Mining Services for all travel, accommodation and other expenses reasonably and properly incurred by Ex Mining Services in providing the services.
- (g) **(Deferral of fees)** The payment of the Fee will be deferred in certain situations. If the Company:
- (i) fails to raise at least A\$10 million (before costs) pursuant to the Offer or otherwise fails to raise at least A\$7 million before 31 August 2012, then the Company may elect to defer its obligation to pay an amount of up to 50% of the Fee in a 12 month period (**Deferral Period**);
  - (ii) (together with its Related Bodies Corporate) has more than \$7 million cash in its bank account at any time during the Deferral Period, then it shall resume paying Ex Mining Services 100% of the Base Fee; and
  - (iii) (together with its Related Bodies Corporate) does not have more than \$7 million in cash 12 months after the commencement of the Ex Mining Services Agreement, it shall issue Shares to Ex Mining Services using the following formula:
- $$\text{Number of new Shares to be issued} = \frac{\text{Deferred Amount}}{\text{Deferred Exercise Price}}$$
- where:
- Deferred Exercise Price** means the higher of:
- (A) the amount equal to 85% of the 10 day VWAP of the Company's shares as at the date 12 months after the Effective Date; and
  - (B) \$0.20 per Share.
- (h) **(Intellectual property)** All advice, documents and financial models prepared by Ex Mining Services in providing the Services (set out in Section 10.5.3(a)) will remain the property of EX Mining Services.



- (i) **(Governing law)** The Ex Mining Services Agreement is governed by the laws of NSW.

#### 10.5.4 Project Sugico – Sugico Letter of Intent

Odni has substantially negotiated the terms of the Sugico Agreement, pursuant to which it will acquire the Sugico Interest. The Sugico Agreement has not been signed. The Company has obtained the Sugico Intent Letter from a representative of the Sugico Sellers stating that the Sugico Sellers will enter into the Sugico Agreement after Odni deposits US\$1,500,000 into an exploration account by 28 September 2012. This money will be applied towards the agreed exploration program on the Sugico IUPs.

The Sugico Intent Letter does not provide the Company with the exclusive rights to negotiate or enter into an agreement to acquire an interest in Project Sugico. The Sugico Intent Letter may not be enforceable if the representative that signed the Sugico Intent letter is not authorised to agree such a commitment on behalf of the Sugico Sellers. However the Board is of the view that the representative that signed the Sugico Intent Letter has demonstrated commercial representation on behalf of the remainder of the Sugico Sellers and therefore believes that the remaining Sugico Sellers will agree to the content of the Sugico Intent Letter.

Subject to receiving valid Applications for \$10,000,000 on or before 28 September 2012, the Company intend to demonstrate to the Sugico Sellers by 28 September 2012 that Odni will have US\$1,500,000 available shortly to be applied towards the agreed exploration program. The Directors believe that if Odni can demonstrate this, the Sugico Sellers will be willing to finalise the negotiations of the terms of the Sugico Agreement with Odni, in particular, the timing of the payments to the Sugico Sellers. If Odni is unable to finalise negotiations of the Sugico Agreement, the Company will not proceed with Project Sugico. The Company will not make any payments to the Sugico Sellers unless the Sugico Agreement is finalised and executed.

The proposed terms of the Sugico Agreement are outlined below. The final terms of the Sugico Agreement may vary from the terms described below.

The material terms of the Sugico Agreement are as follows:

- (a) **(Acquisition structure)** The Sugico Sellers, between themselves, are the legal and registered owners of the Sugico IUPs. If permitted by Indonesian law, some or all of the Sugico Sellers will incorporate new Indonesian companies and transfer their respective Sugico IUPs to those companies, and Odni will be transferred 50% of the shares (**Sugico Shares**) in those companies. This will occur either at completion of the purchase of the Sugico Interest or, if the companies are incorporated after completion, after completion.
- (b) **(Consideration)** As consideration for the Sugico Interest, Odni will:
- (i) pay an additional \$1.5 million into the exploration account by 28 October 2012 or within two weeks of a request by the Sugico Sellers. This amount will be applied towards the agreed exploration program on the Sugico IUPs;
  - (ii) subject to exploration results, pay the Sugico Sellers \$10 million by 28 October 2012. With respect to this payment obligation in particular, the Company, through Odni, intends to negotiate an extension to pay this \$10 million to the Sugico Sellers on the completion of the agreed exploration program, subject to the exploration results being

satisfactory to the Company. If this extension cannot be agreed, the Company will not enter into the Sugico Agreement and will not proceed with Project Sugico.

- (iii) pay the Sugico Sellers, following completion of the exploration program by the parties:
  - (A) US\$10 million, if a JORC Code economically mineable resource of less than 200 million tonnes of coal is established; or
  - (B) US\$20 million, if a JORC Code economically mineable resource of of 200 million tonnes or more of coal is established;
- (iv) a royalty of US\$2.00 per tonne of coal produced and sold.

The Sugico Sellers have the right to terminate the Sugico Agreement if Odni does not comply with the payment obligations described above.

- (c) **(Conditions precedent)** The completion of the purchase of the Sugico Interest and Sugico Shares (if permitted under Indonesian law) by Odni is contingent upon the fulfilment of certain conditions precedent, including:
  - (i) each party having completed, to its satisfaction, due diligence on each other party;
  - (ii) each party receiving all necessary board or shareholder approval;
  - (iii) each party receiving all necessary regulatory and local, state or federal governmental approvals, joint venture approval, waiver of pre-emptive rights and rights of first refusal, for the completion of the transactions contemplated by the Sugico Agreement;
  - (iv) each corporate Sugico Seller having announced the Sugico Agreement in an Indonesian newspaper with national circulation in compliance with the laws of Indonesia; and
  - (v) each corporate Sugico Seller having obtained the consent of the relevant government body for the transfer of the Sugico Shares in compliance with Indonesian law.

Odni may terminate the Sugico Agreement if the conditions precedent above are not satisfied by the Sugico Sellers or waived by Odni on or before a date to be determined by the parties.

Either party may terminate the Sugico Agreement if the satisfaction of any of the conditions precedent becomes impossible or impracticable to satisfy or if there has been a material breach of the Sugico Agreement prior to completion.

- (d) **(Exploration obligations)** Following the completion of the purchase of the Sugico Interest, Odni:
  - (i) is responsible for funding the mapping of the three most prospective Sugico IUPs and this will commence immediately upon signing the Sugico Agreement;
  - (ii) will be responsible for funding the exploration program agreed by the parties up to a maximum of US\$20 million. As part of the agreed exploration program, Odni must undertake an intensive exploration program to a minimum expenditure of at least US\$3 million on the most prospective IUPs as determined by mapping;

- (iii) will be responsible for financing any excess exploration costs exceeding US\$20 million, however such cost will be recoverable from the first revenues of the Sugico IUPs; and
  - (iv) will manage the agreed exploration program and will appoint PT Sugico Pendragon Energi as its drilling contractor under a separate contract.
- (e) **(Overlapping tenements)** There are certain IUPs for coal bed methane held by another entity. The parties have agreed that the coal bed methane IUPs will take precedence over the Sugico IUPs and, if there are overlapping rights to underground coal gasification, these IUPs will also take precedence over the Sugico IUPs.
- In respect of the coal bed methane IUPs, each of Odni and the Sugico Sellers will negotiate in good faith with the holders of the coal bed methane IUPs to ensure that the survey, exploration, feasibility study, construction, mining, processing and refining and transport and sale activities in relation to each Sugico IUP are carried out on a commercially acceptable basis to all parties.
- (f) **(Warranties and undertakings)** The Sugico Sellers have provided Odni with limited warranties in relation to the Sugico Shares and Sugico IUPs. The Sugico Sellers have provided undertakings in relation to the management of the Sugico IUPs and the Sugico Shares, including not to create any encumbrances over the Sugico IUPs or encourage or accept any other offers to purchase the Sugico Shares or Sugico IUPs. Each party indemnifies the other against a liability arising from a breach of the Sugico Agreement by that party.
- (g) **(Governing law)** The Sugico Agreement is governed by the laws of Indonesia.

### 10.5.5 Project BIG – Share Purchase Agreement

Odni has entered into the BIG Agreement with the BIG Sellers for the purchase of the BIG Shares, representing 100% of the issued share capital of the BIG Company. The BIG Company holds exploration IUP No: 467/K-IV/540/2010 (BIG IUP). The material terms of the BIG Agreement are as follows:

- (a) **(Consideration)** As consideration for the BIG Shares, Odni will pay the BIG Sellers an amount equivalent to US\$1.00 per metric tonne of BIG Verified Reserve (defined below).

In 2011, the BIG Sellers entered into an option agreement with Ruck Pty Ltd (a shareholder of Odni) pursuant to which Ruck Pty Ltd or Ruck Pty Ltd's nominee was granted an option to enter into a share purchase agreement to purchase the BIG Shares. Ruck Pty Ltd has paid the BIG Sellers an option fee of US\$100,000 under this option agreement. This option agreement has since expired.

A non-refundable deposit of US\$100,000 was paid to the BIG Sellers on the signing of the BIG Agreement. Another non-refundable deposit of US\$200,000 is payable by Odni by 30 September 2012. The Company understands that Odni will make this payment provided the Company has received valid Applications for at least \$10,000,000 before 30 September 2012 and the Company has received conditional approval of the ASX to the Company's admission to the Official List and to Official Quotation on terms and conditions acceptable to the Company. If the Company has not received such valid Applications or ASX conditional approval, Odni will seek to extend the due date for this payment.

In any event, Odni and Corpac have provided an undertaking to the Company that they will keep the BIG Project in good standing by either ensuring Odni complies with its obligations under the BIG Agreement, or negotiating an extension to the date the deposit is due.

The amount of these deposits, together with the option fee paid by Ruck Pty Ltd, will be deducted from the purchase price payable to the BIG Sellers on completion of the BIG Agreement.

Odni can choose to have some or all of the BIG Shares transferred to a nominee on completion. If Odni nominates the Company or another public company, Odni can elect to pay the purchase price in a mix of cash and Shares.

The purchase price shall only be paid upon satisfaction of the conditions precedent (set out below).

- (b) **(Conditions precedent)** The completion of the BIG Agreement and the payment of the purchase price are conditional on following:
- (i) Odni completing, to its satisfaction, due diligence on the BIG Company;
  - (ii) the establishment of the BIG Coal being a Reserve of at least an eight million metric tonnes of coal Reserve under the JORC Code, verified by a competent person;
  - (iii) Odni paying the deposits set out in (a) above;
  - (iv) the BIG Sellers approving the transfer of the BIG Shares to Odni including waiving any pre-emptive rights and rights of first refusal;
  - (v) the BIG Sellers having received and provided to Odni spousal consents for each of the BIG Sellers to execute the BIG Agreement and the transactions contemplated by the BIG Agreement;
  - (vi) the parties having obtained all necessary local, state or federal government body approvals and all other consents and approvals required for completion of the purchase of the BIG Shares;
  - (vii) the BIG Sellers having procured the BIG Company to make the necessary written announcements with respect to the change of control of the BIG Company including in an Indonesian newspaper with national circulation and to employees of the BIG Company;
  - (viii) the BIG IUP being validly converted into a production operation IUP (at Odni's cost) in accordance with all applicable Indonesian laws;
  - (ix) amending the BIG Company's articles of association in a form approved by Odni to permit foreign ownership, an increase in capital and a change in the business scope to mining coal;
  - (x) the BIG Company having obtained (at Odni's cost) any consent required from any government body for the transfer of the BIG Shares, including to change the status of the BIG Company to a foreign investment company;

- (xi) the BIG Company having complied with all obligations under the BIG IUP and under all relevant laws;
- (xii) the BIG Company having submitted and applied to the Minister of Energy and Mineral Resources in Indonesia for a “clean and clear certificate”;
- (xiii) the BIG IUP being listed on the mining register held by the Minister of Energy and Mineral Resources in Indonesia as a “clean and clear” tenement and, if required by the Minister of Energy and Mineral Resources, the BIG IUP being converted into a production operation IUP issued by the Minister of Energy and Mineral Resources;
- (xiv) each of the parties having executed a deed of transfer of the BIG Shares in accordance with all applicable laws and the BIG Company’s articles of association;
- (xv) the BIG Sellers having obtained, and provided to Odni, a letter issued by the Ministry of Forestry in Indonesia confirming that forestry permits for less than 10% of the relevant forest area in the region have been applied for as at a date which is no more than 30 days before completion of the BIG Agreement;
- (xvi) the BIG Company having entered into formal co-operation agreements, on terms satisfactory to Odni, with all companies which have areas of overlap with the Reserve (as contemplated by paragraph (b)(ii) above);
- (xvii) the issuance (at Odni’s cost) of a borrow-use permit from the Ministry of Forestry for all exploration activities in the BIG IUP area, as well as any relevant environmental permits, in favour of the BIG Company within six months of the date of the BIG Agreement and the issuance of a borrow-use permit permitting full production in the areas of the Reserve (as contemplated by paragraph (b)(ii) above) in favour of the BIG Company;
- (xviii) the BIG Company having appointed a drilling contractor selected by Odni, and the drilling contractor having conducted a drilling program to an extent and in a manner directed by Odni (at its discretion and cost);
- (xix) the BIG Sellers rectifying its non-compliance with convening annual general meetings in accordance with applicable Indonesian law;
- (xx) the BIG Sellers having delivered to Odni’s lawyers the BIG Company’s complete company register of shareholders and share certificates within 30 days of signing the BIG Agreement; and
- (xxi) each of the representations and warranties of the BIG Sellers being true, accurate and not misleading as at completion.

Odni has the discretion to waive any of the above conditions precedent. If the conditions precedent are not satisfied or waived by 14 March 2013, Odni may terminate the BIG Agreement. Either party may terminate the BIG Agreement if the satisfaction of any of the conditions precedent becomes impossible or impracticable to satisfy or if there has been a material breach of the BIG Agreement.

- (c) **(Completion)** Completion of the BIG Agreement will take place two business days after the conditions precedent outlined above are either satisfied or waived, but in any event will not be later than 270 days after the BIG Company has obtained all necessary permits for drilling. The Directors believe that, if required, this date can be extended as it is the BIG Seller's obligation to fulfill the conditions precedent and is in the BIG Sellers' interest to extend the date, otherwise the BIG Sellers will be in breach of the BIG Agreement.
- (d) **(Exploration)** Odni will fund all costs in connection with the drilling contractor for the drilling work activities based on a drilling work program.
- (e) **(Warranties and undertakings)** The BIG Sellers have provided Odni with limited warranties in relation to the BIG Shares and BIG Company. The BIG Sellers have provided undertakings in relation to the management of the BIG Company and the BIG Shares, including not issuing any further securities, create any encumbrances over the BIG Shares or encourage or accept any other offers to purchase the BIG Shares. Each party indemnifies the other against a liability arising from a breach by that party of the BIG Agreement.
- (f) **(Governing law)** The BIG Agreement is governed by the laws of Indonesia.

#### 10.5.6 Project MMBP– Option Agreement

Odni has entered into the MMBP Agreement pursuant to which the MMBP Sellers grant Odni an exclusive option to purchase the MMBP Shares, being 100% of the issued share capital in the MMBP Company. The MMBP Company holds exploration IUP No: 437/K-IV/540/2010. The material terms of the Sugico Agreement are as follows:

- (a) **(Mapping)** The MMBP Sellers have received US\$75,000 to fund the mapping of the MMBP IUP.
- (b) **(Share purchase agreement)** Odni may negotiate and enter into a share purchase agreement in relation to the MMBP Shares up until 30 September 2012. Odni and Corpac have provided an undertaking to the Company that they will keep the MMBP Project in good standing by either ensuring Odni complies with its obligations under the MMBP Agreement, or negotiating an extension of the option period.
- (c) **(Expiry of the MMBP Option Period)** The parties will cease all negotiations concerning the MMBP Shares on expiry of the MMBP Option Period if they have not signed a share purchase agreement in relation to the MMBP Shares.
- (d) **(Withdrawal)** Odni may, at its absolute discretion, withdraw from the transaction without any cost, loss, liability or obligation to pay any further amounts under the MMBP Agreement.
- (e) **(Due diligence)** During the MMBP Option Period, Odni may (at its sole cost and expense) conduct financial, legal and technical due diligence in relation to the MMBP Company and its assets and financial records, including site visits and exploration drilling for the purpose of proving a reserve under the JORC Code. The MMBP Sellers will (at their cost) provide Odni and its employees and professional advisers access to MMBP Company's records, areas covered by the IUP and relevant documentation.
- (f) **(Terms of share purchase agreement)** Unless otherwise agreed between the relevant parties, the proposed share purchase agreement will incorporate the following terms:

- (i) **(Conditions Precedent)** The completion of the purchase of the MMBP Shares by Odni and the payment of the purchase price is conditional on all industry standard conditions precedent for the acquisition of shares in a mining company in Indonesia, including the carrying out and obtaining or satisfaction, at the MMBP Sellers' expense, of:
- (A) legal, financial and technical due diligence to Odni's satisfaction;
  - (B) establishment of a Reserve of MMBP Coal being a reserve, under the JORC Code, of at least eight million metric tonnes of coal with a heating value of at least 5500 kcal/kg and a sulphur content not exceeding 1.3%. The MMBP Coal must be unconditionally verified by a third party appointed by Odni (at its discretion);
  - (C) all requisite authorisations from any government agency;
  - (D) the exploration IUP being validly converted to a production operation IUP;
  - (E) compliance with Indonesian Company Law; and
  - (F) all requisite corporate authorisations in relation to MMBP Sellers.
- These conditions precedent must be satisfied 180 days after the parties sign the proposed share purchase agreement. Odni has the discretion to waive any of the above conditions precedent.
- (ii) **(Consideration)** As consideration for the MMBP Shares, Odni will pay the MMBP Sellers an amount equivalent to US\$1.00 per metric tonne of verified Reserve, established under the JORC Code and unconditionally verified by a third person, of MMBP Coal. If a verified Reserve of less than eight million metric tonnes of MMBP Coal is established, Odni may terminate the MMBP Agreement or subsequent share purchase agreement in its absolute discretion.
- (iii) **(Deduction)** On 5 October 2011, the MMBP Sellers entered into an option agreement with Ruck Pty Ltd pursuant to which Ruck Pty Ltd or Ruck Pty Ltd's nominee was granted an option to enter into a share purchase agreement to purchase the MMBP Shares. Ruck Pty Ltd has paid the MMBP Sellers a US\$100,000 option fee under this option agreement. This option agreement has since expired. This amount will be deducted from the purchase price payable to the MMBP Sellers on completion of the MMBP Share purchase.
- (iv) **(Method of payment)** Odni can choose to have some or all of the MMBP Shares transferred to a nominee on completion. If Odni nominates the Company or another public company, Odni can elect to pay the purchase in a mix of cash and shares in that nominated public company.
- (g) **(Undertakings)** The MMBP Sellers have provided undertakings in relation to the management of the MMBP Company and the MMBP Shares, during the MMBP Option Period, including not to issue any further securities, create any encumbrances over the MMBP Shares or encourage or accept any other offers to purchase the MMBP Shares.
- (h) **(Governing law)** The MMBP Agreement is governed by the laws of Indonesia.

### 10.5.7 Project Karin – Conditional Share Sale and Purchase Agreement

Odni has entered into the Karin Agreement with the Karin Sellers for the purchase of the Karin Shares, which represent 100% of the issued share capital of the Karin Company. The Karin Company holds the exploration IUP No.188.45/439/2010. The material terms of the Karin Agreement are as follows:

- (a) **(Consideration)** As consideration for the purchase of the Karin Shares, Odni will pay the Karin Sellers an amount equivalent to US\$1.00 per metric tonne of verified reserve of Karin Coal established under the JORC Code which has been unconditionally verified by a third party appointed by Odni. The first US\$50,000 of the purchase price was paid within five business days of signing the Karin Agreement. Another installment of US\$250,000 is payable by Odni by 30 September 2012. The Company understands that Odni will make this payment provided the Company has received valid Applications for at least \$10,000,000 before this date and the Company has received conditional approval of the ASX to the Company's admission to the Official List and to Official Quotation on terms and conditions acceptable to the Company. If the Company has not received such valid Applications or ASX conditional approval, Odni will seek to extend the due date for this payment. In any event, Odni and Corpac have provided an undertaking to the Company that they will keep the Karin Project in good standing by either ensuring Odni complies with its obligations under the Karin Agreement, or negotiating an extension to the date the deposit is due.

The remaining purchase price is payable at completion, which will occur on the day all the conditions precedents (set out below) are satisfied or waived.

- (b) **(Deduction)** Ruck Pty Ltd and the Karin Sellers entered into an option agreement dated 26 November 2011 pursuant to which the Karin Sellers granted Ruck Pty Ltd or Ruck Pty Ltd's nominee an option to enter into a conditional share purchase agreement. Ruck Pty Ltd has nominated Odni to enter into the Karin Agreement. Ruck Pty Ltd has paid the Karin Sellers, pursuant to the option agreement, certain option fees to maintain the option to purchase the Karin Shares. The option fees paid by Ruck Pty Ltd will be deducted from the purchase price payable at completion for the purchase of the Karin Shares.
- (c) **(Conditions precedent)** The completion of the purchase of the Karin Shares by Odni and the payment of the purchase price is conditional on the following:
- (i) all representations and warranties set out in the Karin Agreement being true, complete and correct at the date of the Karin Agreement and date of completion;
  - (ii) the Karin Sellers having obtained all licenses, approvals, permits and consents necessary for the purchase of the Karin Shares from appropriate governmental or regulatory (or any other appropriate third party, including the Karin Sellers);
  - (iii) the Karin Sellers having obtained a spousal consent signed by each spouse of the Karin Seller;
  - (iv) the Karin Company having obtained a recommendation letter from the appropriate regent stipulating that the regent is willing to grant a recommendation for the submission of amendment of principal license of foreign capital investment application to the Capital Investment Coordinating Board (Recommendation Letter);



- (v) subject to obtaining the Recommendation Letter, the Karin Company submitting an application regarding the amendment of the principal licence of foreign investment application to the Capital Investment Coordinating Board in a form satisfactory to Odni (acting reasonably);
- (vi) establishment of at least an eight million metric tonne Verified Reserve of Karin Coal as defined under the JORC Code;
- (vii) the Karin IUP being converted to an operation production IUP;
- (viii) the Karin Sellers complying with all provisions of the Indonesian Company Law in respect of the transfer of the Karin Shares; and
- (ix) Odni completing, to its satisfaction, technical, financial and legal due diligence on the Karin Company.

Odni may add more conditions precedent at its sole discretion as a result of its due diligence Investigations of the Karin Company. Odni has the discretion to waive any of the above conditions precedent.

- (d) **(Fulfilment of conditions precedent)** If the conditions precedent are not satisfied or waived by 180 days after the date of the Karin Agreement, Odni may terminate the Karin Agreement, or, in its sole discretion, extend this date.
- (e) **(Warranties and undertakings)** The Karin Sellers have provided Odni with limited warranties in relation to the Karin Shares and Karin Company. The Karin Sellers have provided undertakings in relation to the management of the Karin Company and the Karin Shares, including not to create any encumbrances over the Karin Shares or enter into written agreements to sell the Karin Shares to any other party. The Karin Agreement may be terminated with the mutual agreement of the parties.
- (f) **(Governing law)** The Karin Agreement is governed by the laws of Indonesia.

### 10.5.8 Good Standing Undertaking

On 5 September 2012, the Company entered into an agreement with Odni and Corpac pursuant to which Odni and Corpac agreed to keep the Indonesian Projects in good standing by either:

- (a) ensuring Odni complies with its obligations under the MMBP Agreement, BIG Agreement, Karin Agreement, Sugico Letter of Intent and Sugico Agreement; or
- (b) negotiating extensions to key dates under the MMBP Agreement, BIG Agreement, Karin Agreement, Sugico Letter of Intent and Sugico Agreement to dates which will allow the Company to complete the Offer, complete the Proposed Transaction and ensure Odni complies with Odni's obligations.

Subject to Exalt receiving valid Applications for at least \$10,000,000 under the Offer. Exalt agrees to reimburse (from the proceeds of the Offer) Odni or Odni's shareholders, as the case may be, the funds paid to either MMBP Sellers, BIG Sellers, Karin Sellers or Sugico Sellers to ensure Odni complies with its obligations under the MMBP Agreement, BIG Agreement, Karin Agreement, Sugico Letter of Intent and Sugico Agreement.

In the event Odni is unable to maintain the MMBP Agreement, BIG Agreement and Karin Agreement in good standing, Odni and Corpac will be jointly liable to reimburse the Company for \$200,000.

### 10.5.9 Peloton Capital – Mandate for lead manager services

The Company has engaged Peloton Capital Pty Ltd (**Peloton Capital**) to provide exclusive lead manager services in two stages (**Peloton Capital Mandate**). The first stage related to the private placement to sophisticated investors completed in May 2012 and the second stage relates to the Offer. The material terms of the Peloton Capital Mandate are as follows:

- (a) **(Lead Manager capital raising services)** In addition to providing services in respect of the Company's May 2012 private placement, Peloton Capital will provide the following services to enable the Company to complete the Offer:
- (i) co-ordinating a national "road-show" to introduce Exalt to new investors; and
  - (ii) meeting industry participants, targeted institutional investors and targeted high net-worth clients.
- (b) **(Consideration)** As consideration for the provision of lead manager capital raising services, Exalt will:
- (i) pay Peloton Capital a placement fee of 6% (plus GST) on equity funds raised in the May 2012 private placement;
  - (ii) pay Peloton Capital a placement fee of 6% (plus GST) on equity funds raised by Exalt until 31 August 2013;
  - (iii) issue 10 million unlisted options with an exercise price of \$0.20 expiring on the same terms as the Odni Options (**Peloton Options**). The Peloton Options:
    - (A) will be allocated to investors at Peloton's discretion; **and**
    - (B) will be issued as soon as practicable (subject to shareholder approval) upon the successful raising by the Company of not less than \$20 million (unless otherwise mutually agreed); and
  - (iv) pay up to \$7,500 of Peloton Capital's travelling and out-of-pocket expenses involved in the performance of lead manager services.
- (c) **(Further capital raisings)** For any capital raising following the successful completion of the stage 2 fund raising, Peloton Capital's exclusivity will be conditional on it demonstrating to the Company's satisfaction its ability to successfully undertake the fund raising. Fees for any subsequent fund raising will be at prevailing market rates.
- (d) **(Termination)** If, the Peloton Capital Mandate is terminated for any reason (other than cause), Peloton Capital will still be entitled to the placement fees described above.

### 10.5.10 Directors' Deeds of Access, Indemnity and Insurance

The Company has entered into deeds of access, indemnity and insurance (**Deeds**) with each Director (and expects to enter into Deeds on the same or substantially similar terms with each Proposed

Director at the time of their appointment). Under the Deeds, the Company must, amongst other things, indemnify its Directors against liabilities, costs and expenses to the extent permitted by the provisions of the Corporations Act in relation to the Directors' discharge of their duties to the Company or a relevant subsidiary.

Under the provisions of the Deeds, the Company must allow its Directors access to papers, documents and other information concerning the business and affairs of the Company:

- (a) while that Director holds office as a director of the Company; and
- (b) for a period of seven years after the Director ceases to hold office as a director of the Company.

Without limiting any indemnity, and to the extent permitted by law, the Company has undertaken to use its best endeavours to take out and maintain an insurance policy in favour of each Director during the period described above, insuring each Director against all liabilities, costs and expenses incurred by the Director in the Director's capacity as an officer of the Company and each relevant subsidiary.

## 10.6 Directors' remuneration

### 10.6.1 Managing Director's remuneration

Clause 19.4 of the Constitution allows a Managing Director or executive Director to receive such remuneration as the Directors determine. In accordance with the Listing Rules, that remuneration must not include commissions on or percentage of operating revenue. The Company announced the appointment of Mr Barry Tudor as Managing Director and Chief Executive Officer of the Company on 3 May 2012. Mr Tudor is employed pursuant to an Executive Employment Agreement and his remuneration package will comprise, and be subject to, the following:

- (a) **(Fixed Remuneration)** Mr Tudor's fixed remuneration comprises a base salary of \$625,000 plus a bonus of \$300,000 if the Company completes the Share Purchase Agreement (both exclusive of statutory superannuation). Following the successful completion of the Proposed Transaction, Mr Tudor's base salary will be \$925,000 (exclusive of statutory superannuation).

In the event the Proposed Transaction is not completed, the Company can elect to terminate the executive employment contract with Mr Tudor by paying an amount equal to the lesser of \$250,000 and the amount prescribed by law. Alternatively, the Company may retain Mr Tudor's services and in certain circumstances the parties have agreed that the Company may defer a portion of his base salary.

- (b) **(Short Term Incentive)** Mr Tudor's short term incentives are determined annually at the absolute discretion of the Board and will be based on Mr Tudor's performance against key performance indicators and the Company's performance generally.
- (c) **(Equity Based Remuneration)** Mr Tudor is also entitled to the Tudor Performance Shares and Tudor Options on the terms and conditions set out in section 10.3.
- (d) **(Long Term Incentive)** The Company will (subject to Shareholder and ASX approval) grant Mr Tudor the Tudor Options and Tudor Performance Shares. Details of the Tudor Options and Tudor Performance Shares are set out in section 10.3 of this Prospectus.

- (e) **(Deferral of Fixed Remuneration)** If the Company fails to satisfy the conditions precedent to the Share Purchase Agreement (see section 10.5.1(a)), the Company may elect to defer payment of any amount of Fixed Remuneration in excess of either:
- (i) \$462,500 if the Company does not purchase all the Odni Shares and the Company does not terminate Barry Tudor's Executive Employment Agreement; or
  - (ii) \$162,500 if the Company does purchase all the Odni Shares and pays the Transaction Bonus to Barry Tudor,

for no more than 12 months from the date of completion of the Proposed Transaction (**Deferral Period**).

If, at any time during the Deferral Period, the Company has more than \$5 million in cash in the Company's bank account, the Company shall resume paying 100% of the Fixed Remuneration.

Any deferred amount shall be paid to Barry Tudor in cash (if the Company has more than \$5 million in cash) or Shares (if the Company has less than \$5 million in cash) at an issue price which is the higher of \$0.20 per Share or a 15% discount to the 10 day VWAP as at 12 months from completion of the Proposed Transaction.

### **10.6.2 Non-executive Directors' and Company Secretary's remuneration**

Clause 13.1 of the Constitution provides that the non-executive Directors may be paid such aggregate remuneration which, consistent with the Listing Rules, must not exceed the amount fixed from time to time by the Company in general meeting, and that remuneration accrues from day to day. The Constitution allows for the aggregate remuneration to be divided among the non-executive Directors in such proportion as they agree from time to time (or, failing agreement, in equal proportions). At the date of this Prospectus, the Company's annual aggregate maximum remuneration for non-executive Directors is \$300,000.

In the last two years, the Company has paid the following amounts by way of remuneration for services provided by the Directors, companies associated with Directors or their associates in their capacity as Directors, consultants or advisers:

- (a) \$11,667 for the period to 30 June 2011; and
- (b) \$177,000 for the period to 30 June 2012.

The table below sets out the remuneration provided to the non-executive Directors and their associated companies during the financial years ended 30 June 2011 and 30 June 2012 and the remuneration the non-executive Directors will receive during the current financial year (inclusive of director's fees and consultancy fees):

Director	Year ended 30 June 2011	Year ended 30 June 2012	Current financial year	Total
<b>Emmanuel Correia</b>	\$5,833	\$35,000	\$35,000	\$75,833
<b>James Malone</b>	\$2,917	\$35,000	\$35,000	\$72,917
<b>Shane Hartwig</b>	\$2,917	\$35,000	\$35,000	\$72,917
<b>Shane Hartwig (as Company Secretary)</b>	N/A	\$72,000	\$72,000	\$144,000
<b>Total</b>	<b>\$11,667</b>	<b>\$177,000</b>	<b>\$177,000</b>	<b>\$365,667</b>

Note:

- (1) All amounts are exclusive of statutory superannuation.
- (2) The \$72,000 which Mr Hartwig's receives for providing company secretarial services is paid by the Company to SWEL Consulting Pty Ltd of which Mr Hartwig is the sole director and company secretary.

The non-executive Directors are also entitled to fees or other amounts as the Board determines where they perform special duties or otherwise perform services outside the scope of the ordinary duties of a director. They may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

Following their appointment, the Company is likely to pay the Proposed Directors annual remuneration in the amount of \$35,000 per annum, noting however this amount is subject to final negotiation.

## 10.7 Company Tax Status and Financial Year

The Directors expect the Company will be taxed in Australia as a public company. The financial year of the Company ends on 30 June annually. A copy of the Company's most recent annual financial report is available on the Company's website at [www.exaltresources.com.au](http://www.exaltresources.com.au).

## 10.8 Directors' Interests

Except as disclosed in this Prospectus, no Director or Proposed Director holds or, during the last two years has held, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with the formation or promotion or the Offer; or
- (c) the Offer,

and no amounts of any kind (whether in cash, Shares or otherwise) have been paid or agreed to be paid to any Director or Proposed Director to induce him or her to become, or to qualify as, a Director, or otherwise for services rendered by him or her in connection with the formation or promotion of the Company or the Offer.

## 10.9 Interests of Directors

The Constitution does not require the Directors to hold any Shares in order to be eligible to hold office.

The table below sets out details of the Directors' relevant interests in the securities of the Company as at the date of this Prospectus:

Director	Ordinary Shares	Options	Performance Shares
Barry Tudor	175,000	3,000,000 <sup>1</sup>	18,000,000 <sup>2</sup>
Jim Malone	120,000	40,004	Nil
Emmanuel Correia	1,206,251	1,702,085	Nil
Shane Hartwig	1,350,001	1,550,001	Nil

Notes:

- (1) 600,000 Class Y Options and 2,400,000 Class Z Options are to be issued pursuant to this Prospectus.
- (2) 6,000,000 Class A Performance Shares, 6,000,000 Class B Performance Shares and 6,000,000 Class C Performance Shares are to be issued.

The Directors may participate in the Offer on the same terms described in this Prospectus. The Company has obtained Shareholder approval for Mr Tudor to subscribe for and be issued with up to 1,000,000 Shares under the Offer, and each of Mr Correia, Mr Malone and Mr Hartwig to subscribe for and be issued with up to 250,000 Shares under the Offer.

Mr Hartwig and Mr Correia are directors of Peloton Capital. Mr Hartwig and Mr Correia each have a beneficial interest in 25% of the issued shares in Peloton Capital. Neither Mr Hartwig nor Mr Correia will directly receive any of the placement fees payable to Peloton Capital or options proposed to be issued under the Peloton Mandate nor did they directly receive any portion of the prior placement fees paid to Peloton Capital.

Peloton Capital will receive fees of approximately \$220,000 (inclusive of GST) for the provision of advisory services since the Company's listing on the ASX. These advisory services included providing an executive function for the Company since its listing, coordinating the Company's technical advisers and exploration program, reviewing and assessing various acquisition opportunities, providing commercial input into the negotiation and ongoing management of the Proposed Transaction, assisting in the recruiting of Mr Tudor and other commercial assistance on a as required basis.

Peloton Capital were paid a fee of \$114,675 (incl GST) being 5% of \$2,085,000 raised by Peloton for the Company's Initial Public Offering.

None of the Proposed Directors have a relevant interest in the securities of the Company as at the date of this Prospectus.

## 10.10 Related Party Transactions

At the date of this Prospectus, no transactions with related parties and Directors' interests exist that the Directors are aware of, other than those disclosed in this Prospectus.

### 10.11 Interests of Named Persons

Except as disclosed in this Prospectus, no promoter or other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus, holds, or during the last two years has held, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with the formation or promotion of the Offer; or
- (c) the Offer,

and no amounts of any kind (whether in cash, Shares or otherwise) have been paid or agreed to be paid to a promoter or any person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus for services rendered by that person in connection with the formation or promotion of the Company or the Offer.

BDO Audit Pty Limited will receive professional fees of approximately \$20,000 for accounting services in connection with this Prospectus including the provision of the Independent Accountant's Report. During the 24 months preceding the lodgement of this Prospectus BDO Audit Pty Limited has not received any amounts for other professional services provided to the Company.

Hall Chadwick, will receive professional fees of approximately \$15,000 as auditors for the Company. During the 24 months preceding the lodgement of this Hall Chadwick Corporate (NSW) Limited, has received approximately \$16,500 for other professional services provided to the Company.

Gadens Lawyers will receive professional fees of approximately \$120,000 for legal services in connection with this Prospectus. Gadens Lawyers has received approximately \$157,057 and will receive approximately \$77,870 for other professional services provided to the Company during the 24 months preceding the lodgement of this Prospectus. Further amounts may be paid to Gadens in accordance with its normal time-based charges.

Hutabarat Halim & Rekan will receive professional fees of approximately \$80,000 for the provision of the Solicitor's Report included in section 9 of this Prospectus. During the 24 months preceding the lodgement of this Prospectus Hutabarat Halim & Rekan has not received any amounts for other professional services provided to the Company.

Minarco-MineConsult will receive professional fees of approximately \$55,000 for the provision of the Independent Technical Review included in section 6 of this Prospectus. During the 24 months preceding the lodgement of this Prospectus, Minarco-MineConsult has received approximately \$95,000 for other professional services provided to the Company.

Computershare Investor Services Pty Ltd acts as the Share Registrar to the Company and is paid on normal commercial rates for the provision of these services.

The amounts disclosed above are exclusive of any amount of goods and services tax payable by the Company in respect of those amounts.

## 10.12 Consents

Each of the parties referred to in this section 10.12:

- (a) does not make, or purport to make, any statement in this Prospectus or on which a statement made in the Prospectus is based other than as specified in this section; and
- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this section.

BDO Audit Pty Limited has given its written consent to the inclusion in this Prospectus of its Investigating Accountant's Report and to all statements referring to that report in the form and context in which they appear and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Minarco-MineConsult has given its written consent to the inclusion in this Prospectus of its Independent Technical Review, and all statements referring to that report in the form and context in which they appear and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Hutabarat Halim & Rekan has given its written consent to the inclusion in this Prospectus of its Solicitor's Report on the Indonesian Projects and to all statements referring to that report in the form and context in which they appear and has not withdrawn such consent before lodgement of this Prospectus with ASIC.

Each of the following has consented to being named in the Prospectus in the form and context in which it is named (as noted below) and have not withdrawn such consent prior to the lodgement of this Prospectus with ASIC:

- (a) BDO Audit Pty Limited as the Independent Accountant and the author of the Independent Accountant's Report;
- (b) Hall Chadwick as Auditor to the Company;
- (c) Minarco-MineConsult as the Independent Geologist and the author of the Independent Technical Review;
- (d) Hutabarat Halim & Rekan as the Indonesian solicitors to the Offer and author of the Indonesian Solicitor's Report;
- (e) Gadens Lawyers as the Australian Legal Advisor to the Offer;
- (f) Computershare Investor Services Pty Limited, as the Share Registrar to the Company; and
- (g) David Ward, Independent Geologist.

Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.



There are a number of persons referred to elsewhere in this Prospectus who are not experts and who have not made statements included in this Prospectus nor are there any statements made in this Prospectus on the basis of any statements made by those persons. These persons did not consent to being named in the Prospectus and did not authorise or cause the issue of the Prospectus.

### 10.13 Costs of the Offer

If the Offer proceeds, the total estimated unpaid costs in connection with the Offer, including advisory, legal, accounting, tax, listing and administrative fees as well as printing, advertising and other expenses including capital raising fees based on the minimum and maximum subscription being raised are outlined below. These amounts will be paid by the Company from the proceeds of the Offer.

COST	Minimum Subscription (\$10 million)	Maximum Subscription (\$20 million)
Capital raising fees	\$600,000	\$1,200,000
Investigating Accountant's costs	\$20,000	\$20,000
Legal costs of the Offer (Australian and Indonesian solicitors)	\$200,000	\$200,000
ASX and ASIC costs	\$20,450	\$25,450
Printing, postage and share registry	\$50,000	\$50,000
<b>Total</b>	<b>\$890,450</b>	<b>\$1,495,450</b>

### 10.14 Litigation

The Company is not involved in any material litigation or arbitration proceedings, nor, so far as the Directors are aware, are any such proceedings pending or threatened against the Company.

### 10.15 Forecasts

The Company is an exploration company with the intention to become a diversified minerals producer in the medium term. Given the speculative nature of exploration, mineral development and production, there are significant uncertainties associated with forecasting future revenue. On this basis, the Directors believe that reliable forecasts cannot be prepared and accordingly have not included forecasts in this Prospectus.

### 10.16 Taxation

The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the taxation and other general consequences of acquiring Shares.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Securities under this Prospectus.

### **10.17 Restriction Agreements**

The Listing Rules require that certain persons, such as seed capitalists and related parties, enter into restriction agreements under which they are restricted from dealing in a specified number of Shares in the Company held by them, including all of their Shares, for up to 24 months from the date of quotation of those Shares. The restriction agreements will be in the form required by the Listing Rules over a number of Shares and a period as determined by the ASX and restrict the ability of those persons to dispose of, create any security interest in or transfer effective ownership or control of the Shares. Additionally, some Shares will be voluntarily escrowed by certain parties, under similar restriction agreements with minor amendments.

### **10.18 Electronic Prospectus**

Pursuant to Class Order 00/44 ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with ASIC and the issue of securities in response to an electronic application form, subject to compliance with certain provisions.

If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company at [info@exaltresources.com.au](mailto:info@exaltresources.com.au) and the Company will send to you, for free, either a hard copy or a further electronic copy of the Prospectus or both.

A person who gives another person access to the Application Form must at the same time and by the same means give the other person access to this Prospectus and any supplementary or replacement prospectus. The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application moneys received will be dealt with in accordance with section 722 of the Corporations Act.

### **10.19 Privacy Disclosure Statement**

The Company collects information about each Applicant from an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's security holding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information in the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the share registry, the Company's Related Bodies Corporate, agents, contractors and third party service providers, (including mailing houses), the ASX, ASIC and other regulatory authorities.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the security holder (name, address and details of the securities held) in its public register. This information must remain in the register even if that person ceases to be a Shareholder.

Information contained in the Company's registers is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its security holders) and compliance by the Company with legal and regulatory requirements.

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application.

### **10.20 Documents available for inspection**

The following documents are available for inspection during normal business hours at the Company's registered office:

- (a) this Prospectus;
- (b) the Company's Constitution;
- (c) the consents referred to in section 10.12; and
- (d) the corporate governance-related documents referred to in section 4.4.2.

## 11. Directors' Authorisation

This Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with section 720 of the Corporations Act, each Director and Proposed Director has consented to the lodgement of this Prospectus with the ASIC and has not withdrawn that consent.

Dated 7 September 2012

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Signed for and on behalf of

EXALT RESOURCES LIMITED

by Mr Barry Tudor

## GLOSSARY

The following definitions apply throughout this document unless the context requires otherwise.

<b>Applicant(s)</b>	Person(s) who submit valid Application Forms pursuant to this Prospectus.
<b>Application</b>	A valid application made to subscribe for a specified number of Shares, Odn Securities or Tudor Options (as applicable) pursuant to this Prospectus.
<b>Application Money</b>	Monies paid under an Application.
<b>Application Form</b>	The form so described relating to the Offer which accompanies this Prospectus, for completion by the public.
<b>ASIC</b>	Australian Securities and Investments Commission.
<b>ASX Settlement</b>	ASX Settlement Pty Ltd ACN 008 504 532.
<b>ASX Settlement Operating Rules</b>	The settlement rules of ASX Settlement as amended from time to time.
<b>ASX</b>	ASX Limited ACN 008 624 691, and where the context permits, the Australian Securities Exchange operated by ASX Limited.
<b>ASX Listing Approval</b>	The issue by ASX of a conditional letter approving the Company's admission to the official list of the ASX on terms acceptable to the Company.
<b>BIG Agreement</b>	The share purchase agreement dated 20 June 2012 between Odn and the BIG Sellers in relation to the BIG Shares.
<b>BIG Coal</b>	A reserve established under the JORC Code and unconditionally verified by a competent person, of coal with a heating value of at least 5500 Kcal/kg and sulphur content not exceeding 1.3%.
<b>BIG Company</b>	PT Bakti Inti Guna, a company incorporated in Indonesia.
<b>BIG IUP</b>	Exploration IUP No: 467/K-IV/540/2010 held by the BIG Company.
<b>BIG Sellers</b>	Messrs Togi Silalahi, Junardi Satya Himawan and Sudaryanto.
<b>BIG Shares</b>	The issued share capital of the BIG Company.
<b>BIG Verified Reserve</b>	The establishment of a coal reserve of at least an eight million metric tonnes under the JORC code as determined by a competent person.
<b>Board</b>	The board of Directors.

<b>CHES</b>	The ASX Clearing House Electronic Sub-register System.
<b>Class A Performance Shares</b>	The performance shares (the terms and conditions of which are summarised in section 10.3.2 of this Prospectus) which, upon satisfaction of certain exploration and production milestones being achieved, will convert into fully paid Shares.
<b>Class B Performance Shares</b>	The performance shares (the terms and conditions of which are summarised in section 10.3.2 of this Prospectus) which, upon satisfaction of certain exploration and production milestones being achieved, will convert into fully paid Shares.
<b>Class C Performance Shares</b>	The performance shares (the terms and conditions of which are summarised in section 10.3.2 of this Prospectus) which, upon satisfaction of certain exploration and production milestones being achieved, will convert into fully paid Shares.
<b>Class W Options</b>	The options to be granted to the Odni Sellers pursuant to the Share Sale Agreement and this Prospectus, the terms of which are summarised in section 10.3.1 of this Prospectus.
<b>Class X Options</b>	The options to be granted to the Odni Sellers pursuant to the Share Sale Agreement and this Prospectus, the terms of which are summarised in section 10.3.1 of this Prospectus.
<b>Class Y Options</b>	The options to be granted to Mr Barry Tudor pursuant to this Prospectus, the terms of which are summarised in section 10.3.1 of this Prospectus.
<b>Class Z Options</b>	The options to be granted to Mr Barry Tudor pursuant to this Prospectus, the terms of which are summarised in section 10.3.1 of this Prospectus.
<b>Closing Date</b>	5:00 pm on 21 September 2012.
<b>Company or Exalt</b>	Exalt Resources Limited ACN 145 327 617.
<b>Consideration Securities</b>	The Class W Options, Class X Options, Odni Performance Shares and the 25,000,000 Shares to be issued to the Odni Sellers pursuant to the Share Sale Agreement.
<b>Constitution</b>	The constitution of the Company.
<b>Corpac</b>	Corpac Partners Pty Ltd ACN 106 549 124.
<b>Corpac Services Agreement</b>	The agreement dated 23 July 2012 between Odni and Corpac in relation to the supply, by Corpac, of financial advisory services to Odni.
<b>Corporations Act</b>	Corporations Act 2001 (Cth).
<b>Directors</b>	The directors of the Company.
<b>Electronic Prospectus</b>	An electronic version of the Prospectus.

<b>ESDM</b>	The Indonesian Ministry of Energy and Natural Resources.
<b>Ex Mining Services</b>	EX Mining Services Indonesia Pty Ltd ACN 125 705 222.
<b>Ex Mining Services Agreement</b>	The agreement dated 23 July 2012 between Odni and Ex Mining Services by which Odni will engage Ex Mining Services to provide business and development services in Indonesia.
<b>General Meeting</b>	The general meeting of the Company held on 24 August 2012.
<b>Independent Technical Review</b>	The independent technical review contained at section 6 of this Prospectus prepared by Minarco-MineConsult and dated 31 August 2012.
<b>Indonesian Companies</b>	In relation to each IUP, the company incorporated in Indonesia which has been issued that IUP.
<b>Indonesian Projects</b>	Each of Project BIG, Project Karin, Project MMBP and Project Sugico.
<b>IUPs</b>	Each of the Indonesian exploration/mining permits held in respect of the Indonesian Projects, details of which are set out in section 3.3, and IUP is a reference to one of them.
<b>JORC Code</b>	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004) prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
<b>Karin Agreement</b>	Conditional share sale and purchase agreement dated 27 June 2012 between Odni and the Karin Sellers in relation to the Karin Shares, as amended by an amendment deed to the conditional share sale and purchase agreement.
<b>Karin Coal</b>	Reserve established under the JORC Code which has been unconditionally verified by a third party appointed by Odni, of coal of a quality and type selected by that third party and which, in Odni's opinion, is commercially viable.
<b>Karin Company</b>	PT Karindangan, a company incorporated in Indonesia.
<b>Karin IUP</b>	Exploration IUP No.188.45/439/2010 held by the Karin Company.
<b>Karin Sellers</b>	Messrs Abdi Mahyudi, Iskandar Zulkarnaen and Akhmad Zacky Hafizie.
<b>Karin Shares</b>	The issued share capital of the Karin Company.
<b>KBL Mining</b>	KBL Mining Limited ACN 129 954 365.
<b>Kidman</b>	Kidman Resources Limited ACN 143 526 096.

<b>Listing Rules</b>	The official listing rules of ASX.
<b>Mineral Hill or Mineral Hill Project</b>	The mining project owned by KBL Mining as detailed in section 3.5 of this Prospectus.
<b>Mineral Hill Mine</b>	The mine located at Mineral Hill which is owned by KBL Mining.
<b>Mineral Hill Plant</b>	The process plant at Mineral Hill owned by KBL Mining.
<b>Mineral Hill South or Mineral Hill South Project</b>	The Company's exploration project covering 112 square kilometres of land located three kilometres to the south of the Mineral Hill Mine in NSW.
<b>MMBP Agreement</b>	Option agreement dated 20 June 2012 between Odni and the MMBP Sellers in relation to the option to purchase the MMBP Shares.
<b>MMBP Coal</b>	A reserve, under the JORC Code, of at least 8 million metric tonnes of coal with a heating value of at least 5500 kcal/kg and a sulphur content no exceeding 1.3%.
<b>MMBP Company</b>	PT Mitra Maju Bangun Persada, a company incorporated in Indonesia.
<b>MMBP IUP</b>	IUP No: 437/K-IV/540/2010 held by the MMBP Company.
<b>MMBP Sellers</b>	Messrs Togi Silalahi, Junardi Satya Himawan and Sudaryanto.
<b>MMBP Shares</b>	The issued share capital of the MMBP Company.
<b>NSW Projects</b>	The Mineral Hill South Project and the Nyngan Project.
<b>Nyngan or Nyngan Project</b>	The Company's exploration project area covering 160 square kilometres of land in central west NSW targeting porphyry copper and epithermal gold mineralisation.
<b>Odni</b>	ODNI Holdings (Pte.) Ltd. Reg No 201204057R.
<b>Odni Completion Date</b>	The date the purchase of Odni Shares is completed in accordance with the Share Purchase Agreement.
<b>Odni Options</b>	Each of the Class W Options and Class X Options to be issued to the Odni Sellers.
<b>Odni Performance Shares</b>	22 million Class A Performance Shares, 22 million Class B Performance Shares and 22 million Class C Performance Shares.
<b>Odni Securities</b>	The Class W Options, Class X Options and the 25,000,000 Shares to be issued to the Odni Sellers pursuant to the Share Sale Agreement and this Prospectus.



<b>Odni Sellers</b>	Sandford Pte. Ltd., Universal Coal Holdings Ltd, Viceroy Investments Pte. Ltd., Ruck Pty Ltd and Corpac Partners Pty Limited.
<b>Odni Shares</b>	the issued share capital of Odni.
<b>Offer</b>	The invitation to the public made in this Prospectus to subscribe for Shares.
<b>Official List</b>	The official list of the ASX.
<b>Official Quotation</b>	The official quotation of the Company's Shares on the Official List.
<b>Option</b>	Each of the Class W Options, Class X Options (together, Odni Options), Class Y Options and Class Z Options (together Tudor Options).
<b>Pearse South Deposit</b>	The announced deposit contained within the Mineral Hill Project owned by KBL Mining.
<b>Peloton Capital</b>	Peloton Capital Pty Ltd ACN 149 540 018
<b>Peloton Capital Mandate</b>	The engagement letter dated 31 August 2012 by which Peloton Capital proposed to provide lead manager services to the Company in connection with the Offer
<b>Performance Shares</b>	The Class A Performance Shares, Class B Performance Shares and Class C Performance Shares.
<b>Pipeline Projects</b>	Project Damanka and West Papua Project.
<b>Plan</b>	the Incentive Option Scheme adopted by the Company on 2 November 2010.
<b>Project BIG</b>	The concession area covering a total area of 4,969 hectares in the Antutan region of the Bulungan Regency in East Kalimantan province, Indonesia.
<b>Project Damanka</b>	The concession located in the Sangatta and Bengalon Districts, Kutai Timur Regency, approximately 120 kilometres north of Samarinda, the capital of the East Kalimantan Province, Indonesia.
<b>Project Karin</b>	The concessions located in the Barito Utara Regency, approximately 150 kilometres west of Palangkaraya, the provincial capital of the Central Kalimantan Province of Indonesia.
<b>Project MMBP</b>	The concession area located in the Antutan, Central Tanjung Palas sub districts, Bulungan Regency, approximately 340 kilometres north of Samarinda, the capital of the East Kalimantan Province in Indonesia.

<b>Project Sugico</b>	The Sugico South Sumatra Project comprising 11 mostly adjacent IUP areas located approximately 100 kilometres south of Palembang, the provincial capital of the South Sumatra Province on the island of Sumatra in Indonesia.
<b>Proposed Directors</b>	Romy HR Soekarno and Edward Lee Kwong Foo.
<b>Proposed Transaction</b>	The proposed acquisition by the Company of 100% of the issued share capital of Odni.
<b>Prospectus</b>	This Prospectus and includes the Electronic Prospectus.
<b>Related Body Corporate</b>	Has the meaning as in section 50 of the Corporations Act.
<b>Securities</b>	A Share, Consideration Security or Tudor Option, as the context requires.
<b>Share(s)</b>	Fully paid ordinary share(s) in the Company.
<b>Share Purchase Agreement</b>	The Share Purchase Agreement dated 23 July 2012 between the Company, Odni and the Odni Sellers.
<b>Shareholder</b>	A registered holder of Shares.
<b>Sugico Agreement</b>	The share purchase agreement being negotiated between Odni and the Sugico Sellers by which Odni will secure the right to acquire the Sugico Interest.
<b>Sugico Intent Letter</b>	The letter of intent dated 29 August 2012 from the representative of the Sugico Sellers stating that the Sugico Sellers will enter into the Sugico Agreement after Odni deposits US\$1,500,000 into an exploration account.
<b>Sugico Interest</b>	50% interest in the traditional coal mining rights and benefits in the Sugico IUPs.
<b>Sugico IUPs</b>	Exploration IUPs No. 540/03/KEP/DPE/2009, No. 540/08/KEP/DPE/2009, No. 540/10/KEP/DPE/2009, No. 540/09/KEP/DPE/2009, No. 540/05/KEP/DPE/2009, No. 540/07/KEP/DPE/2009, No. 540/06/KEP/DPE/2009, No. 540/04/KEP/DPE/2009, No. 540/0025/KEP/DPE/2010, No. 540/26/KEP/DPE/2010 and No. 540/11/KEP/DPE/2009 of which the Sugico Sellers are the legal and registered owners.
<b>Sugico Sellers</b>	Each of PT Jaya Manggala Sakti, PT Tensri Madjid Energi, PT Sugico Pendragon Energy, PT Methane Resources Indonesia, PT Lion Global Energi, PT Sumber Daya Energi, PT Persada Berau Jaya Sakti, PT Muara Enim Power Energi, PT Indonesia Multi Energi and PT Sumber Daya Persada, PT Lion Multi Resources.
<b>Transaction Bonus</b>	A one-off bonus of \$300,000 (excluding superannuation) payable to Barry Tudor if the Company purchases all the issued shares in Odni.

<b>Tudor Options</b>	Each of the Class Y Options and Class Z Options to be issued to Barry Tudor.
<b>Tudor Performance Shares</b>	6 million Class A Performance Shares, 6 million Class B Performance Shares and 6 million Class C Performance Shares.
<b>VWAP</b>	Volume Weighted Average Price.
<b>West Papua Project</b>	Two concessions; one in West Papua Province and one in Papua Province, Indonesia.



# Exalt Resources Limited

ACN 145 327 617

Registry Use Only

## Application Form

This Application Form is important. If you are in doubt as to how to deal with it, please contact your stockbroker or professional adviser without delay. You should read the entire prospectus carefully before completing this form. To meet the requirements of the Corporations Act, this Application Form must not be distributed unless included in, or accompanied by, the prospectus issued by Exalt Resources Limited on 7 September 2012 ("Prospectus").

Broker Code

Adviser Code

**A** I/we apply for

Number of Shares in Exalt Resources Limited at \$0.20 per Share or such lesser number of Shares which may be allocated to me/us

**B** I/we lodge full Application Money

**C** Individual/Joint applications - refer to naming standards overleaf for correct forms of registrable title(s)

Title or Company Name	Given Name(s)	Surname
<input type="text"/>	<input type="text"/>	<input type="text"/>

Joint Applicant 2 or Account Designation
<input type="text"/>

Joint Applicant 3 or Account Designation
<input type="text"/>

**D** Enter your postal address - Include State and Postcode

Unit	Street Number	Street Name or PO Box /Other Information
<input type="text"/>	<input type="text"/>	<input type="text"/>

City / Suburb / Town	State	Postcode
<input type="text"/>	<input type="text"/>	<input type="text"/>

**E** Enter your contact details

**F** CHESS Participant

Please note that if you supply a CHESS HIN but the name and address details on your form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any securities issued as a result of the Offer will be held on the Issuer Sponsors' subregister.

**Payment details – Please note that funds are unable to be directly debited from your bank account**

Drawer	Cheque Number	BSB Number	Account Number	Amount of cheque
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	A\$ <input type="text"/>

**Make your cheque or bank draft payable to "Exalt Resources Limited – Share Offer Account" and crossed "Not Negotiable"**

By submitting this Application Form, I/we declare that this application is completed and lodged according to the Prospectus and the declarations/statements on the reverse of this Application form and I/we declare that all details and statements made by me/us (including the declaration on the reverse of this Application Form) are complete and accurate. I/we agree to be bound by the Constitution of the Company.

See back of form for completion guidelines

# How to complete this form

## A Shares Applied for

Enter the number of Shares you wish to apply for. The application must be for a minimum of 10,000 Shares. Applications for greater than 10,000 Shares must be in multiples of 500 Shares.

## B Application Monies

Enter the amount of Application Monies. To calculate the amount, multiply the number of Shares by the price per Share of \$0.20.

## C Applicant Name(s)

Enter the full name you wish to appear on the statement of share holding. This must be either your own name or the name of a company. Up to 3 joint Applicants may register. You should refer to the table below for the correct forms of registrable title. Applications using the wrong form of names may be rejected. Clearing House Electronic Subregister System (CHES) participants should complete their name identically to that presently registered in the CHES system.

## D Postal Address

Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.

## E Contact Details

Enter your contact details. These are not compulsory but will assist us if we need to contact you.

## F CHES

Exalt Resources Limited (the Company) will apply to the ASX to participate in CHES, operated by ASX Settlement Pty Ltd, a wholly owned subsidiary of ASX Limited. In CHES, the company will operate an electronic CHES Subregister of security holdings and an electronic Issuer Sponsored Subregister of security holdings. Together the two Subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of Shares allotted. If you are a CHES participant (or are sponsored by a CHES participant) and you wish to hold Shares allotted to you under this Application on the CHES Subregister, enter your CHES HIN. Otherwise, leave this section blank and on allotment, you will be sponsored by the Company and allocated a Securityholder Reference Number (SRN).

## Payment

**G** Make your cheque or bank draft payable to "Exalt Resources Limited – Share Offer Account" in Australian currency and cross it Not Negotiable. Your cheque or bank draft must be drawn on an Australian Bank.

Complete the cheque details in the boxes provided. The total amount must agree with the amount shown in box B. **Please note that funds are unable to be directly debited from your bank account.**

**Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Application being rejected. Paperclip (do not staple) your cheque(s) to the Application Form where indicated. Cash will not be accepted. Receipt for payment will not be forwarded.**

Before completing the Application Form the applicant(s) should read the Prospectus to which this application relates. By lodging the Application Form, the applicant agrees that the applicant has personally received the complete and unaltered Prospectus prior to completing the Application Form, agrees that this application for Shares in Exalt Resources Limited is upon and subject to the terms of the Prospectus and the Constitution of Exalt Resources Limited, agrees to take any number of Shares that may be allotted to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

## Lodgement of Application

Application Forms must be received by Computershare Investor Services Pty Limited ("CIS") by no later than 5:00pm (AEST) on 21 September 2012. You should allow sufficient time for this to occur. Return the Application Form with cheque(s) attached to:

Computershare Investor Services Pty Limited  
GPO Box 2115  
MELBOURNE VIC 3001

Neither CIS nor the Company accepts any responsibility if you lodge the Application Form at any other address or by any other means.

## Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited, as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or e-mail [privacy@computershare.com.au](mailto:privacy@computershare.com.au)

If you have any enquiries concerning your application, please contact the Computershare Investor Services Pty Limited on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia).

## Correct forms of registrable title(s)

Note that ONLY legal entities are allowed to hold Shares. Applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and the surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms of registrable title(s) below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual - Use given name(s) in full, not initials	Mr John Alfred Smith	J.A Smith
Joint - Use given name(s) in full, not initials	Mr John Alfred Smith & Mrs Janet Marie Smith	John Alfred & Janet Marie Smith
Company - Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts - Use trustee(s) personal name(s) - Do not use the name of the trust	Ms Penny Smith <Penny Smith Family A/C>	Penny Smith Family Trust
Deceased Estates - Use executor(s) personal name(s) - Do not use the name of the deceased	Mr Michael Smith <Est John Smith A/C>	Estate of Late John Smith
Minor (a person under the age of 18) - Use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Peter Smith
Partnerships - Use partners personal name(s) - Do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith & Son A/C>	John Smith & Son
Clubs/Unincorporated Bodies/Business Names - Use office bearer(s) personal name(s) - Do not use the name of the club etc	Mrs Janet Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds - Use the name of trustee of the fund - Do not use the name of the fund	John Smith Pty Ltd <Super Fund A/C>	John Smith Pty Ltd Superannuation Fund