

# VICTORY WEST METALS LIMITED

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## ASX ANNOUNCEMENT

18 June 2012

## ACQUISITION OF SOUTH EAST ASIA ENERGY RESOURCES PTE LTD PROCEEDS

### Highlights:

- **Share Purchase Agreement signed to acquire 100% of South East Asia Energy Resources Pte Ltd ("SEAE"), with an interest in the Penajam East Coal Project in Penajam Regency of East Kalimantan, Indonesia**
- **Strategic and ongoing relationship with SEAE's vendors and management, who have extensive experience in Indonesia and further coal projects which VWM may acquire.**
- **Consideration performance based**
- **Acquisition conditional upon legal and geological due diligence and regulatory and shareholder approvals**

Further to previous announcements made by Victory West Metals Limited (ASX: VWM, FSE: R1E) (**VWM** or **the Company**), the Company has signed a binding Share Purchase Agreement (**the Agreement**) with the shareholders of SEAE to acquire 100% of South East Asia Energy Resources Pte Ltd (**SEAE**) for:

- (a) 110 million performance shares, each converting to 1 fully paid ordinary VWM share (**Shares**) following commercial shipment of coal by SEAE (Milestone 1);
- (b) 33 million options each to acquire 1 Share (30c exercise price, 3 year term, vesting upon achievement of the milestones);
- (c) \$750,000 by not later than 12 months from completion of the Agreement; and
- (d) up to a further 220 million Shares upon achieving further agreed production and resource performance milestones (Milestones 2 & 3) and necessary shareholder approvals (to be sought at the time as Milestones 2 & 3 are achieved, with a cash payment if shareholder approval is not obtained).

Completion is conditional upon due diligence and regulatory and shareholder approvals. VWM's due diligence is advanced and the Company anticipates that the required Notice of Meeting to obtain shareholder approval of the proposed transaction will be distributed shortly.

## Overview / South East Asia Energy Resources Pte Ltd

SEAE is a Singapore company which currently holds, and has the ability to secure further, interests in a number of Indonesian thermal and coking coal projects. It currently has an interest in the Penajam East thermal coal project and has identified a number of additional projects for future review.

The acquisition is consistent with VWM's current stated business objectives of acquiring and developing resources projects in South East Asia.

SEAE's management are highly experienced in the identification of high quality resource assets in both Indonesia and Australia, and have a well-connected team of local based and expatriate engineers and geologists who work with local and regional mine concession owners on a regular basis. Upon completion, SEAE's team will combine with VWM's management team to identify potential mineral, thermal and coking coal assets, review existing assets, and conduct full asset due diligence (legal and technical) with an aim of securing significant JORC Code compliant resources for VWM.

SEAE has an experienced management team with international mining, engineering, infrastructure and equipment experience which is capable of undertaking solutions from exploration, development to full capabilities in Processing, Open Cut, High wall & Underground Mining projects. The team has been working together for the last seven years with a focus in Indonesia, Australia and Mongolia. For the past three years they have focused on identifying projects in Indonesia.

VWM has agreed to, upon SEAE achieving a JORC Code compliant inferred resource of between 50 to 100mt and achieving annual production of 2.4mt within the next three years, and subject to VWM shareholder approval, issue up to a further 220 million Shares to SEAE's vendors and nominees.

SEAE has a mining services agreement with United Asia Energy (UAE) in Singapore. Under the terms of the agreement between PT1 (defined below) and SEAE, UAE may nominate the Indonesian party to conduct mining services with respect to the conduct of mining activities in the concessions.

### Penajam East Project

The Penajam East coal project consists of two concessions located in the Penajam Regency of East Kalimantan, Indonesia. The project is within the Kutai Basin and includes a haul road and port facilities. The Penjam East project has been subject to previous mining and exploration which should advance the development process however, this information has not been obtained for review by SEAE.

Highlights of the Penajam East project include the following:

- (a) Substantial concession areas of 185.13ha, with mining approval over the entire concession areas with granting of Production Operation IUP's.
- (b) 5 mining pits already open with overburden removed, and available for recommissioning leading to reduced start-up costs and time.
- (c) Coal outcrop/exposed coal only found in ex mining activities. Coal thickness ranges between 0.45m and 1.1m.
- (d) Additional opportunities for further exploration.
- (e) Both concessions share the same haul road and jetty infrastructure.
- (f) Rights to use haul road and jetty/port services granted to PT1, or a party nominated by PT1;

- (g) Short transportation with distance to the jetty only 8 – 10 kms.
- (h) Low progressive entry for entry in imminent mining concessions.
- (i) Availability of third party coal in the immediate region identified for blending.
- (j) Significant growth opportunities with minimal future investment.
- (k) Future growth potential to take-over surrounding concessions.

Certified Sample Analysis (PT Geosciences Laboratory)	
	Range
Calorific Value (abd)	5,825 - 5,971 Kcal/kg
Calorific Value (gar)	5,535 - 5,755 Kcal/kg
Ash (adb)	1.8% - 4.5%
Total Sulphur (adb)	1.79% - 2.65%
Inherent Moisture (ar)	16% - 17%
Total Moisture (ar)	20% - 21.5%

Figure 1: Technical Analysis of Coal Samples undertake from 3 locations with previous pits

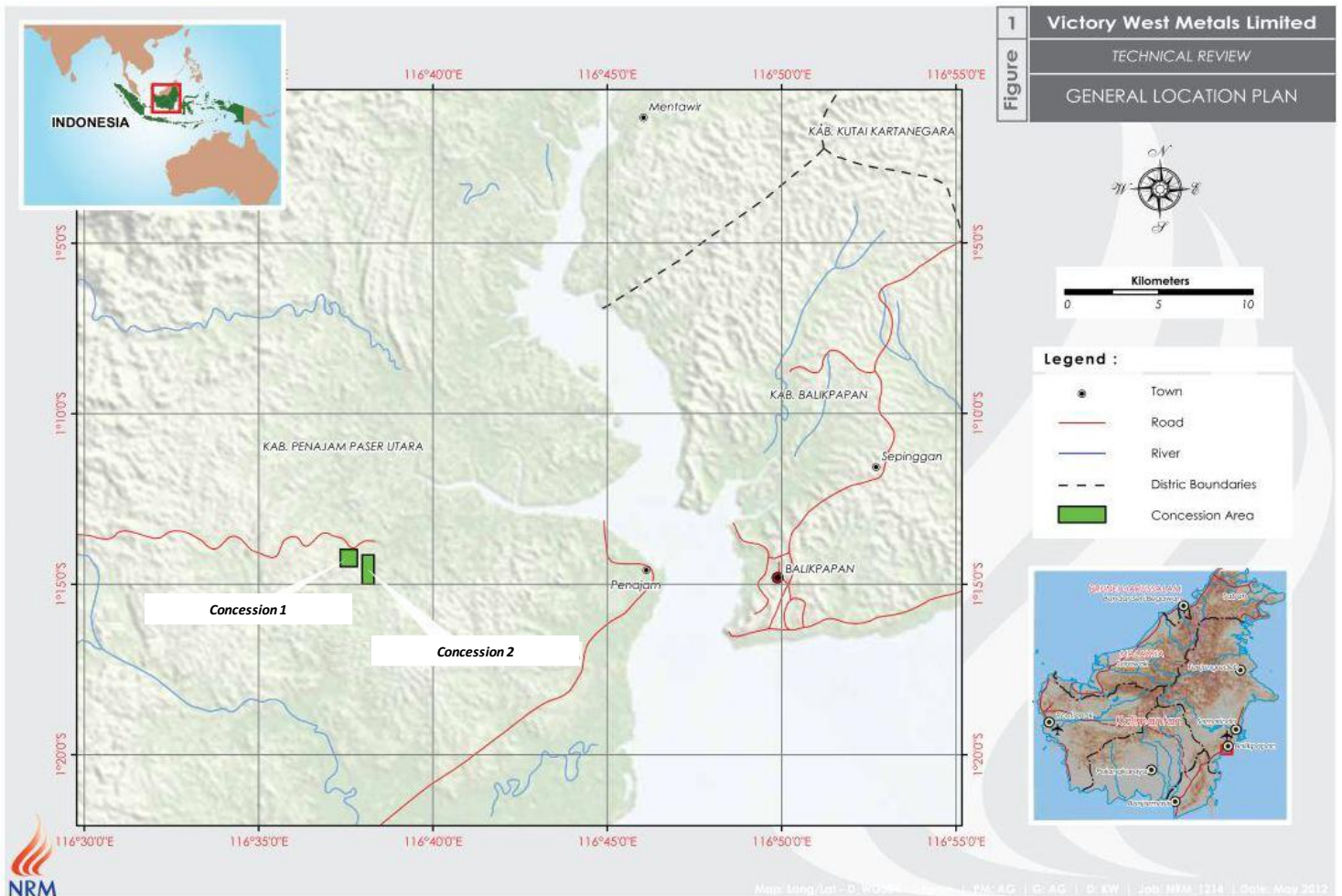


Figure 2: Location of Penjam East project, showing proximity to Balikpapan Coal Terminal

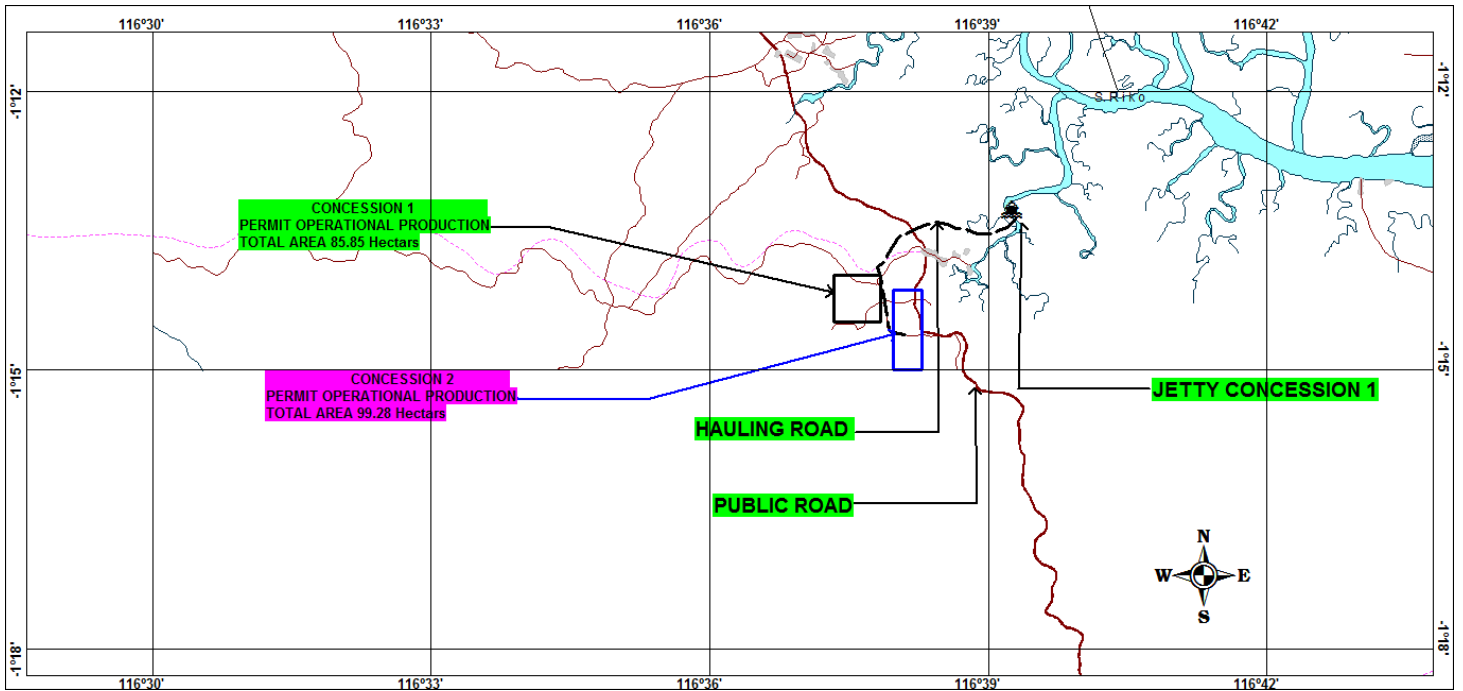


Figure 3: Location of Penjam East project, showing proximity to Jetty

The development/production strategy is to begin operations in concession 1 in the most recently mined open pit, where the coal seam is exposed. Coal produced from concession is expected to have medium to high sulphur. The Company proposes to blend this coal with appropriate medium grade, low sulphur coal to reduce the project's sulphur content to produce medium grade coal with less than >1% sulphur suitable for exporting.

Following initial production, stage 2 of production will involve further exploration of the concession, in particular concession 2. Further drilling and exploration will continue throughout both concessions to look for additional mining opportunities.

The concessions are currently owned by cooperatives of local landowners, who have entered into exclusive coal sales contracts with a local special purpose Indonesian PT company (**PT1**), with rights to reject coal of less than agreed specifications. Management Committees, consisting of representatives of SEAE, PT1 and the respective concession holders, will give directions to the concession holders with respect to exploration and mining of coal, including the party to be appointed to undertake mining activities.

PT1 has entered into an exclusive coal sales contract with SEAE for the sale of all coal from the concessions.

The haul road and jetty to service both concessions is owned by one of the concession holders. PT1 has rights to use the haul road and jetty services, or nominate a third party to use such services.

## Acquisition details

The material terms of the Acquisition are as follows:

- (a) VWM will acquire all of the issued capital of SEAE in consideration for:
- i. the issue of 110 million performance shares. The performance shares convert to ordinary fully paid VWM shares (on a 1 for 1 basis) upon the commercial shipment of 100,000 tonnes of coal from any of SEAE's current coal projects (Milestone 1).
  - ii. 33 million options each to acquire 1 ordinary VWM share (30c exercise price, expiry date 3 years from issue) of which, one-third (1/3rd) will vest respectively upon the achievement of the following three milestones:
    - the commercial shipment of 100,000 tonnes of coal from any of SEAE's current coal projects (Milestone 1).
    - SEAE having one or more projects with mines that collectively have:
      - total annualised production  $\geq$  1.2 Mt (satisfied by 2 consecutive months of production at an annualised rate of 100,000 tonnes per month); and
      - total aggregate JORC inferred resource  $\geq$  25 Mt (**Milestone 2**).
    - SEAE having one or more projects with mines that collectively have:
      - total annualised production  $\geq$  2.4 Mt (satisfied by 2 consecutive months of production at an annualised rate of 200,000 tonnes per month); and
      - total aggregate JORC inferred resource  $\geq$  50 Mt (**Milestone 3**).
  - iii. Payment of \$750,000 by no later than 12 months from completion of the agreement.
- (b) Completion is conditional upon VWM being satisfied as to legal and technical due diligence on SEAE and the Penajam East.
- (c) At completion VWM and key management personal of SEAE will enter into consultancy agreements with VWM under which they will identify and refer potential coal projects in Indonesia to VWM.
- (d) VWM will issue the vendors (or their nominees) up to a further 220 million shares (to convert on a 1 for 1 basis) upon the satisfaction of the following milestones:
- i. 110 million Shares upon Milestone 2 being achieved; and
  - ii. 110 million Shares upon Milestone 3 being achieved.

Each of the above issues are subject to shareholder approval to be sought at the time Milestones 2 and 3 are reached. In the event VWM's shareholders do not approve an issue, VWM will issue the maximum number of Shares it can in accordance with the Listing Rules and pay the vendors (and their nominees) the value of the Shares equal to the difference between what VWM was obligated to issue and the number that it was able to issue.

- (e) VWM has agreed to make loans available to SEAE to assist SEAE secure the rights in relation to the coal projects and investigate additional resource opportunities. These loans are to be repaid by SEAE in the normal course and will become intercompany loans upon completion of the acquisition.
- (f) The vendors give the usual representations and warranties ordinarily found in an agreement of the nature of the Agreement.

As part of the acquisition of SEAE, VWM will:

- (a) Combine the SEAE team with the existing VWM management team for the purpose of identifying new mining concession opportunities, undertaking due diligence, certifying projects to JORC, mine planning, management and production, and coal marketing and sales;
- (b) Allocate key targets and accountabilities to these executives in order to ensure successful set up, management and business direction of the coal business within VWM; and
- (c) Assume SEAE's liabilities of approximately \$1.59 million (excluding monies lent by VWM to SEAE).

Funding for SEAE to acquire and further develop the Penajam East project is expected to be through one or a combination of debt, equity and offtake financing.

### Further information and Timing Update

VWM is currently preparing a Notice of General Meeting for the purpose of seeking shareholder approvals pursuant to the ASX Listing Rules (including LR 11.1.2), and which will include further information on the Acquisition and an Independent Technical Report and Independent Legal Report on the Penajam East project.

The anticipated steps and timing for the Acquisition is set out below:



For further information on VWM, please visit [www.victorywestmetals.com.au](http://www.victorywestmetals.com.au)

**END**

### About Victory West

Victory West Metals Ltd is a resources focused resource exploration company listed on the Australian Securities Exchange (ASX code: VWM) and Frankfurt Stock Exchange (FSE code: R1E), with a vision to find, prove and extract value from world class resource projects in South East Asia. The Company is building a resources portfolio with its cornerstone project Malala Molybdenum Project in the Toli Toli Province in North Sulawesi, Indonesia

### Competent Persons Statement

The data in this announcement that relates to Exploration Results, Resources and Reserves is based on information compiled by Mr. William Park, BSc (Geology), BEcon, MAIG, who is a member of the Australian Institute of Geoscientists. Mr. Park is a full time employee of NRM, and has sufficient experience which is relevant to the style and type of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify him as a "Competent Person" as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr. Park consents to the inclusion in the report of the matters based on his information in the form and content as they appear.

## Photos of Penajam East coal project



Photo -Pit 1, Concession 1



Photo - Pit 2, Concession 1



Photo -Pit 3, Concession 1



Photo - Pit 4, Concession 1



Photo -Road to Port



Photo -Pit 5, Concession 1



Photo -Ex Pit, Concession 2



Photo -Port at Muan River