



HD (SWKTA) Ferret's Stock Watch: KRAKATOA RESOURCES LIMITED

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MARKET TIGHT FOR SHARES AS PROSPECTS BEGIN TO HOT UP

Sydney - Thursday - March 20: (RWE Australian Business News) - KRAKATOA RESOURCES (ASX:KTA) has a two-pronged approach for developing its business.

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The first, its original listing asset which is a 7,200-hectare exploration tenement in Central Sulawesi in Indonesia.

The tenement is licensed as an **iron ore** exploration tenement but its geologist, Brian Varndell, has determined it's actually prospective for **gold**.

Sources close to the **company** say Krakatoa is in the process of securing the neighbouring tenement and as soon as completed, it will start the MMI Soil Sampling and other exploration work on that area.

The Sitasa Group is Indonesia's largest high-grade **iron ore** producer.

It has been exporting most of its **ore** to **China** over the past three years, but like every other **iron ore** miner had to stop production as the government implemented the **ore** ban last year.

As a result, Krakatoa has focused on building its relationship with Krakatau Steel/POSCO which has just built a smelter in Cilegon, West Java, Indonesia, as it foresaw the need to secure domestic offtake.

It sent three vessels worth of **ore** to K/P.

One vessel to POSCO in Korea, for testing of the **ore** to ensure it was suitable for the West Java Plant.

Another ship to the existing Krakatau Steel plant, which has been around for years and is also in Cilegon, and the last to the new K/P Smelter which has just started up in the last several months.

As a result of Sitasa's ability to successfully deliver these three ships without issues (quality, timeliness etc) Sitasa was given a binding **iron ore** offtake for the next several years.

This is key to not only does it not need to export, there is no "export tax" which increases the profit margins greatly.

Because it's a successful miner, but not as experienced in exploration, it agreed to enter a strategic alliance with Krakatoa Resources to leverage Krakatoa's technical and exploration expertise to help it build up resources so it could continue to provide the **ore** to its customer, K/P.

In exchange for its work, Sitasa has agreed that all its future pipeline of **iron ore** projects would be given to KTA for development.

As the **ore** ban has now been fully implemented, the Sitasa Krakatoa alliance has been flooded with calls from other existing **iron ore** producers that don't have the domestic market, nor the combined expertise that KTA/Sitasa has.

The latest press release last week is the first of many opportunities that indicate the direction in which the **company** wants to pursue.

It has virtually all the leverage in negotiating with these other producers, and there are quite a few.

Krakatoa's strategy is to develop the **iron ore** business with Sitasa, with the goal of becoming a producer for supplying the K/P steel mill as soon as possible.

Meanwhile, it will simultaneously explore for **gold** in Central Sulawesi.

Directors feel that this offers shareholders the best of both worlds - stability and cash flow from low-cost, high-profit **iron ore mining**, and huge exploration upside from its **gold** project.

SHARE PRICE MOVEMENTS

Shares of Krakatoa Resources yesterday fell 0.5c to 26.5c. Rolling high for the year 28c and low 5c. The **company** has 24.9 **million** shares on issue with a market cap of \$6.7 **million**.

In a report last week, Krakatoa disclosed it had secured an exclusive pipeline of **iron ore** projects from the Tiga Serangkai group.

Krakatoa signed a memorandum of understanding for the exclusive rights to assess, explore, acquire, joint venture or offtake four **iron ore** tenements in Lampung and one **iron ore** tenement in South Sulawesi.

One of the tenements in Lampung is currently producing **iron ore**, using an on-site crushing plant for stockpiling.

Assessment and exploration activities will begin immediately on the tenements located in Lampung.

Existing strategic alliance with the Sitasa Group, Indonesia's leading high-grade **iron ore** producer and supplier to the domestic steel industry, provides excellent leverage for Krakatoa to acquire further promising Indonesian **iron ore** tenements which are banned from export and have not yet secured domestic customers.

In summary, the CBL Production IUP is in Samanka Bay, Lampung.

CBL is currently stockpiling **iron ore** on the tenement, using the on-site crushing plant.

The **mining** area is located about 1km to Tiga's jetty, where **ore** can be loaded directly on to barges for transport of 115km across the Sunda Strait to Sitasa Group's existing customer, the Krakatau Posco Steel Plant.

Krakatoa will begin exploration activities on the Lampung tenements immediately with remote sensing, preliminary logistics investigation, site visit, sampling and review of geology and existing data initially planned.

Should exploration activities on any of the IUPs be successful, Krakatoa can exclusively negotiate with Tiga to:

- * acquire the IUP;
- * enter a joint venture on the IUP;
- * have an exclusive offtake on the IUP; or
- * a combination of the above.

If Krakatoa elects not to take any further action once the exploration activities are completed, Tiga has agreed to pay 50pc of the total cost incurred by Krakatoa in obtaining the exploration data.

BACKGROUND

Krakatoa Resources Ltd was incorporated on January 19 2012 for the purposes of identifying exploration projects in Indonesia and internationally, and discovering commercially viable mineral deposits.

Due to its Indonesian constituents, the management team is regularly introduced to **gold**, **copper**, **iron ore**, **coal** and base metal projects.

KTA is also aggressively pursuing all projects that have economic potential.

On November 20 2013, Krakatoa announced that the exploration licence covering its 80pc-owned Donggala Project had been extended by the Regency of Donggala until April 8 2016.

On December 10 2013, Krakatoa signed a share **purchase** and **sale** agreement with PT Sitasa Resources to acquire 99.8pc of the issued shares of PT Bina Citra Sawita, which holds a 100pc interest in Izin Usaha Pertambangan Eksplorasi No 540/23/IUP/DESDM/Bup-2010, dated July 7 2010, issued by the Regent of South Solok.

PT Sitasa Resources, is a holding **company** for the Sitasa Group of Companies, a well-established and highly successful explorer and miner with a track record of success in Indonesian resource projects.

Specifically, Sitasa Group is one of Indonesia's largest high-grade **iron ore** producers.

Krakatoa will gain exclusive access to Sitasa Group's pipeline of **iron ore** projects over the next two years.

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