



Aspire Mining SPECULATIVE BUY

28 March 2011

Current Price: **\$0.87**
Target Price: **\$1.30**

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

Shares on Issue* (m): **787.4**
Market Cap (\$m): **685.0**
Net Cash (\$m): **31.4**
Enterprise Value (\$m): **653.6**

* Fully diluted, ex top-up rights

52 wk High/Low: **\$0.93** **\$0.07**
12m Av Daily Vol (m): **1.82**

Directors:

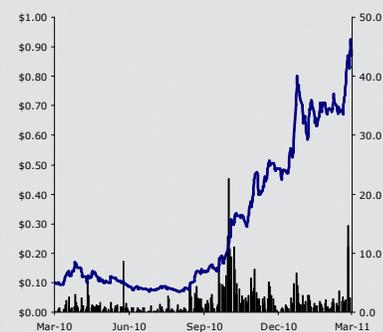
David McSweeney Chairman
David Paull Executive Director
Neil Lithgow Non-Executive Director
Russell Lynton-Brown Non-Executive Director
Gan-Ochir Zunduisuren Non-Executive Director
Tony Pearson Non-Executive Director

Substantial Shareholders*:

SouthGobi Resources 20%
Spectral Investments (Neil Lithgow) 11%
Badamdamin Battuvshin 9%
Noble Group 9%
Khadbaasan Bat Erdene 7%
GZ Capital LLC (Gan-Ochir Zunduisuren) 7%

* Undiluted

Share Price Graph



Analysts:
Tim Serjeant
Troy Irvin

Demanding attention

Update:

Aspire Mining (AKM) is an emerging Mongolian coal player.

The Company defined a maiden JORC Resource of ~331Mt in October 2010 at its 100% owned Ovoot project. Drilling to date covers ~10% of the 509km² project area. A 10,000m drilling program is planned in 2011, seeking to expand the current resource.

Raw coal quality test work confirms the consistency of the coal across the deposit and indicates that Ovoot coal is high fluidity, mid-volatile coking coal. Initial wash test results indicate a theoretical yield of 87.7%.

A small scale (~1Mt) study to direct ship unwashed coal (via road to Erdenet) has commenced. A broader Scoping Study is expected to commence in the June Q. Indicatively, ROM production is 15Mtpa over 25 years.

Impact:

Positive

Global commodity trading house Noble Group has emerged on AKM's register with 8.6%. Noble, along with Ivanhoe-backed strategic partner SouthGobi Resources, is a further endorsement as to the quality of the Ovoot project. Crucially, AKM still retains 100% control of both the project and potential off-take.

View:

Positive

The scarcity of high ranking metallurgical coal resources make such projects highly sought after by corporates as evidenced by Rio Tinto's (RIO) ~\$3.9b bid for Riversdale Mining (RIV).

Subject to further test work (anticipated over the coming months), AKM is looming as a sizable, quality hard coking coal deposit in proximity to export markets.

Ovoot is located in Mongolia's undeveloped north-west. As with any emerging, undeveloped bulk mineral province, the establishment of infrastructure presents a key challenge. If Ovoot can reach "critical mass" in terms of quality and scale, there will likely be infrastructural synergies with regional peers.

Recommendation:

Spec Buy

Argonaut rates AKM a Speculative Buy. Price Target - \$1.30

Important Disclosures

Argonaut acts as Corporate Advisor to AKM. Argonaut acted as manager and broker to the issue of 50m shares at \$0.09 per share to raise \$4.5m in June 2010. Argonaut owns/and or controls 1m AKM shares and 6m options exercisable at \$0.15 on or before 31 December 2012.

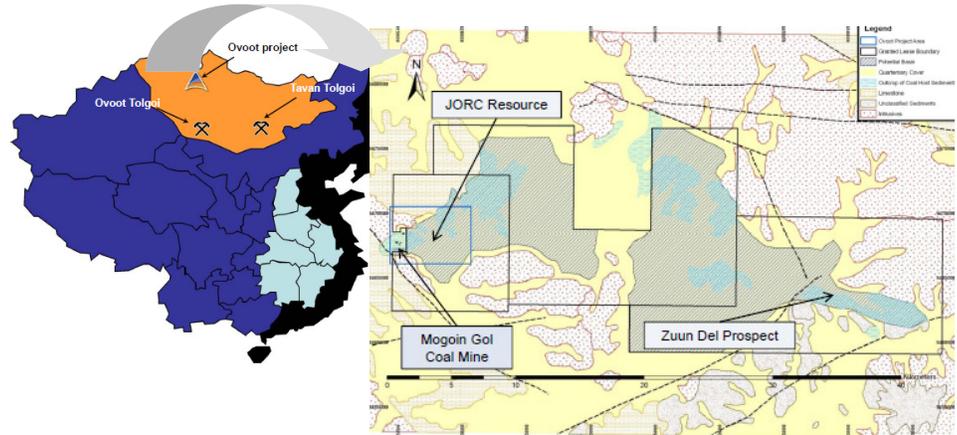
2010 – A watershed year

Background

AKM is looming as a sizable...

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

Figure 1: Project Location



Source: SouthGobi, AKM, Argonaut

AKM acquired the project in February 2010 (\$8.6m plus options) and has completed >8,300m of drilling to define a maiden JORC Resource of ~331Mt (confirmed by independent consultant CSA Global) in October 2010.

...quality hard coking coal deposit...

Table 1: Ovoot – Maiden JORC Resource, Oct 2010

JORC Resource			
Category	Above 250m	Below 250m	Mt
Measured	70.4	22.9	93.3
Indicated	135	47.4	182.4
Inferred	41.9	13.1	55.0
TOTAL	247.3	83.4	330.7

Source: Argonaut

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, dipping gently (~6 degrees) to the east, up to 40m in width. Coal seam depths intercepted from drilling range from 46m to 395m.

Strategic Partnership with SouthGobi Resources

Attracting the attention of Mongolian peer 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.

SouthGobi has a market capitalisation of ~US\$2.5b 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%.

.... and global commodity trading house Noble Group

Under the agreement, SouthGobi acquired a 19.9% strategic holding in AKM through the issue of 105.7m shares at \$0.19 per share and the right to maintain its proportionate shareholding (for a period of two years) if it is diluted under a future placement or new issue (Top-up rights). The Standstill Agreement is no longer applicable with the emergence of Noble Group on the AKM register with 8.6%.

Value drivers in 2011

Catalysts on the horizon

AKM remains catalyst rich over the short term, with a steady stream of newsflow, including:

- Ongoing Coal quality testwork confirming coking properties
- 10,000m resource definition and extensional drilling program
- Scoping Study – commencing June Q

We elaborate on each of these in detail below.

Coal quality testwork

Further coal quality test work

Raw coal quality data to date (~75% of samples from 2010 drilling program) confirms the consistency of the coal across the deposit and indicates that Ovoot coal is high fluidity, mid-volatile coking coal.

We benchmark coal quality results from Ovoot below against Bowen Basin-style coking coals as well as Riversdale's (RIV) Benga. Note that the AKM data is raw coal (unwashed).

Table 2: Benchmarking Ovoot

Coal quality				
Measure	Unit	AKM*	Bowen Basin	Benga (Riversdale)
Ash	%	20.2	7-10.5	10.5
CSN (Swell Index)	-	7.5	6-9	9.0
Inherent Moisture	%	0.7	1.0	-
Volatile Matter	%	26.7	20-25	23.1
Rank	Ro max	1.4	1.15-1.35	1.4
Sulphur	%	1.1	.35-.55	0.8

*Non-oxide component, unwashed

Source: AKM, Argonaut, GNM, RIV, Company Reports

Given elevated ash levels from the raw coal quality data, AKM has commissioned coal washability test work.

Washing yield analysis on 124 samples (approximately one third of total samples) indicate a theoretical yield of 87.7% to produce a 7.7% ash product and a CSN of 8.7. The low ash results suggest not all of the raw coal will require washing to produce a quality, blended product.

Exploration

10,000m drilling campaign underway

A 10,000m drilling program is planned in 2011 (two rigs), seeking to expand the current Ovoot resource base (open to the east) as well as test additional near surface coal targets identified from the recently completed 2D seismic program.

Scoping Study

Commencement of Scoping Studies

A small scale, ~1Mt study to direct ship unwashed coal via road to Erdenet rail facilities (580km) has commenced. From Erdenet, product can then be transported to markets in China, Japan and Korea.

Initial export will rely on the completion of a sealed road linking Moron to Erdenet. Construction of this road is in progress and completion anticipated to occur by late 2012.

The purpose of the study is to establish knowledge of Ovoot product internally and in the market place, ahead of full scale commercial production (contingent on rail developments).

A Scoping Study is expected to commence in the June Q, targeting ROM production of 15Mtpa over 25 years from Ovoot.

What could AKM be worth?

Peer multiples

Price that corporate/end users pay more reflective of value

In trying to determine a potential valuation range for AKM, we have firstly elected to focus on transaction metrics. Bulk commodities (iron ore, coal etc) are strategic in nature and therefore, we are of the view that the price corporates/end users are willing to pay is more reflective of underlying value.

Coal transaction multiples

Table 3: Australian coal transaction comps

Selected Transaction Multiples						
Date	Target	Acquirer	% Acq	Stage	Coal Type	EV/Resource t
Jul-06	Excel Coal	Peabody Energy	100	Ramp up	HC SS T	1.80
Jul-07	Macarthur Coal	CITIC	8.4	Producing	C LV PCI	1.10
Jul-07	Pike River IPO		n/a	Development	HC	3.57
Sep-07	Austral Coal	Xstrata Plc	100	Producing	C	3.10
Dec-07	Custom Mining	Macarthur	70	Development	SS PCI T	3.92
Feb-08	Resource Pacific	Xstrata Plc	100	Ramp up	SS T	3.95
May-08	Macarthur	Arcelor Mittal	19.9	Producing	SS LV PCI T	3.37
Jul-08	Macarthur	POSCO	10	Producing	SS LV PCI T	3.37
Jul-08	New Saraji (NHC)	BMA JV	100	Producing	HC, PCI	3.55
Feb-09	Gloucester Coal	Noble Group	87.7	Producing	HC, T	2.52
Aug-09	Felix Resources	Yanzhou	100	Ramp up	T PCI SS	2.38
Nov-09	Maules Creek	Aston Resources	100	Pre-Development	SS LV PCI T	1.21
Dec-09	Gloucester Coal	Macarthur	100	Producing	HC, T	3.18
May-10	Macarthur	Peabody Energy	100	Producing	SS LV PCI T	3.45
Aug-10	Middlemount Project	Gloucester Coal	50	Ramp up	C LV PCI T	7.14
Aug-10	MDL 162	Macarthur	90	Pre-development	C T PCI	1.68
Aug-10	Aston Resources IPO		n/a	Development	SS LV PCI T	2.21
Average						3.03
Average (ex High - Low)						2.88
Median						3.18

Key: HC - Hard coking coal, C - Coking coal, SS - Semi-soft coking coal, PCI - Pulverised coal injection coal, LV PCI - Low volatile PCI, T - Thermal coal
Grey denotes unsuccessful

Source: Argonaut, Bloomberg, IRESS, RIV, NHC-NEC Independent Expert Report

Typical multiple range is \$2.50 - \$3.50/Resource t

The typical EV/Resource t multiple for selected Australian coal transactions over the last 5 years (at project and corporate level) has been in the range of \$2.50 - \$3.50/t. The average is \$3.03/t.

Given the relative infancy of the Mongolian coal space, there is a lack of suitable data points and the large variance in size and status of the players makes meaningful comparisons difficult.

We present a summary of selected emerging Mongolian coal players in the table below.

Mongolian peer group

Table 4: Mongolian peers

Mongolian Peer Comps						
Company	Mongolian Mining Corp	SouthGobi Resources	Mongolia Energy Corp	Aspire	Hunnu	
Code	975	1878	276	AKM	HUN	
Listing	HK	HK	HK	ASX	ASX	
Market Cap	\$m	4,839	2,504	1,374	685	322
Major Project	Ukhaa Khudag	Ovoot Tolgoi Soumber	Khusuut	Ovoot	Unst Khudag (80%) Tsant Uul (90%)	
Resources	Mt	581	416	149	331	340
Coal Quality	Coking (unwashed)	Coking, SS, Thermal	Coking	Coking	Thermal + Coking	
Status	Producing	Producing	Development	Adv Exploration	Development	
EV/Resource	\$/t	7.60	5.43	10.97	1.98	0.73

Source: Argonaut

Deriving a Price Target

AKM is trading on ~\$2/t...

AKM is currently trading on EV/Resource t multiple (fully diluted) of ~\$2.00/t, which *prima facie*, would make it seem fairly valued given its relative infancy and infrastructure hurdles (which we elaborate on later).

... but has distinct advantages over most

However, AKM does have some significant factors working in its favour:

- The scarcity of independent, quality hard coking coal players. AKM retains 100% over both project and off-take
- Potential for resource growth – Drilling to date covers ~10% of the project
- Mongolia's potential to emerge as the world's largest coking coal supplier to China - >50% of Chinese coking coal imports by 2015 are slated to come from the region (Source: Wood Mackenzie)

If we were to assume ~50% resource growth over the coming months or apply the average transaction multiple (on the assumption that the superior quality of Ovoot coal counterbalances the early stage nature and infrastructure hurdles), we derive a price target of ~\$1.30.

We have derived a price target of \$1.30 per share

Table 5: AKM Price Target under various scenarios

Aspire Mining (AKM)		Scenario 1	Scenario 2
Measure	Current	Expanded Resource	Transaction Multiples
Resource	331	500	331
\$/t	2.0	2.0	3.0
Implied EV	654	988	1,002
\$/per share	0.87	1.29	1.31

Source: Argonaut

Supporting this view is Rio Tinto's (RIO) ~\$3.9b bid for Riversdale Mining (RIV). RIV, like AKM has its own (albeit lesser) infrastructure hurdles to overcome.

The implied EV/Reserve t for RIV's 65% owned Benga coal project is \$4.33/t. Per tonne of saleable coking coal, the multiple increases to ~\$14.3.

RIV highlights that upon definition of a sizeable, high quality coking coal deposit, the scarcity of such projects (even with infrastructure risk) makes them attractive to major players.

We touch on the infrastructure challenges in more detail.

Key risks

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 are under construction. Recently, development of a 1,100km rail link from the government-owned Tavan Tolgoi (TT) deposit (~6.4Bt coal resource) in the South to the Trans-Siberian Railway was approved. The Mongolian Government has received 15 official tenders from major international mining companies to participate as a minority partner in the development of TT.

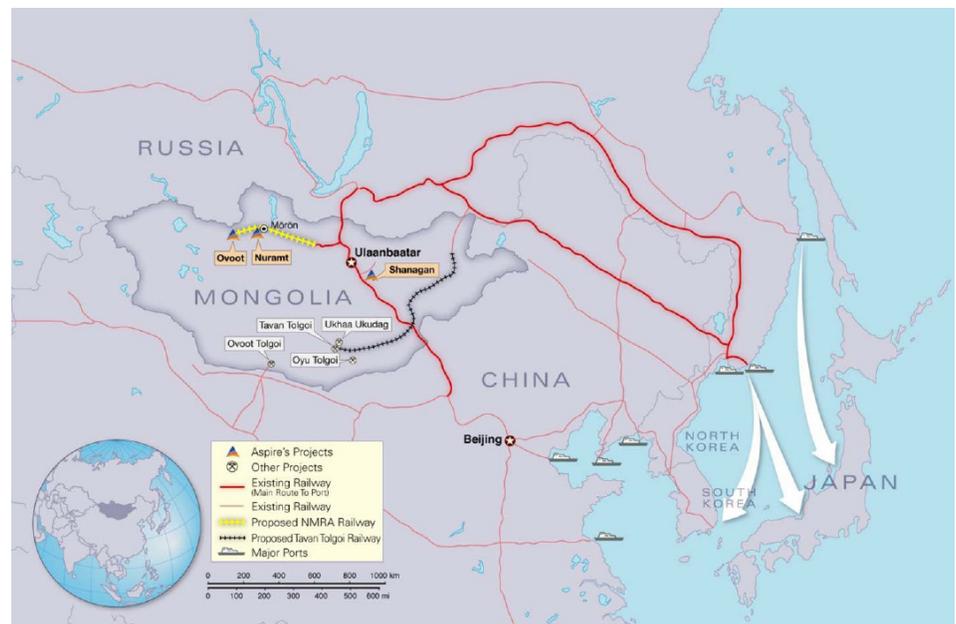
Given Ovoot's location in the country's north-west, it is dependent on further infrastructure developments.

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 regional assets such as Burehaan Phosphate and Huren Chuluut Iron Ore. AKM has established the Northern Mongolian Rail Alliance (NMRA) investigating the social and economic benefits that a rail link between Moron and Erdenet could provide.

Figure 2: 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.

Appendix A: Mongolia

Background

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 currently not on this list.

Mongolia rated 54^h in a recent Fraser Institute Survey

The most recent Fraser Institute Survey of Mining Companies scores Mongolia 54th (up from 67th) 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 ranked ahead of China (62nd), Argentina (60th) and South Africa (67th), but behind the likes of Brazil (49th) and Mali (29th).

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

Bryan Johnson
 Institutional Dealer
 +61 8 9224 6834

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

Melaney Brans
 Dealer
 +61 8 9224 6873

Cameron Fraser
 Dealer
 +61 8 9224 6851

Important Disclosure

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