



Aspire Mining SPECULATIVE BUY

3 November 2010

Current Price: **\$0.33**

Ticker: **AKM**
Sector: **Materials**

Shares on Issue* (m): **786.7**
Market Cap (A\$m): **259.6**
Net Cash (A\$m): **36.7**
Enterprise Value (A\$m): **222.9**

* Assumes completion of placement, fully diluted basis

52 wk High/Low: **\$0.36** **\$0.03**
12m Av Daily Vol (m): **1.30**

Directors:

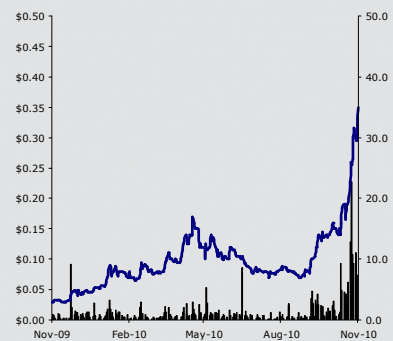
David McSweeney Chairman
David Paul Executive Director
Neil Lithgow Non-Executive Director
Russell Lynton-Brown Non-Executive Director
Gan-Ochir Zunduisuren Non-Executive Director

Substantial Shareholders*:

SouthGobi Resources 20%
Spectral Investments (Neil Lithgow) 7%
Khadbaasan Bat Erdene 6%
Badamdamin Battuvshin^ 6%
GZ Capital LLC (Gan-Ochir Zunduisuren) 6%

* Assumes completion of placement

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

Mongolian aspirations

Placement and Strategic Partnership with SouthGobi Resources:

Aspire Mining (AKM) has entered into a binding agreement with Mongolian coal producer SouthGobi Resources, encompassing a \$20.1m placement and strategic partnership.

AKM's Ovoot project is potentially a sizable, quality hard coking coal production source in proximity to export markets such as China, Russia, Japan and Korea.

AKM defined a maiden JORC Resource of ~331Mt in October 2010. 80% of the Resource is in the Measured and Indicated Category, with ~75% of the resource contained above 250m vertical depth, making it amenable to open pit mining. Drilling to date equates to ~10% of the 509km² project area.

Impact:

Positive

The emergence of SouthGobi (majority owned by Ivanhoe) as a strategic partner provides AKM with additional financial and technical muscle to evaluate the potential of the Ovoot coal province. Crucially, AKM retains 100% control of both the project and potential off-take, with at least another 2 years to add value for shareholders.

View:

Positive

Mongolia is an emerging coal province, with proven reserves of 12Bt, and resources estimated in excess of 150Bt. Historically, Mongolia's geographic location and investment climate has not been conducive to development. But this is evolving following significant changes to foreign investment and mining legislation over the last decade. 2010 has seen Mongolia attract the attention of global capital markets.

As with any emerging, undeveloped bulk mineral province, the establishment of infrastructure presents a key challenge. Ovoot's location in the country's north-west makes it dependent on further infrastructure developments. If Ovoot can reach "critical mass" in terms of quality and scale, there may be infrastructural synergies with regional peers at the ~900Mt Elegast Coking Coal deposit and the ~300Mt Burenhaan Phosphate project near Moron.

Pending results from wash and coking testwork will provide a clearer picture as to the quality of the Ovoot coal and allow for more accurate valuation comparisons.

Recommendation:

Spec Buy

Argonaut rates AKM a SPECULATIVE BUY.

Important Disclosures

Argonaut acts as corporate advisor to AKM and receives fees commensurate with these services. Argonaut acted as advisor to and arranger of the placement to SouthGobi Resources, and as manager and broker to the issue of 50m shares at \$0.09 per share to raise \$4.5m in June 2010. Argonaut owns 6m AKM options exercisable at \$0.15 on or before 31 December 2012.

Mongolia – An emerging coal province

2010 – A watershed year

Mongolia – an emerging coal province...

Mongolia is an emerging coal province, with proven reserves of 12Bt, and resources estimated in excess of 150Bt. Historically, Mongolia's geographic location and investment climate has not been conducive to development. But this is evolving following significant changes to foreign investment and mining legislation over the last decade.

A number of significant developments have taken place in 2010. Three initial public offerings in Hong Kong this year (including two in October) have wetted investor appetite.

... attracting equity market attention

SouthGobi Energy Resources (a subsidiary of Ivanhoe) raised over \$400m in January to aid production expansion at its Ovoot Tolgoi deposit. In recent weeks, Mongolian Mining Corp and Winsway Coking Coal Holdings have raised a combined \$1.1b. Mongolian Mining is the nation's largest privately owned hard coking coal producer, which recently sold down ~20% of the Company for ~\$650m. Winsway is an integrated supplier of coking coal into China. It provides logistical and processing services, as well as acquiring and developing coal tenements in JV with Peabody Energy. Furthermore, Ivanhoe is reportedly contemplating a ~\$1b rights issue.

Table 1: Larger players developing coal projects in Mongolia

Company	Mongolian Mining Corp	Mongolia Energy Corp	South Gobi Resources	Winsway	
Code	975	276	SGQ	1733	
Listing	HK	HK	TSX	HK	
Market Cap	\$m	4,115	2,587	2,043	1,767
Major Project	Ukhaa Khudag	Khusuut	Ovoot Tolgoi	-	
Resources	Mt	400	149	416	-
Coal Quality	Coking (unwashed)	Coking	Coking, Semi-soft, Thermal	-	-
Status	Producing	Development	Producing	-	-

Home to two 'globally significant' deposits

Further advances have been made with another 2 globally significant deposits:

- Oyu Tolgoi (Ivanhoe/Rio Tinto/ Govt) is the world's largest undeveloped copper-gold project. On 31 March 2010, the Mongolian Govt signed off on a comprehensive Investment Agreement which has taken full legal effect
- Tavan Tolgoi is a 6.4Bt coal deposit owned by the Mongolian Govt. Reportedly, the Government is seeking expressions of interest from major international coal companies to help fund development, whilst maintaining a majority stake

Junior players joining the ranks

Paving the way for junior players

The burgeoning level of interest in Mongolian assets has paved the way for the likes of Hunna Coal (HUN) and Aspire Mining (AKM).

Table 2: Selected junior Mongolian coal players

Company	Aspire	Hunnu	Prophecy	Leyshon Resources	
Code	AKM	HUN	PCY	LRL	
Listing	ASX	ASX	TSX-V	ASX	
Market Cap	\$m	260	177	71	57
Major Project	Ovoot	Unst Khudag (60%)	Ulaan Ovoo	-	
Resources	Mt	331	99	1,418	-
Coal Quality	Coking (subject to testing)	Thermal	Thermal	-	-
Status	Exploration	Trial Mining	Development	-	-

Source: Argonaut, Company Websites

Attracting attention

Strategic placement to SouthGobi Resources

Placement and strategic partnership with SouthGobi...

On 25 October 2010 AKM entered into a binding agreement with Mongolian coal producer SouthGobi Resources (TSX: SGQ, HK: 1878) (SouthGobi), encompassing a \$20.1m placement and strategic partnership.

... a Mongolian coal producer owned by Ivanhoe and China Investment Corporation

SouthGobi has a market capitalisation of ~US\$2b and cash reserves of ~US\$750m and is majority owned by Ivanhoe (who are developing the Oyu Tolgoi copper-gold project in conjunction within Rio Tinto and the Mongolian Government). China Investment Corporation (CIC) also owns 13% (excluding convertible notes).

SouthGobi owns three significant coal projects in Mongolia: the producing Ovoot Tolgoi mine (combination of metallurgical and thermal coal), the premium hard coking Soumber deposit and the Tsagaan Tolgoi deposit.

Deal mechanics

Raising \$20m

Under the agreement, SouthGobi will acquire a 19.9% strategic holding in AKM through the issue of 105.7m shares at \$0.19 per share (\$20.1m).

SouthGobi also will have the right to nominate one director to the Board of AKM and the right to maintain its proportionate shareholding for a period of two years.

Closing of the transaction is expected to be before the end of CY10 and is subject to Foreign Investment Review Board (FIRB) approval.

What does it mean?

Providing AKM with additional financial and technical muscle

The emergence of SouthGobi as a strategic partner provides AKM with additional financial and technical muscle to evaluate the potential of the Ovoot coal province. Crucially, AKM retains 100% control of both the project and potential off-take, with at least another 2 years to add further value.

We present a snapshot of AKM's capital structure (pre and post deal) in Table 3 below.

Table 3: AKM Capital Structure

Capital Structure			
	Undiluted	Post-Placement	Fully Diluted
Share Price	0.33	0.33	0.33
Shares Out	276	381	787
Market Capitalisation	90.9	125.8	259.6
Cash	3.2	3.2	3.2
SouthGobi Placement		20.1	20.1
Cash from Opys ex			13.4
Net Cash	3.2	23.3	36.7
Enterprise Value	87.7	102.5	222.9
Unlisted/Restricted Capital			m
Ord Fully Paid Restricted			150
Opt exp 31-Dec-2012 ex 15c			6
Opt exp 12-Feb-2015 ex 5c			249

Source: Argonaut

Ovoot Project

Overview

Ovoot Project in north-west Mongolia

AKM's flagship asset is the Ovoot Coking Coal Project, located in Khuvsgul Province in north-west Mongolia (green star below).

Figure 1: Project Location



Source: Hunnu Coal (HUN)

From acquisition...

AKM acquired the project in February 2010 (see Appendix B for acquisition terms).

The previous owners had completed an 8-hole diamond drill program (1,881m, 79m to 520m depths). 4 holes intersected coal mineralisation consisting of two seams, with combined thickness ranging from 6- 45m.

AKM has since completed ~7,900m of drilling to define a maiden JORC Resource of ~331Mt (confirmed by independent consultant CSA Global) in October 2010.

Table 4: JORC Resource

... to maiden 331Mt JORC Resource

JORC Resource - October 2010	
Category	Mt
Measured	93.3
Indicated	182.4
Inferred	55.0
TOTAL	330.7

Source: Argonaut, AKM

Approximately 80% of the Resource is in the Measured and Indicated Category, with ~75% of the resource contained above 250m vertical depth. Coal is located largely in two main seams up to 40m in width which ~90% of the resource reports to. Coal seam depths intercepted from drilling range from 46m to 395m.

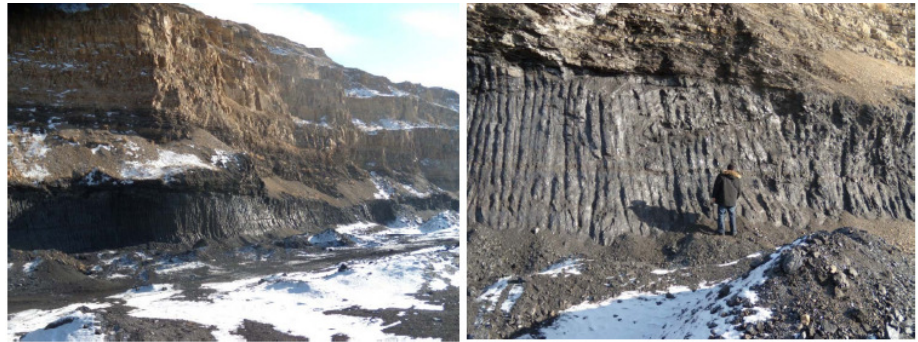
Geology

Adjacent to the Mogoin Gol Coal Mine

Ovoot lies on the western edge of a larger Lower Jurassic aged sedimentary basin. The coal bearing unit consists mainly of conglomerates, minor sandstones and siltstones with thrust and normal faulting observed. Mineralisation is hosted within a shallow dipping syncline structure, which dips to the east north east.

Ovoot lies adjacent to the Mogoin Gol Coal Mine, which produces ~30ktpa of feed used for local power generation. Ovoot is believed to be the down dip extension of the Mogoin Gol seam.

Figure 2: Mogoin Gol Coal Mine



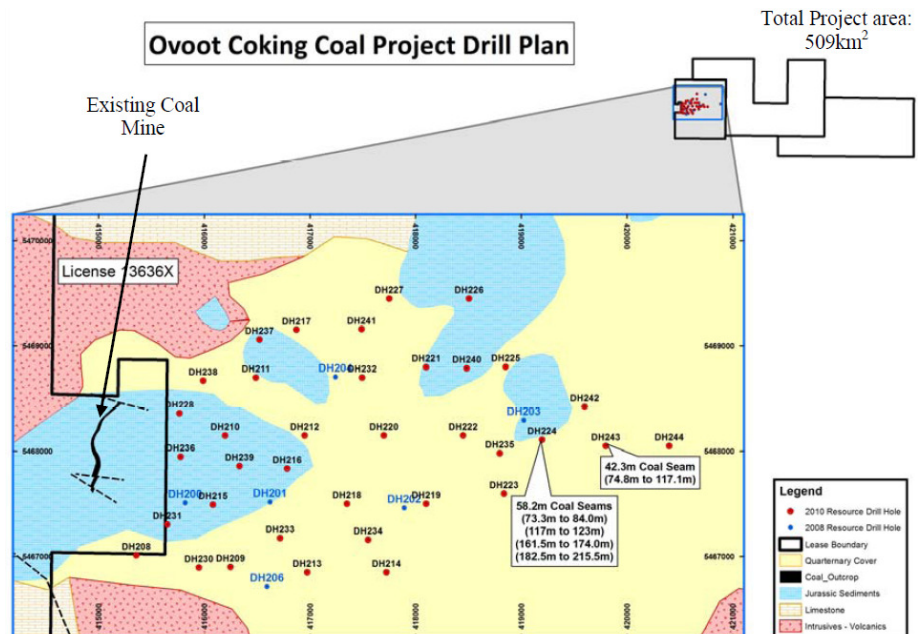
Source: AKM

Resource definition

Known mineralised envelope ~ 4.5km x 2.8km

Drilling to date has focused on the extension to known mineralisation from the 2008 8-hole diamond program (completed by previous owners). AKM has drilled a further 36 holes and extended the mineralised envelope to approximately 4.5km x 2.8km (on predominantly 750m spacings).

Figure 3: Ovoot Project – Drilling Plan



Source: AKM

Open pit potential

Drilling has confirmed the presence of coal mineralisation in two main seams (up to 40m in width), and the potential for near surface (open pit) coal dipping ~6 degrees to the east.

Best results include:

- DH235 – 24.9m from 73.9m, 47.3m from 189.7m
- DH233 – 33.7m from 79m
- DH243 - 42.3m from 74.8m

Coal quality test work

AKM has received coal quality test results conducted on 124 samples at the SGS Laboratories in Tian Jin, China.

Awaiting further coal quality test work results

It is important to note that sampling thus far is of a preliminary nature (only 9 holes). AKM is awaiting further results from an additional 190 samples. Early indications (low moisture, K cal) suggest the presence of high ranking coal. The coal will require washing given Ash levels are relatively high.

Table 5: Raw coal quality results

Summary of raw coal quality results to date		
		AKM
Ash	%	17.84
CSN (Swell Index)	-	7.80
Inherent Moisture	%	0.64
Volatile Matter	%	27.98
Rank	Ro max	1.43
Sulphur	%	1.14
K cal	/kg	6,761

Note: Non-oxide component

Source: AKM, Argonaut

Future work

Drilling to date at Ovoot equates to ~10% of the 509km² project area.

Targeting upgrades to the resource base in 2011

A 2-D seismic survey has commenced to provide a broader geological framework for the Ovoot Coal Basin. This will target extensions to the current resource (open to the east) and identify other regional exploration targets.

AKM has commissioned washing and coking tests to determine yield and coal rank. Results are expected in the December quarter.

Key risks/challenges

Infrastructure

Infrastructure constraints...

As with any emerging, undeveloped bulk mineral province, the establishment of infrastructure presents a key challenge.

... make Mongolia's mineral wealth captive to China

Investment in rail infrastructure, whilst costly, has significant strategic and commercial benefit to Mongolia. Without access to the seaborne market, Mongolia's mineral wealth remains largely captive to China.

Mongolian Government looking to address this

The Mongolian Government is becoming increasingly aware of this. Rail links to Shenyang (in green, see Figure 4) are under construction. Recently, development of a 1,100km rail link from the government-owned Tavan Tolgoi deposit (~6.4Bt coal resource) in the South to the Trans-Siberian Railway was approved. Reportedly, the Mongolian Government is seeking expressions of interest from major international coal companies to help fund development, whilst maintaining a majority stake.

Given Ovoot's location in the country's north-west, it is dependent on further infrastructure developments.

AKM has engaged Calibre Rail to outline various options for accessing export markets via the existing and proposed rail links. Early indications are that the most feasible option is to link Ovoot to the local provincial capital of Moron (162km) with a further link (392km) to the city of Erdenet (where the Trans-Mongolia Railway currently terminates).

Regional developments will play an important role in commercialising Ovoot

Crucial to this will be development of the Burenhaan Phosphate ~300Mt deposit near Moron. AKM has established the Northern Mongolian Rail Alliance (NMRA, which Burenhaan is a participant of) investigating the social and economic benefits that a rail link between Moron and Erdenet could provide.

Figure 4: Mongolia rail network – existing and proposed



Source: AKM

Any government/public-private partnership which funds rail infrastructure in the vicinity of Ovoot has the potential to significantly reduce capex requirements and enhance the economics of the project.

Coal fired power station ~10km away under construction

Power is also an important infrastructure consideration. A consortium has been awarded a licence to construct a ~ 30MW coal fired power station ~10km north of Ovoot. Commissioning is anticipated in late 2011. Ovoot could potentially be a customer as well as coal supplier.

Coking properties

At present, there is limited data available to draw conclusions on the resource potential and metallurgical characteristics of Ovoot. Only 36 holes have been drilled to date and 124 samples (from 9 holes) tested.

Further test work is required to confirm coal quality

Further metallurgical test work will be required to confirm the coal quality. Early indications from the raw coal samples suggest that it will require washing. Future washability test work will provide an indication of expected yield to produce a saleable product.

Sovereign

Mongolia is a landlocked country in East and Central Asia. It is bordered by Russia to the north and China to the south, east and west. Mongolia is the most sparsely populated independent country in the world, with a population of around 2.9m. Ulaanbaatar, the capital and largest city, is home to about 38% of the population.

Mining now the dominant contributor to Mongolian GDP

Whilst Mongolia is an emerging coal province (proven reserves of 12Bt resource estimate > 150Bt) the industry is in its infancy. Mongolia’s geographic location and investment climate historically has not been conducive to development. This is evolving following significant changes to foreign investment and mining legislation since gaining independence in 1992.

Mining is now the dominant (and increasing) contributor to Mongolia’s economy.

Table 6: Mongolia – A snapshot

Mongolia	
Quick Facts	
Population	2.9m
Capital City	Ulaanbaatar
Religion	Tibetan Buddhism
Climate	Extreme - Temp ranges -35° to +40°
Economy	
GDP/capita	US\$1,800
Primary Industries	Mining (29%) - Copper, Gold, Coal Agriculture (21%)
Exports	China (70%)
Political	
System	Parliamentary republic - Unicameral
Elections	Every 4 years (Last in 2008)

Source: Various

Ovoot does not require State participation

In 2006, the Minerals Law was amended to provide for State participation in the exploitation of any mineral deposit of “strategic importance.” Under this amendment, the State may acquire up to a 34% interest in large mining projects explored without government funding and 50% interest in projects that received State funding in the past. For all other mineral deposits of strategic importance, the State’s maximum share is set at 34%. The Ovoot Project is not on this list.

Mongolia rated 64th in a recent Fraser Institute Survey

In the August 2010, the Fraser Institute Survey of Mining Companies Mid-Year Update had Mongolia score 64th in the Policy Potential Index. The index serves as a report card to governments on how attractive their policies are from the point of view of an exploration manager. Mongolia (4.0) ranked ahead of Ecuador 3.8, but behind the likes of Kazakhstan (7.3), Bolivia (10.2), and Venezuela (12.5).

Appendix A: Corporate Overview

Projects

Located in Khuvsgul Province

AKM's flagship asset is the Ovoot Coking Coal Project, 509km² tenure located in Khuvsgul Province in North-West Mongolia.

Ovoot is potentially a sizable, quality hard coking coal project in proximity to export markets such as China, Russia, Japan and Korea.

Holds two other coal projects

AKM also has interests in two other prospective coal projects in Mongolia:

- Nurant (100%) comprises 3 licences, located 40km west of Moron. The geology is believed to be similar to Ovoot and Elegast. AKM expect to drill 4 holes in the December quarter.
- Shanagan (earning 51%) is located in Tuv Province, Central Mongolia ~60km from the Trans-Mongolian Railway. 6 coal seams have been mapped in the region which are believed to host high ranking coals. drilling program is planned to determine coal thicknesses and coal quality.

In addition, AKM holds a 49% interest in the Windy Knob JV with Emu Nickel (EMU).

Board and Management

Board and Management

- David McSweeney: Non Executive Chairman
- David Paull: Executive Director
- Neil Lithgow: Non-Executive Director
- Russell Lynton-Brown: Non-Executive Director
- Mr Gan-Ochir Zunduisuren: Non-Executive Director

Appendix B: Ovoot acquisition

Ovoot purchase completed in February 2010

AKM (formerly Windy Knob Resources - ASX:WKR) acquired 100% of Mongolian registered company Khurgatai Khairkhan LLC (KK) in February 2010, which held 6 granted exploration licences in the Ovoot Basin.

Total consideration for the acquisition was A\$8.6m (plus options):

- US\$0.5m, 150m AKM shares (restricted) and 30m AKM 'Performance' options (conditional on delineating a +200Mt JORC resource, exercisable at 5c)
- A further US\$3m upon defining a 100Mt JORC resource

Under the agreement, AKM is committed to spending US\$1m on exploration within the first 12 months of acquiring the project.

Project promoter, Red Island Resources (RIR, a company associated with David Paull and Neil Lithgow) received US\$0.3m and 100m options (including 50m 'Performance' options) as part of the transaction. A further 70m 'Performance' options were granted to Big Fish Nominees Pty Ltd, David Paull and David McSweeney.

Contact Details
Research:

Ian Christie
 Director Research
 +61 8 9224 6872

Troy Irvin
 Director Research
 +61 8 9224 6871

Tim Serjeant
 Associate Director
 +61 8 9224 6806

Gianluca Paglia
 Analyst
 +61 8 9224 6824

Institutional Sales:

Paul Carter
 Executive Director
 +61 8 9224 6864

Chris Wippl
 Head of Research & Sales
 +61 8 9224 6875

John Santul
 Consultant, Sales & Research
 +61 8 9224 6859

Damian Rooney
 Senior Institutional Dealer
 +61 8 9224 6862

Ben Willoughby
 Institutional Dealer
 +61 8 9224 6876

Corporate and Retail Sales:

Kevin Johnson
 Executive Director
 +61 8 9224 6880

Glen Colgan
 Executive Director
 +61 8 9224 6874

James McGlew
 Director
 +61 8 9224 6866

Geoff Barnesby-Johnson
 Senior Dealer
 +61 8 9224 6854

Andrew Venn
 Senior Dealer
 +61 8 9224 6865

Robbie Hamilton
 Dealer
 +61 8 9224 6830

Melaney Brans
 Dealer
 +61 8 9224 6873

Cameron Fraser
 Dealer
 +61 8 9224 6851

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