



ANNOUNCEMENT TO THE AUSTRALIAN SECURITIES EXCHANGE: 31 JANUARY 2017

DECEMBER 2016 QUARTERLY ACTIVITIES REPORT

HIGHLIGHTS

- **Successful quantitative test work completed for export quality concentrate**
- **Recent negotiations with potential off-takers**
- **Request for quotes issued to equipment suppliers for beneficiation plant**
- **Changes to the Indonesian export law for minerals**

Activities for the Indo Mines Limited ('Indo Mines') group during the December 2016 quarter included the following:

Successful quantitative test work completed for export quality concentrate

As stated in the September 2016 quarterly report, a quantitative testing program has undergone in Indonesia with PT. Geoservices, under the experienced minerals technician, Wayne Turner. This test work has been critical to confirm the scale plant assumptions used in both equipment sizing and calculating yields – this in turn allows the Indo Mines team to confirm calculations from the Basic Engineering Design on actual operating costs with a relative level of comfort.

There were four tests under the program;

1. Produce an export grade quality concentrate with an iron ('Fe') content of 56.5% - 57.5%, confirm particle sizing and gangue content
2. Produce a smelter grade product of 58.5% Fe, confirm particle sizing and gangue
3. Test work on gravels for Fe yields
4. Run a pelletisation program for the smelter grade product using Indo Mines new bench pelletising unit

Tests 1 and 2 have been completed with samples delivered to potential off-takers. From a technical aspect, the particle sizing of the export test product indicated the concentrate will not have to be ground as fine as initially considered, to the point where one stage grinding may be sufficient to produce the required Fe level.

Test 3 is currently under review, but results are in line with the expectations of Indo Mines technical teams and will be included for independent review by a JORC competent person when assessing the Kulon Progo iron sand resource conversion to reserves.

Test 4 has been put on hold for the time being – but preliminary pelletising has been completed using bentonite and coal. Pellets were successfully produced, but the bench scale program needs to confirm scalability of these results.

Recent negotiations with potential off-takers

Indo Mines CEO Arran Marshall recently met again with potential off-takers in China and EPC contractors – taking into consideration plant capacity of 1.6Mt per annum (export grade), Indo Mines would have no issue in placing off-take in China based on the competitive pricing negotiated.

Samples produced recently from PT. Geoservices were offered to potential off-takers and results of their analysis should be available to the company proceeding Chinese New Year celebrations. But generally there were no issues with the export grade Indo Mines proposed to the potential off-takers, or particle size distribution.

Two potential off-takers have their own fleet of bulk carriers and offered the opportunity to work together in shipping and distribution – this scenario is ideal for Indo Mines as it manages the issue of providing CFR based contracts to buyers. One issue that Indo Mines will have to manage is the vessel size available for export. Utilising the Cilicap port facility means a maximum draft size of 40,000 DWT can be used for export – further analysis of transshipment options may have to be considered to provide the company with economy of scale shipping options.

Request for quotes issued to equipment suppliers for beneficiation plant

Over the past month request for quotes have been sent to equipment suppliers around the region and locally. Quotes have come in relatively in line with expectations as the equipment is well known to the company and is not considered specialist.

Changes to the Indonesia export law for minerals

On January 11th 2017, the Indonesian Government released GR NO.1 / 2017 which provides terms in which a Contract of Work holder (CoW) may undertake export sales for processed minerals. Implementation of this regulation is supported under the following two new ESDM rules;

- ESDM Rule No.5/2017; Increasing mineral value via processing and refinery activities in Indonesia
- ESDM Rule No.6/2017; Procedures and requirements to obtain a recommendation to undertake export sales of processed minerals (concentrate)

Although these new rulings are positive for Indo Mines in terms of having the ability to export iron sand concentrate, there are significant issues that must be understood before an application would be made. Indo Mines majority shareholder, Rajawali Corpora's legal team and PT Jogja Magasa Iron (PT JMI) are currently considering and reviewing the new law in terms of the legal ramifications of applying for an export license.

The key points relevant to PT JMI's CoW within the new rules are as follows;

- The CoW holder can only undertake export sales of its product meets the minimum requirement of refinement - the threshold for iron sand is $\geq 72\%$ Fe sponge iron or $\geq 75\%$ Fe pig iron.

- However, the CoW holder can undertake export of iron sand concentrate if they meet the following requirements:
 - The CoW holder agrees to convert its CoW to a special mining licence (IUPK).
 - The licence holder can undertake export sales for 5 years, from the 11th of January 2017
 - The licence holder pays an export duty - note: the actual export duty tariff will be determined by the Indonesian Ministry of Finance
 - Processed ore must exceed 56% Fe

- Converting to a special mining licence (IUPK) has the following consequences;
 - The period of contract; the IUPK license term will replicate the remaining years available to the CoW – in the case of PT JMI, the contract would be for thirty years.
 - Divestment to local entities; The foreign CoW holder is required to execute the gradual divestment of 51% within 10 years of operation. The share divestment is prioritised for Central Government, Local Government (Province or District), Stated Owned Entities (BUMN/BUMD) and finally private Indonesian companies.
 - Extension/renewal of licence period; The licence holder can apply for an extension within 5 years before expiry. The extension/renewal can be granted twice.

There are a number of factors that key stakeholders are currently considering, in particular;

1. PT JMI's underlying Indonesian ownership, which is effectively nearly 70% between Rajawali Corpora and PT Jogja Magasa Mining – will the Indonesian Government recognise this under the current holding structure via the ASX and will it still require divestment?
2. Converting from a CoW to IUPK is fundamentally shifting from a legal contract with the Indonesian Government to mine/process minerals for x period of time, to a permit for mining that can be effectively revoked.
3. Commitment to develop smelter; there is a requirement still to develop value add processing but under a legal framework that is not as strong as the CoW license.

The Indonesian Government has stated it wants all current CoW holders to convert their licenses over the next 12 months, so this analysis may be rudimentary. In addition current iron ore pricing offers attractive margins if the plant was operational and offers the company a serious opportunity to create value for shareholders.

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Indo Mines Limited provides the following additional information in accordance with ASX Listing Rule 5.3.3.

Mining tenements held at the end of the quarter and their location

Project Name	Location	Area	Status	Interest Held
Kulon Progo iron sands project	Kabupaten Kulon Progo, Yogyakarta Region, Java, Indonesia	2,978 Ha	Granted in November 2008 under contract of work	70%

Mining tenements acquired during the quarter and their location

Not applicable.

Mining tenements disposed of during the quarter and their location

Not applicable.

Beneficial percentage interests held in farm-in or farm-out agreements at the end of quarter

Not applicable.

Beneficial percentage interests held in farm-in or farm-out agreements acquired or disposed of during the quarter

Not applicable.