



## **COAL FE RESOURCES LIMITED**

### **QUARTERLY REPORT**

For the period ended

30 September 2013

#### **Highlights**

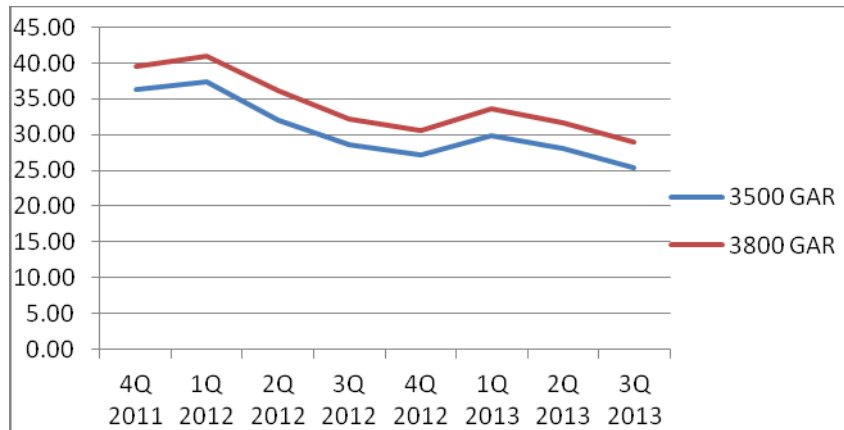
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##### **Abadi Project**

- Coal sale of 55,416 Metric Tons recorded for the quarter.

## 1.0 INTRODUCTION

The quarter under review saw the Standard Steam Coal Prices (HPB 3500-3800 GAR) as reported by the Ministry of Energy and Mineral Resources in the Republic of Indonesia to have eased further from prices reported in the last quarter and for the first time dipped below the last trough in December 2012 (See Chart 1).

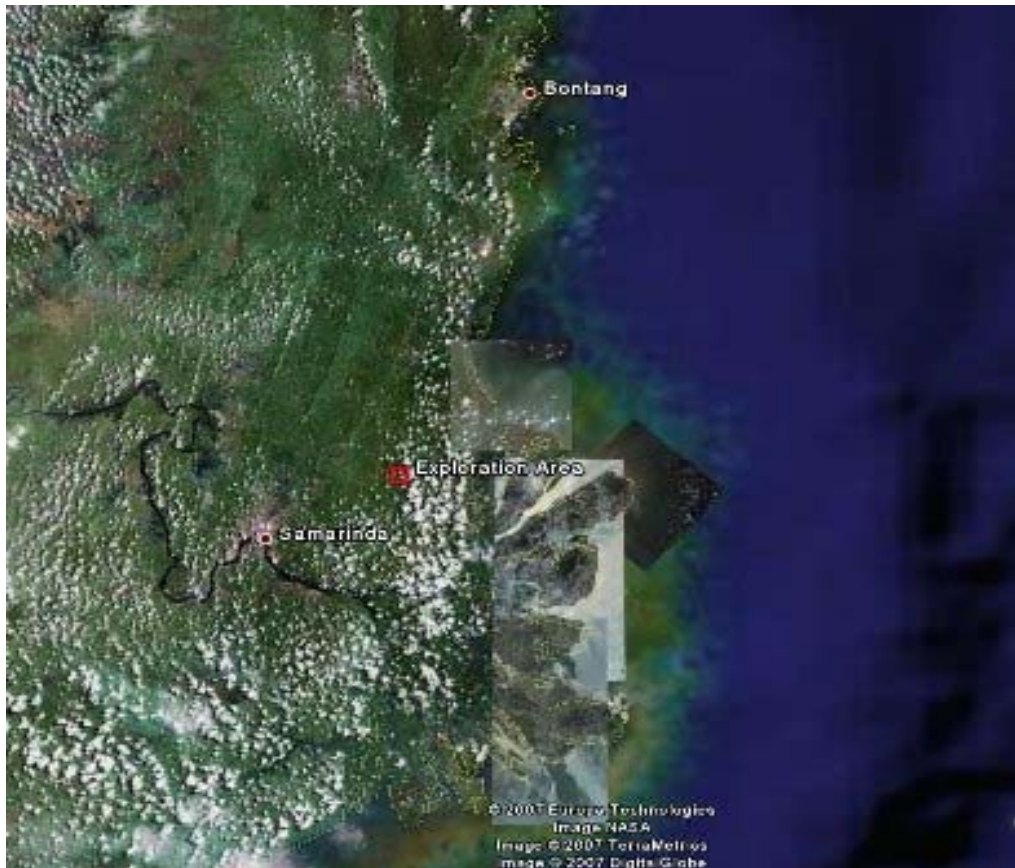


**Chart 1: Indonesian Standard Steam Coal Prices (4Q 2011 – 3Q 2013)**

Source: Ministry of Energy and Mineral Resources Republic of Indonesia

## 2.0 PROJECT REVIEW – THE ABADI COAL PROJECT

The PT. Pancaran Surya Abadi (“Abadi”) Project is located in the district of Muara Badak and Anggana, Regency of Kutai Kartanegara, in the Province of East Kalimantan (See Figure 1). The area of the concession was adjusted marginally from 1,017 Ha to 991 Ha in the final Mining, Operation and Production Licence (Izin Usaha Penambangan Operasi Produksi or “IUP” in compliance of the new Law on Mineral and Coal Mining No. 4/2009 in the Republic of Indonesia), owing to the requirement of providing the necessary buffer zone for the existing gas pipeline in the vicinity. Of this total concession area, the completed drilling program covered 300 Ha. The remaining 691 Ha is presently unexplored.



**Figure 1: Location of Abadi Project Concession Area**

The concession area can be reached from Balikpapan by land transportation to Samarinda and thence continuing to Selo Lai village. The exploration area is relatively easily reached by 4WD vehicles.

The Mining, Operation and Production Licence (IUP Operasi Produksi) provides the necessary authority to carry out the full scope of coal mining activities encompassing construction, production, processing, transportation and sale. The Mining, Operation and Production Licence expires on 10 September 2025.

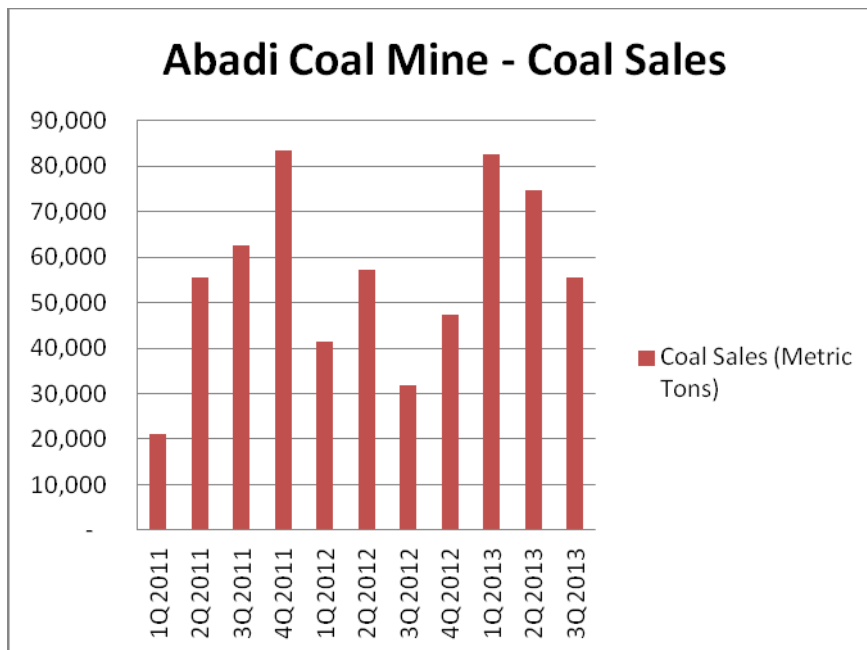
The Company entered into a Joint Venture and Mine Management Agreement with PT Toba Jaya (Toba Jaya), an established mining contractor in the Republic of Indonesia in April 2009. Toba Jaya developed the mine infrastructure and commenced coal production in late 2010.

### **Activities during the July– September Quarter 2013**

#### **Coal Sale**

High incidence of rainfall continued to hamper coal production hence resulted in a lower production of 55,416 Metric Tons as compared to the production of 74,558 Metric Tons during the last quarter. Nevertheless, the aggregate coal sales for the first nine months of 2013 amounted to 212,618 Metric Tons representing approximately

63% increase as compared to the recorded sales of 130,078 Metric Tons during the corresponding period in 2012 (See Chart 2).



**Chart 2: Coal Sales from the Abadi Coal Mine**

Coal was sold free on board (FOB) on barge at the Abadi private jetty.

As provided in the Joint Mine Management Agreement between the Company and PT. Toba Jaya, these coal sales translate into a royalty of USD1.00 per metric tonne for the Company.

#### Pit Optimisation and Review of Mineable Reserves

A pit-optimisation study of the Abadi Project is presently undertaken by Mining One, a Melbourne based mining consultant.

#### Moving Forward

The management of the Company and PT. Toba Jaya are monitoring the market situation closely and may adjust the production accordingly where necessary. Coal production will be maintained at a minimum level for the time being. Works on overburden stripping at the mine site will be on-going in order to achieve the planned production for 2013 and 2014 (See Figure 2). This will enable the coal production to be increased swiftly in the event of a positive change in coal prices.



**Figure 2: Overburden stripping commenced at a new location in Block 1 of Pit 2 in accordance with the designed mine plan**

### **3.0 Proposed Acquisition of the Entire Paid-Up and Issued Ordinary Shares Of M/S Premium Enterprise Sdn. Bhd.**

The Company announced on the 21 November 2012 that it has entered into a Memorandum of Understanding (“MOU”) with the Vendors of M/S Premium Enterprise Sdn Bhd (“M/S Premium”), the 95% shareholder of PT. Toba Jaya, to acquire all paid-up and issued ordinary shares of M/S Premium (“Proposed Acquisition”). M/S Premium is the 95% shareholder of PT Toba Jaya, the mining contractor for Coal FE’s Abadi coal project. The salient terms of the Proposed Acquisition are as follows:

The Proposed Acquisition is set for Australian Dollars Fifty Million (AUD 50,000,000.00), subject to further evaluation on the financial feasibility and the acceptability of the proposed acquisition by Coal FE. The final sale and purchase price shall be mutually agreed between the parties pursuant to the said evaluation and negotiations held between the parties (“Proposed Consideration”). The Proposed Consideration shall be fully satisfied by payment in cash/shares/loan stocks by Coal FE upon such terms and conditions as shall be agreed between the parties in the Conditional Sale and Purchase Agreement.

The Vendors and Coal FE agree to enter into this MOU for the interim period to enable both parties to conduct a due diligence exercise and to negotiate and finalise the terms and conditions of a formal Conditional Sale and Purchase Agreement.

The Board is of the view that the proposed acquisition will strengthen Coal FE's position in the Indonesian coal industry in view of Toba Jaya's track record and expertise in Indonesia. As a full fledge miner, Toba Jaya possesses valid mining services and coal trading licences in Indonesia. The proposed acquisition will also further strengthen Coal FE's ability to operate as a going concern and enable the full value of the Abadi coal project to be realized in the Company.

Owing to the volatility of coal prices during the period, parties to the MOU could not agree to an amicable consideration for the proposed transaction. The Company announced on 2 July 2013 that the parties unanimously decided to defer the decision and to renegotiate when the market conditions have stabilized in the next few months.

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