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## Aspire Mining Ltd (AKM)

Near term coking coal producer

**Recommendation**  
**Spec Buy** (unchanged)  
**Price**  
**\$0.45/sh**  
**Target (12 months)**  
**\$1.16/sh** (unchanged)

**Expected Return**

Capital growth	161%
Dividend yield	0%
Total expected return	161%

**Company Data & Ratios**

Enterprise value	\$224.6m
Market cap	\$240.3m
Issued capital	540m
Free float	23%
Avg. daily vol. (52wk)	2.1m
12 month price range	\$0.07/sh- \$1.14/sh

GICS sector

Materials

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.57	0.78	0.08
Absolute (%)	-21.24	-42.58	436.14
Rel market (%)	-13.33	-30.09	444.74

**Absolute Price**



SOURCE: IRESS

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 ACN 25 006 390 7721  
 AFSL 243480

### Hard coking coal leverage: NPV of \$1.16/sh

AKM provides leverage to hard coking coal prices and is now one of few listed coking coal pure-plays globally. The company's Ovoot Project (100%) is large-scale, with a resource of 330Mt high quality coking coal. On full development (2016), AKM aims to produce 12Mtpa from the Ovoot Project at FOB operating costs competitive with Bowen Basin producers. AKM will commence the Ovoot Project Stage 1 pilot development from next year, producing up to 1Mtpa. The project is of sufficient scale to attract a strategic equity investment and offtake agreements with a steel producer customer.

### Developer in an emerging Mongolian coal region

The Ovoot Project is located in north western Mongolia, around 560km west of the Erdenet mining city and copper-molybdenum operation. Close to AKM's proposed rail link to Erdenet are several other minerals projects and prospects. We expect that the development of Ovoot and other potential high profile mining projects is sufficient to underwrite this rail infrastructure development.

### Distance to market offset by lower mining costs

The rail freight distances from the Ovoot Project to Russian east coast ports are vast (4,600km) when compared with Bowen Basin (<400km) and Canadian (<1,000km) coking coal mines. However, we estimate that lower mining costs (lower strip ratios) and competitive freight tariffs will provide an offset. AKM is also establishing relationships with potential customers in China, Russia and Europe.

### Investment view - Spec Buy with leverage to LT coal prices

Our AKM NPV is \$1.16/sh (13% discount rate) at long term hard coking coal prices of US\$180/t and currency of US\$0.85/A\$. We assume AKM moves to full development of the Ovoot Project with 12Mtpa production rates from the December 2017 quarter. At constant current spot prices and exchange rates, our AKM NPV increases to \$5.35/sh. With tight hard coking coal supply-demand over the next few years, we see upside risk to our price forecasts.

**Earnings Forecast**

Year end June	2010a	2011f	2012f	2013f	2014f
Sales (A\$m)	0.0	0.2	0.0	127.2	161.2
EBITDA (A\$m)	-0.9	-3.8	-8.3	23.2	18.3
NPAT (reported) (A\$m)	-0.9	-2.6	-4.8	6.3	4.5
NPAT (adjusted) (A\$m)	-0.9	-2.5	-4.8	6.3	4.5
EPS (adjusted) (cps)	0.4	-0.5	-0.8	0.9	0.7
EPS growth (%)	na	na	na	na	na
PER (x)	111.3x	-82.2x	-58.8x	49.0x	67.3x
FCF Yield (%)	-0.4%	-1.6%	-16.9%	0.7%	-63.7%
EV/EBITDA (x)	-236.6x	-59.3x	-27.1x	9.7x	12.3x
Dividend (cps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
ROE (%)	-11%	-11%	-8%	7%	2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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# Aspire Mining Ltd (AKM)

## The asset: 330Mt of high quality coking coal

AKM's Ovoot Project has a 330Mt high quality coking coal resource in the north-western Mongolia province of Khuvsgul. The company aims to ramp up production to 12Mtpa in 2016 through a two stage development program. The scoping study for Stage 1 (0.5-1.0Mtpa ROM coal) of the Ovoot Project is nearing completion. A bankable feasibility study for Stage 2 (12Mtpa product coal) is expected to be completed by mid-2012. Coal quality analysis suggests premium hard coking coal prices can be achieved.

## Rail infrastructure required. Likely that some capex will be shared

The development of the 12Mtpa project requires a significant infrastructure build, including a 570km rail link to existing Mongolian rail infrastructure. We estimate total capex for this infrastructure to be US\$1.7bn. However, around 70% of this rail link is likely to be multi-user. The Khuvsgal Province socio-economic development program also highlights this 70% of required rail in its infrastructure development policy. We expect AKM to take an equity share in the rail link's development rather than foot the entire US\$1.7bn capital cost.

## Valuation: Base case DCF of \$1.16/sh

Our base case valuation of AKM assumes:

- that AKM achieves production/sales rates of 12Mtpa product coal in the December 2017 quarter;
- that AKM pays for around two thirds (US\$1.1bn) of the total capex (US\$1.7bn) required to build the rail infrastructure for the project (i.e. a proportion of this rail is multi-user);
- Bell Potter Securities coal price and currency forecasts (Table 1); and
- AKM raises A\$60m at \$0.40/sh over the next 12 months to fund the development of Stage 1 of the Ovoot Project.

**Table 1: Bell Potter Securities coal price and currency forecasts**

		2010a	2011f	2012f	2013f	2014f	2015f	LT Real
Hard coking	US\$/t	191	289	250	230	225	208	180
Thermal	US\$/t	91	122	123	115	110	103	90
US\$/A\$	US\$/A\$	0.92	1.07	1.03	0.95	0.89	0.85	0.85

SOURCE: BELL POTTER SECURITIES ESTIMATES

## NPV scenarios: Leverage to long term coking coal prices

Table 2 shows calculated NPVs under flat coal price and currency scenarios. It highlights the significant leverage AKM has to coking coal prices. At constant current spot prices and AUD/USD exchange rates, our NPV is \$5.43/sh, over 14 times the current share price.

**Table 2: AKM NPV scenarios**

	160	170	180	190	200	210	220	230	250	300
Hard coking coal price US\$/t	160	170	180	190	200	210	220	230	250	300
Currency US\$/A\$	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05	1.05
<b>AKM NPV \$/sh</b>	<b>-0.05</b>	<b>0.33</b>	<b>0.74</b>	<b>1.15</b>	<b>1.55</b>	<b>1.92</b>	<b>2.32</b>	<b>2.72</b>	<b>3.48</b>	<b>5.43</b>
Upside to current price %	-26%	66%	158%	248%	331%	421%	511%	682%	1,120%	

SOURCE: BELL POTTER SECURITIES ESTIMATES

# AKM's strategic value

We believe there is strategic value in AKM through its:

- large scale (330Mt), high quality Ovoot coking coal resource;
- potential to partner with major off-take customer (steel producer) to assist with financing the Ovoot Project;
- proximity to other potential minerals deposits, including the Burenhaan Phosphate project (a Mongolian Mineral Deposit of Strategic Importance); and
- implicit relationships/ties with major mining/minerals houses.

## Coking coal pure-play: 330Mt resource

AKM is one of few pure-plays on benchmark hard coking coal prices. The Ovoot Project is a large scale, high quality coking coal resource. AKM has explored just 10% of its 509km<sup>2</sup> Ovoot exploration license to delineate the 330Mt resource.

## Potential to partner with off-take customer

The Ovoot Project is of significant scale to attract investment by an off-take customer. Importantly, AKM own 100% of the project, leaving it with the ability to sell down its direct interest. A buy-in by an off-take customer could contribute to AKM's equity funding for Stage 2 development. The strategic investor may also provide AKM with funding assistance through lower cost access to debt capital markets.

## Proximal to other potential mining operations

Proximal to the Ovoot Project and AKM's planned rail infrastructure are several other minerals projects:

- Burenhaan Phosphate: This project has been awarded Mineral Deposit of Strategic Importance status by the Mongolian Government. Burenhaan is located around 70km north of AKM's proposed rail infrastructure;
- OPK's Elegest hard coking coal project: Located in Russia, around 300km northwest of the Ovoot Project. Elegest is held by private Russian group United Industrial Corporation (OPK), has a resource of 959Mt and plans to produce 18.5Mtpa. Mitsui contributed to the funding of the Elegest feasibility study and holds an option to acquire a minority stake in the project;
- Iron ore prospects: AKM holds an exploration license (Zavkhan) prospective for iron ore. Zavkhan is around 165km west of the Ovoot Project. The Huren Chuluut iron ore prospect is around 20km north of the railway AKM is proposing for the Ovoot Project; and
- Coking coal prospects: AKM holds exploration licenses over two other coking coal prospects (Jilchigbulag and Nuramt) in close proximity to the proposed rail infrastructure. A Noble Group/Xanadu Mining (XAM) joint venture recently intersected 42m of coal from 70m at its Nuurstei coking coal prospect, only several kilometres from AKM's proposed railway.

## Links with the majors and potential synergies with other juniors

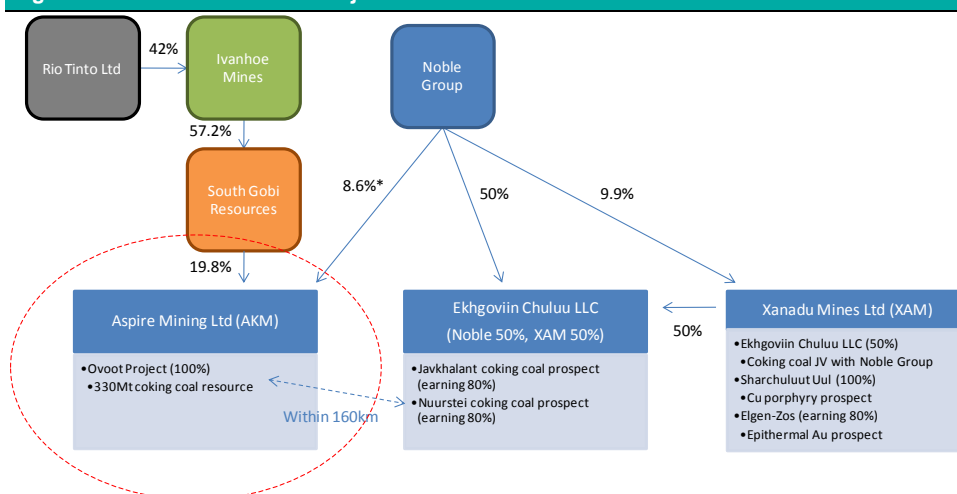
### Strategic partnership with SouthGobi Resources

In October 2010, AKM completed a 19.9% placement to SouthGobi Resources, raising \$20.1m. The placement also included a strategic partnership to provide technical and logistical assistance, particularly in relation to governmental and regulatory issues. SouthGobi also had the right to appoint a Non-Executive Director (Mr Tony Pearson). Under the terms AKM agreed to provide SouthGobi with a right to maintain its shareholding on dilution by a placement or new issue. SouthGobi also entered a standstill agreement to not increase its shareholding to over 19.9% for two years.

### Noble buys-in as cornerstone shareholder

In March 2011, Noble Group purchased an additional 3.6% of AKM issued capital from Mongolian shareholders representing vendors of the Ovoot Project. This purchase increased Noble's interest in AKM to 8.6%. Noble purchased its initial interest in AKM on market, having accumulated 4.1% of AKM shares by January 2011. The Noble buy-in resulted in the suspension of SouthGobi's two year stand-still agreement.

Figure 1 – AKM's ties with the majors



NOTE: \* NOBLE GROUP SHAREHOLDING IS 5.6% FULLY DILUTED  
 SOURCE: COMPANY DATA AND BELL POTTER ESTIMATES

# Coal comps tables

## ASX coal comps

**Table 3: ASX coal comps**

	EV A\$m	Resource Mt	Reserve Mt	EV A\$/t
Aston Resources Limited (AZT)	2,009	576	280	3.49
Aspire Mining Ltd (AKM)	338	331		1.02
Bandanna Energy Ltd (BND)	491	1,261	147	0.39
Bathurst Resources Ltd (BTU)	643	73	10	8.83
Caledon Resources Ltd (CCD)	368	1,676		0.22
Carabella Resources Ltd (CLR)	240	95		2.52
Coalspur Mines Ltd (CPL)	909	1,371	260	0.66
Coal & Allied Ltd (CNA)	9,811	1,989	807	4.93
Coalworks Ltd (CWK)	70	852		0.08
Cockatoo Coal Ltd (COK)	390	1,181	67	0.33
Endocoal Ltd (EOC)	50	88		0.57
Gujurat NRE Coking Coal Ltd (GNM)	425	647	67	0.66
Hunnu Coal Limited (HUN)	291	844		0.34
Kangaroo Resources Ltd (KRL)	481	4,623	656	0.10
Macarthur Coal Ltd (MCC)	4,150	1,710	175	2.43
Metrocoal Ltd (MTE)	112	998		0.11
New Hope Corporation Ltd (NHC)	2,351	2,048	656	1.15
Nucoal Resources NL (NCR)	173	498		0.35
Resource Generation Ltd (RES)	137	2,271	539	0.06
Rey Resources Ltd (REY)	49	536		0.09
Stanmore Coal Ltd (SMR)	119	318		0.38
White Energy Company Ltd (WEC)	438	684	0	0.64
Whitehaven Coal Ltd (WHC)	3,101	1,458	295	2.13
Xanadu Mining Limited (XAM)	76	327		0.23
<b>Weighted average</b>				<b>1.03</b>
<b>Weighted average - producers</b>				<b>1.56</b>
<b>Weighted average - developers</b>				<b>0.45</b>

SOURCE: COMPANY REPORTS, IRESS AND BELL POTTER SECURITIES ESTIMATES

## Mongolia coal comps

See Appendix 1 for an expanded version of Table 4.

**Table 4: Mongolian coal comps**

	EV A\$m	Resource Mt	Target Mt	Total resource target Mt	EV/Tonne JORC A\$/t	EV/Tonne total target A\$/t
Aspire Mining (ASX: AKM)	338	331		331	1.02	1.02
Guildford Coal (ASX: GUF)	367		52-568	310		1.18
Hunnu Coal (ASX: HUN)	291	844	1,200-1,750	1,320	0.34	0.22
Mongolia Energy Corporation (SEHK: 276)	633	155		155	4.08	4.08
Mongolia Mining Corporation (SEHK: 975)	3,711	578		578	6.42	6.42
SouthGobi Resources Ltd (TSX: SGQ, SEHK: 1878)	1,581	536		536	2.95	2.95
Xanadu Mines (ASX: XAM)	76	327	175-225	527	0.23	0.15

SOURCE: COMPANY REPORTS, IRESS AND BELL POTTER SECURITIES ESTIMATES

# Ovoot Project: High quality coking coal

The Ovoot Project can be summarised as:

- 330Mt high quality coking coal resource in new Mongolian coal province;
- Resource supports a 15Mtpa ROM, open pit development;
- Coal quality analysis supports a high yielding (80%), high quality coking coal product capable of achieving premium hard coking coal benchmark prices; and
- FOB operating costs competitive with the major's (BHP Billiton's) Bowen Basin metallurgical coal operations (~US\$130/t FOB).

## 330Mt coking coal resource in new Mongolian coal province

AKM's Ovoot Project is located in the Khuvsgul Province in Northern Mongolia, around 60km south of the Mongolian-Russian border. The exploration license area covers 509km<sup>2</sup>, of which only 10% has been explored. AKM delineated an initial JORC compliant resource of 330Mt of high quality coking coal in October 2010. The company is progressing a two stage development strategy. Stage 1 aims to market sell 0.5-1.0Mtpa ROM coal from 2012. The Stage 2 concept is for sales of 12Mtpa high quality coking coal from 2016. The Ovoot discovery is the first significant coal project for the Khuvsgul Province.

Figure 2 – Ovoot Project location



SOURCE: AKM

## Resource supports 15Mtpa ROM open pit development

The following resource characteristics support an open pit development:

- Around 75% of the 330Mt Ovoot resource is located at a relative depth of above 250m;
- Over 83% of the Ovoot resource is classified as measured and indicated;
- 95% of the resource tonnes are located in two seams: an upper seam (thicknesses of 1.6-46.5m, averaging 12.6m) and three plies of the lower seam (thicknesses of 4.7-33.7m, averaging 13.1m); and
- The seams are shallow dipping (<6°).

**Table 5: Ovoot Project JORC resource**

	Above 250m	Below 250m	Total
Measured	70.4	22.9	93.3
Indicated	135	47.4	182.4
Inferred	41.9	13.1	55
	247.3	83.4	330.7

SOURCE: AKM

### Coal quality: High quality coking coal achieving hard coking prices

AKM has completed quality analysis on raw coal and washed coal samples from the 2010 Ovoot Project exploration program. The data supports a high quality, high yield coking coal product. Analysis of the coal for marketing purposes (Wood Mackenzie) suggest that the product coal is comparable with New Zealand high quality coking coal, and will achieve premium hard coking coal benchmark prices.

AKM has also entered into an agreement with coal processing and engineering specialist Sedgman Limited to assist with an initial wash plant scoping study. Sedgman will run coal preparation plant modelling simulations and evaluate washing plant circuit options.

**Table 6: Coal quality**

<b>Raw coking coal quality</b>	
Inherent moisture	0.60%
Ash	19.5%
Volatiles	26.5%
CSN	7.7
S	1.2%
Energy kcal/kg	6,668
<b>Indicative coal product quality</b>	
Yield	80%
CSN	8-9
Inherent moisture	0.60%
Ash	8%
Volatiles	25-28%
S	1%
P	0.05%

SOURCE: AKM

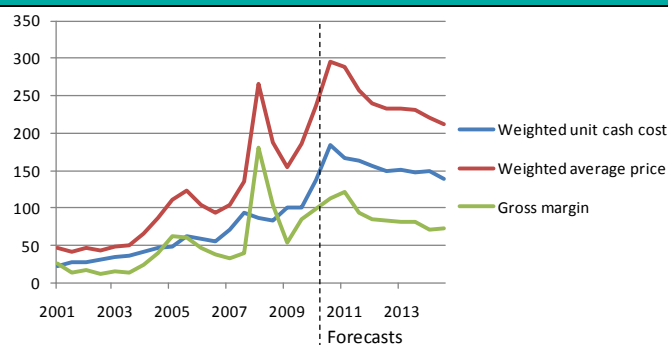
### Ovoot Project: Sufficient project scale, infrastructure challenged

With at least 330Mt of hard coking coal at the Ovoot Project, AKM has sufficient scale to progress development studies. The key impediment to development is the Ovoot Project's remote location. Ovoot is located around 570km from the nearest rail line at Erdenet in Mongolia. From Erdenet to the Chinese border adds another 1,100-1,200km. From Erdenet to east coast Russian ports adds 4,200km to the rail journey.

### Operating costs: ~US\$130/t FOB Russian east coast ports

Our analysis suggests that FOB cash operating costs for Ovoot Coal will be around US\$130/t. At this level, operating costs are competitive with BHP Billiton's Queensland Coal operations. We expect lower per kilometre freight tariffs and significantly lower mining costs (lower strip ratios) to offset higher haulage distance to port.

Figure 3 – BHP Queensland Coal (US\$/t)



SOURCE: BHP &amp; BELL POTTER SECURITIES ESTIMATES

Table 7 - Ovoot Project FOB operating costs

		Stage 1	Stage 2
<b>ROM production</b>	<b>Mtpa</b>	<b>0.5-1.0</b>	<b>15</b>
Mine gate cost	US\$/t	19	28
Transport cost	US\$/t	114	86
Port charges	US\$/t	10	10
<b>Total FOB cost excl royalties</b>	<b>US\$/t</b>	<b>143</b>	<b>124</b>
Royalties & charges	US\$/t	7	9
<b>Total FOB cost</b>	<b>US\$/t</b>	<b>150</b>	<b>133</b>

Note: Royalties calculated off long term coking coal price of US\$180/t

SOURCE: BELL POTTER SECURITIES ESTIMATES

### Infrastructure solution: Northern Mongolian Rail Alliance (NMRA)

AKM has established the NMRA to study the construction of a multi-user northern Mongolian rail link from the town of Moron (162km east of the Ovoot Project) to the mining city of Erdenet. Erdenet is connected to the trans-Mongolian rail line via a rail spur of around 150km length.

At present, other members of the NMRA include:

- Burenhaan Phosphate Project: A Mongolian Mineral Deposits of Strategic Importance around 70km north of Moron with potential a production and freight requirement of 3-6Mtpa;
- Mogoin Gol coal mine: A small scale coal mine adjacent to the Ovoot Project, currently selling <10,000tpa coking coal to Russian customers. Mogoin Gol can be scaled up substantially;
- Huren Chuulut Iron Ore Project: Located around 100km northwest of Moron and with potential production and freight requirement of 2-5Mtpa;
- Gobi Exploration: A copper-molybdenum prospector; and
- Provincial government representatives.

The NMRA has appointed a study group from the University of Mongolia to prepare a "Socio-Economic Impact Assessment". AKM has also established a Mongolian Special Purpose Vehicle to house the company's rail interests.

A report by the Citizens' Representatives Assembly of Khuvsgal Province (Socio-Economic Development Program of Khuvsgal Province 2008-2015) highlights the Moron to Erdenet rail link in its infrastructure development policy with a plan to commence construction by 2015.

### Erdenet: Mongolia's first major mining city

Erdenet Mining Corporation (EMC) operates a copper-molybdenum mine and processing facility in the Erdenet Ovoo area of Mongolia. EMC is a joint venture between the State Property Committee of Mongolian Government (51%) and the Russian Government (49%).

The Erdenet concentrator was commissioned in 1978 with a capacity of 4Mtpa. This plant has been continuously upgraded and now mills ore at a rate of around 25Mtpa grading 0.63% copper and 0.019% molybdenum. Erdenet produces around 590ktpa concentrate grading 22-23% copper at an overall recovery of 85%. Copper in concentrate is around 133ktpa. At current production levels, Erdenet has a mine life of around 40 years.



# Ovoot Project: Two stage development

Proof of concept required: Infrastructure, haulage and customers

Stage 1 of the Ovoot Project is to highlight to markets that a larger-scale (Stage 2) development is feasible by:

- Identifying multiple potential routes to market – AKM have identified four;
- Showcasing the coal product to a potential customer base – to secure coal off-take;
- Building relationships with infrastructure and other service providers for construction and ongoing project operation; and
- Managing sovereign issues (coal crossing country borders, etc.).

The two stages of the Ovoot Project can be summarised as follows.

**Table 8: Project summary**

		Stage 1	Stage 2
Ramp-up from		2012	2016
ROM production	Mtpa	0.5-1.0	15
Yield	%	100%	80%
Product	Mtpa	0.5-1.0	12
		ROM coking coal	Premium coking coal
Closest rail load-out		Erdenet 560km from Ovoot	Ovoot

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

## Stage 1 development: 0.5-1.0Mtpa ROM coking coal from 2012

The scoping study for Stage 1 of the Ovoot Project is nearing completion. Stage 1 is a low capital intensity, higher operating cost trial operation. Stage 1 will mine around 0.5-1.0Mtpa ROM coking coal. This coking coal will then be trucked to the nearest rail siding (570km to Erdenet) for freight forwarding to Russian east coast ports, or to customers in Russia or China.

## Stage 2 development: 12Mtpa hard coking coal from 2016

The pre-feasibility study for the Stage 2 development is expected to commence in the September 2011 quarter and be completed by the end of 2011. AKM then plans to complete a bankable feasibility study by mid-2012.

Stage 2 involves a significant infrastructure build (wash plant and 570km rail line) and will mine 15Mtpa ROM coal for 12Mtpa of washed high quality coking coal. Product coal will be railed from the Ovoot Project to Russian east coast ports, or to customers in Russia or China.

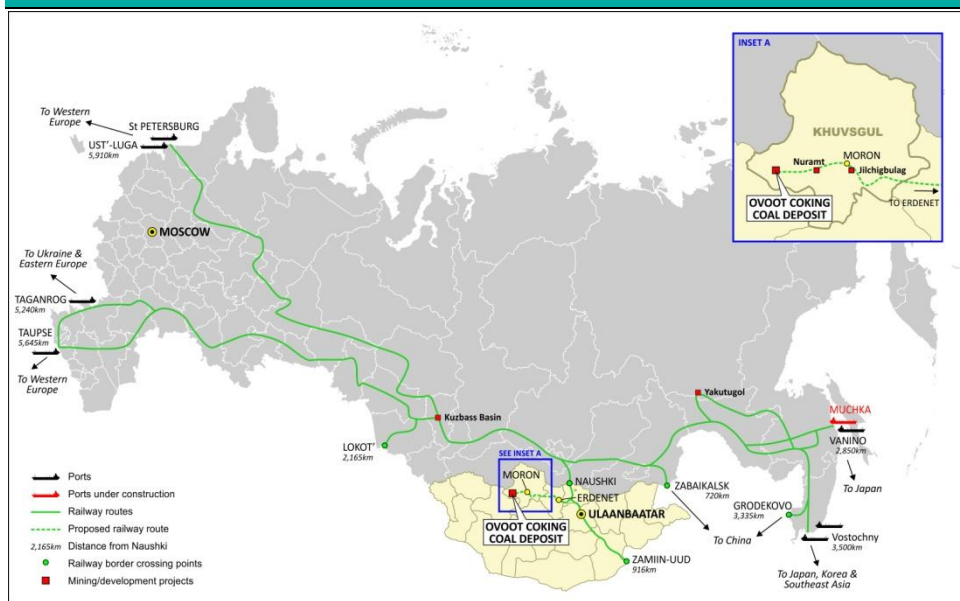
## AKM has identified four potential routes to market for Ovoot coal

Through discussions with Russian rail providers and Mongolian infrastructure providers, AKM has identified four potential routes to market.

1. East coast Russian ports: Railing coal north along the trans-Mongolian railway, then across the trans-Siberian railway to east coast Russian ports;
2. South to the Chinese border: Railing coal south along the trans-Mongolian railway for sale at the Mongolian-Chinese border;
3. China via Manzhouli: Railing coal north along the trans-Mongolian railway then east to the Mongolian-Chinese border at Manzhouli (Inner Mongolia); and

- West to Europe: Depending on freight agreements, it may be viable to rail coal north along the trans-Mongolian railway then west along the trans-Siberian railway to markets in Europe.

**Figure 4 – Ovoot Project: distances to markets**



SOURCE: AKM

### Transport: The tyranny of distance

The example in Table 9 calculates the freight distances to Vostochny Port (east coast Russia), one of the four routes to market identified by AKM. This route is likely to be the most direct point of access to the seaborne market (and therefore seaborne prices).

The analysis highlights the significant distances that Ovoot Project coal will have to travel, and the leverage of costs to rail tariffs. In Australia, Bowen Basin hard coking coal is railed 300-400km to port. In Canada, Peace River hard coking coal is railed around 1,000km to port. The rail distance from the Ovoot Project to Vostochny port is around 4,600km.

**Table 9: Transport**

		Stage 1	Stage 2
<b>Transport parameters</b>			
<b>Distances</b>			
Road Ovoot -> Moron	km	170	
Road Moron -> Erdenet	km	390	
Road total Ovoot -> Erdenet	km	560	
Rail Ovoot -> Moron	km		170
Rail Moron -> Erdenet	km		390
Rail total Ovoot -> Erdenet	km		560
<b>Example: Seaborne sales through Russia</b>			
Rail Erdenet -> Naushki (Mongolia-Russia border)	km	420	420
Rail Naushki -> Vostochny	km	3,500-3,800	3,500-3,800
Rail total Erdenet -> Vostochny	km	4,070	4,070
<b>Total Ovoot Project -&gt; Vostochny</b>	<b>km</b>	<b>4,630</b>	<b>4,630</b>

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

# Ovoot Project valuation assumptions

Valuation summary: Base case DCF of \$1.16/sh

Our price target is supported by a DCF of \$1.16/sh (13% discount rate).

**Table 10: Valuation**

<b>Table 10: Valuation</b>		
<b>Issued capital</b>	<b>m</b>	
Shares on issue	540.0	
Options	247.7	
New issues at \$0.40/sh	150.0	
<b>Total</b>	<b>937.7</b>	
<b>Projects</b>	<b>A\$m</b>	<b>\$/sh</b>
Ovoot - Stage 1	8	0.01
Ovoot - Stage 2	1,338	1.43
Moron to Erdenet infrastructure (50%)	-320	-0.34
Other assets	20	0.02
Corporate overheads	-30	-0.03
<b>EV</b>	<b>1,016</b>	<b>1.08</b>
Net cash + forecast A\$60m issue	76	0.08
<b>Equity value</b>	<b>1,091</b>	<b>1.16</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

Production: 12Mtpa rates from December 2017 quarter

**Table 11: Coking coal production forecasts**

Year ending 30 Jun	Unit	2013a	2014f	2015f	2016f	2017f	2018f
<b>Production</b>							
Ovoot - Stage 1	Mt	0.6	0.8	0.8	0.8	0.4	-
Ovoot - Stage 2	Mt	-	-	-	-	6.0	12.0
<b>Total</b>	<b>Mt</b>	<b>0.6</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>6.4</b>	<b>12.0</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Project capital costs

We estimate modest capital costs of around US\$52m for Stage 1. For Stage 2, we estimate that site infrastructure (including coal wash plant) will have a capital cost of around US\$450m. The Stage 2 rail capital cost assumption in Table 12 is for the 180km rail link between the Ovoot Project and Moron. The assumptions follow consultation with AKM and reviews of similar projects under development (E.g. Mongolia Mining Corporation Ukhaa Khudag coking coal project).

**Table 12: Capital costs**

		<b>Stage 1</b>	<b>Stage 2</b>
Pre-strip	US\$m	6	
Road upgrade	US\$m	36	
Rail	US\$m		510
Wash plant	US\$m		300
Site infrastructure & mine development	US\$m	10	150
<b>Total</b>	<b>US\$m</b>	<b>52</b>	<b>960</b>
	US\$/tpa	69	80

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

## AKM partner in 50% of the Moron to Erdenet rail link

The Moron to Erdenet rail link will likely be used by other minerals projects and be of regional development importance. Therefore, we think it is likely that AKM will likely partner

with the Mongolian Government and/or other potential users in the construction of the Moron to Erdenet rail link. This component accounts for around 390km of the total required rail infrastructure of 570km. We factor in AKM funding and owning 50% of this infrastructure and estimate the total capital cost (100%) US\$1.2bn.

## Ovoot Project transport costs

The example in Table 13 examines FOB transport costs to Vostochny Port, the most direct point of access to the seaborne market (and therefore seaborne prices). The construction of the Ovoot Project to Erdenet rail line lowers transport costs by around US\$30/t.

We have used a conservative Russian freight tariff of US\$1.5/tkm. However, we understand that rates of less than US\$1.0/tkm have been negotiated by other users.

**Lowering Russian rail tariff assumptions to US\$1.0/tkm (from US\$1.5/tkm) reduces transport costs by around US\$20/t and increases our NPV base case NPV from \$1.16/sh to \$2.09/sh.**

**Table 13: Transport**

		Stage 1	Stage 2
<b>Transport tariffs</b>			
Mongolia road haulage rates	US\$/tkm	8.0	
Mongolia rail haulage rates	US\$/tkm	3.0	3.0
Russia rail haulage rates	US\$/tkm	1.5	1.5
<b>Transport costs</b>			
Mongolia road	US\$/t	44.80	
Mongolia rail	US\$/t	12.60	29.40
Russia rail	US\$/t	54.75	54.75
<b>Total transport</b>	<b>US\$/t</b>	<b>112.15</b>	<b>84.15</b>
Border charges	US\$/t	1.50	1.50
<b>Total transport + border charges</b>	<b>US\$/t</b>	<b>113.65</b>	<b>85.65</b>

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

## Mining costs: Low strip ratio provides some offset to rail distance

To AKM's advantage, the Ovoot Project has a low strip ratio when compared with Australian hard coking coal mines. AKM estimate that Stage 1 will have a strip ratio of around 3 (BCM:t). We estimate that some Australian hard coking coal operations in the Bowen Basin (E.g. BMA) are operating at strip ratios of 15-17:1 (BCM:t).

**Table 14: Mining**

		Stage 1	Stage 2
<b>Mining parameters</b>			
Strip ratio	bcm:t	3.0	5.5
Coal SG	t/bcm	1.35	1.35
Mining cost	US\$/bcm	4.00	3.00
<b>Mining and processing costs</b>			
Mining cost	US\$/t	14.96	23.40
Process/handling (screen)	US\$/t	2.00	
Process/handling (wash)	US\$/t		3.00
Admin	US\$/t	2.00	2.00
<b>Mine gate cost</b>	<b>US\$/t</b>	<b>18.96</b>	<b>28.40</b>
Transport cost	US\$/t	113.65	85.65
Port charges	US\$/t	10.00	10.00
<b>Total FOB cost excl royalties</b>	<b>US\$/t</b>	<b>142.61</b>	<b>124.05</b>
Royalties & charges	US\$/t	7.20	9.36
<b>Total FOB cost</b>	<b>US\$/t</b>	<b>149.81</b>	<b>133.41</b>

SOURCE: AKM AND BELL POTTER SECURITIES ESTIMATES

## AKM's short term capital requirements

Our NPV factors in the dilution of a \$60m capital raising at A\$0.40/sh to fund the development of Stage 1 of the Ovoot Project.

## Coal price and currency forecasts

**Table 15: Bell Potter Securities coal price and currency forecasts**

		2010a	2011f	2012f	2013f	2014f	2015f	LT Real
Hard coking	US\$/t	191	289	250	230	225	208	180
Semi-hard	US\$/t	158	247	215	191	186	178	155
LV PCI	US\$/t	148	234	205	175	170	168	147
Semi-soft	US\$/t	141	226	175	148	143	138	120
Thermal	US\$/t	91	122	123	115	110	103	90
US\$/A\$	US\$/A\$	0.92	1.07	1.03	0.95	0.89	0.85	0.85

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Risks

### Commodity price and exchange rate fluctuations

Similar to other commodity producers, AMK will be subject to fluctuations in commodity prices and foreign exchange rates

### Execution risk

The Ovoot Project may be subject to potential timing delays and cost escalations.

### Infrastructure risks

The Ovoot Project requires use of rail and port infrastructure over multiple jurisdictions. This adds additional infrastructure risks to the project.

# Other assets: New minerals province

AKM's other assets include early stage coal prospects and an iron ore prospect, all in the Khuvsgul Province in Northern Mongolia. These prospects are proximal to the Ovoot-Erdenet rail link being proposed by AKM.

Figure 5 – Other AKM asset locations



SOURCE: AKM

## Jilchigbulag (100%): Coking coal prospect

### Prospective ground adjacent to existing mine and close to planned infrastructure

Jilchigbulag is a 2.5km<sup>2</sup> exploration license around 20 km from Moron (140km east of the Ovoot Project). The exploration license is adjacent to an existing small-scale thermal coal mining lease, which supplies coal used for thermal purposes to Moron power stations. Jilchigbulag is with 5km of the proposed Moron to Erdenet railway.

### Coal intersections have been visually similar to Ovoot Project coking coal

AKM has recently intersected coal in five of six exploration drill holes at Jilchigbulag. While coal quality data is yet to be obtained, one exploration hole has intersected 8m of hard, bright coal, visually similar to the Ovoot coking coal.

Table 16: Selected drill results

Hole	Coal intersection m	From m	Hole	Coal intersection m	From m
JB002	0.8	33.7	JB004	2.6	126.1
	1.4	83.2		1.1	129.2
	3.5	99.3		0.9	238.7
	0.9	142.7		JB005	8.3
JB003	0.5	148.0	0.5		192.7
	2.2	150.8	1.3		198.2
	2.2	153.5			

SOURCE: AKM

### Nuramt (100%): Coking coal prospect

#### **Prospective ground close to planned infrastructure, drilling in 2012**

The Nuramt exploration license covers 250km<sup>2</sup> of the Nuramt Basin. The basin contains widespread mapped Jurassic sediments which contain coal at Ovoot and Jilchigbulag. Previous drilling by AKM has intersected weathered coal from near surface. Outcrops of oxidised coal are also present.

AKM has recently completed a seismic survey of the license and is awaiting data processing and interpretation. The company aims to drill at Nuramt in the 2012 drill season.

### Zavkhan (earning 70%): Iron ore prospect

Zavkhan is a 6km<sup>2</sup> exploration license over a known 2km by 200m magnetic anomaly associated with high iron grade magnetite and hematite at surface. The license is located around 165km west of the Ovoot Project.

AKM plan to complete a high resolution magnetic survey to investigate the prospectivity for commercial quantities of direct shipping ore.

### Shanagan Joint Venture (earning 50%): Thermal coal prospect

The Shanagan license area contains Permian aged sediments. Previous drilling has intersected thin ashy coal seams. Further exploration will be conducted in 2012.

# AKM capital structure

## AKM issued capital, market capitalisation & enterprise value

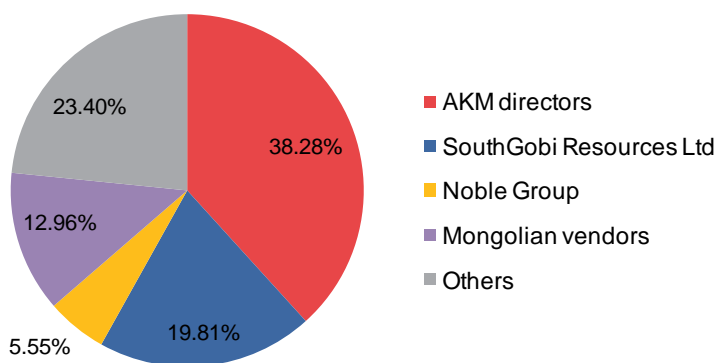
**Table 17: Issued Capital, Market Capitalisation & Enterprise Value**

Total issued shares m	540.0
Share price A\$	0.45
Market cap (undiluted) A\$m	240.3
Net cash A\$m	15.6
EV (undiluted) A\$m	224.6
Options m	247.7
Issued shares (diluted) m	787.7
Market cap (diluted) A\$m	350.5
Net cash + options A\$m	28.6
EV (diluted) A\$m	321.9

SOURCE: IRESS

## AKM major shareholders

**Figure 6 – AKM major shareholders**



SOURCE: AKM



# Appendix 1: Mongolian coal exposures

**Table 18 - Mongolian coal comps**

	EV A\$m	Resource Mt	Target Mt	Total resource target Mt	EV/Tonne JORC A\$/t	EV/Tonne total target A\$/t	Coal quality	Project stage
<b>Aspire Mining (ASX: AKM)</b>	<b>338</b>	<b>331</b>		<b>331</b>	<b>\$1.02</b>	<b>\$1.02</b>		
Ovoot (100%)		331		331			Coking, 80% yield, 8% ash prod	Development
Jilchigbulag							Coking prospect	Exploration
Nuramt (100%)							Coking prospect	Exploration
Shanagan JV (earn in 50%)							Thermal prospect	Exploration
Zavkhan Iron Ore (earn in 70%)							Iron ore prospect	Exploration
<b>Guildford Coal (ASX: GUF)</b>	<b>367</b>		<b>52-568</b>	<b>310</b>		<b>\$1.18</b>		
South Gobi (earn in 70%)			0-582	291			Coking & thermal prospect	Exploration
Middle Gobi (earn in 70%)			29-149	89			Thermal	Exploration
Hughenden, Australia (80%)			40-70	55			Thermal	Exploration
<b>Hunnu Coal (ASX: HUN)</b>	<b>291</b>	<b>844</b>	<b>1,200-1,750</b>	<b>1,320</b>	<b>\$0.34</b>	<b>\$0.22</b>		
Tsant Uul Project (100%)		167	100-200	167			Coking (ash 18-39%)	Development
Unst Khudag (100%)		676	700-800	750			Thermal prospect	Exploration
Gobi Altai (70%)			150-250	200			Coking	Exploration
Altai Nuurs Coal JV (70%)			250-500	375			Hard coking coal	Exploration
<b>Mongolia Energy Corporation (SEHK: 276)</b>	<b>633</b>	<b>155</b>		<b>155</b>	<b>\$4.08</b>	<b>\$4.08</b>		
Khushuut (100%)		155		155			Coking	Ramp up to 5Mtpa
Base metals tenements								
Oil & gas interests								
<b>Mongolia Mining Corporation (SEHK: 975)</b>	<b>3,711</b>	<b>578</b>		<b>578</b>	<b>\$6.42</b>	<b>\$6.42</b>		<b>Prod'n ~7Mtpa</b>
Ukhaa Khudag (UHG) - Coking (100%)		329		329			Hard coking	
Ukhaa Khudag (UHG) - Thermal (100%)		249		249			Thermal	
<b>SouthGobi Resources Ltd (TSX: SGQ, SEHK: 1878)</b>	<b>1,581</b>	<b>536</b>		<b>536</b>	<b>\$2.95</b>	<b>\$2.95</b>		
Ovoot Tolgoi (100%)		185		185			Semi-soft coking	Prod'n 4Mtpa
Soumber Deposit (100%)		127		127			Hard coking	Development
Ovoot Tolgoi Underground Deposit (100%)		178		178			Semi-soft coking	Development
Tsagaan Tolgoi (100%)		45		45			Thermal	Exploration
<b>Xanadu Mines (ASX: XAM)</b>	<b>76</b>	<b>327</b>	<b>175-225</b>	<b>527</b>	<b>\$0.23</b>	<b>\$0.15</b>		
Nuurstei (XAM/Noble earning 80% for XAM 40%)							Coking prospect	Exploration
Javkhilant (XAM/Noble earning 80% for XAM 40%)							Coking & thermal prospect	Exploration
Khar Tarvaga (100%)		327		327			Thermal (sub-bituminous)	Development
Galshar (100%)			175-225	200			Thermal (sub-bituminous)	Exploration

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Appendix 2: Mongolian Minerals Laws

### 2006 Minerals Law

The 2006 Minerals Law became effective on 26 August 2006, replacing the 1997 Minerals Law. The Department of Geological and Mining Cadastre (DGMC, formerly the Cadastral Registration Center), records the holders of minerals license rights under the 2006 Minerals Laws.

### Exploration license tenures: Maximum of 9 years

Exploration licenses granted on or after 26 August 2006 have an initial three year term. Holders may then apply for extensions to the license for two successive periods of three years. Exploration licenses issued prior to 26 August 2006 also had an initial term of three years, with two extensions of two years each available. In some cases, three year extensions for these earlier exploration licenses have been allowed.

### Exploration license fees and commitments

**Table 19: Exploration license fees and commitments**

	US\$/Ha per year
<b>Annual fees</b>	
Initial term - Year 1	0.10
Initial term - Year 1	0.20
Initial term - Year 1	0.30
First extension (3 years)	1.00
Second extension (3 years)	1.50
<b>Minimum expenditure requirements</b>	
Initial term - Year 1	nil
Initial term - Year 1	0.50
Initial term - Year 1	0.50
First extension (3 years)	1.00
Second extension (3 years)	1.50

SOURCE: MONGOLIAN MINING CORPORATION PROSPECTUS

### Mining licenses: Initial 30 year term

Exploration license holders may apply for a mining license within the exploration license area. Mining license holder has the right to conduct mining and construct infrastructure within the license area to support this mining activity. Mining licenses have an initial term of 30 years and are renewable for two successive 20 year periods. Coal mining licenses have an annual per hectare fee of US\$5.00. Only Mongolian legal entities are entitled to hold mining licenses.

### Deposits of strategic importance: Definition

A mineral deposit of strategic importance is defined as a mineral resource which may have the potential to impact national security, or the economic and social development of the country at the national and regional levels. A mineral resource that is generating or has the potential to generate more than 5% of Mongolia's GDP in any given year is also considered a deposit of strategic importance. Either the Government of Mongolia or Parliament may initiate proposals to declare a mineral resource as a deposit of strategic importance.

## Deposits of strategic importance: State participation

The State is entitled to participate in an equity interest of up to 50% for Mineral deposits of strategic importance which have been defined (quantity and grade) by state funded exploration. For deposits of strategic importance defined by exploration not funded by the state, the State is entitled to 34% equity. The company which holds a deposit of strategic importance must also list at least 10% of its shares on the Mongolian Stock Exchange.

## Royalty and taxation regimes

### Coking coal royalty rates vary between 5% and 10%

Royalty rates for coking coal in Mongolia vary between 5% and 10%, depending on whether the coal has been processed and the level of a reference price. The reference price on which royalties are calculated is a domestic Chinese price, published on [www.coalworld.net](http://www.coalworld.net).

In April 2011, the domestic Chinese price for unwashed coking coal was US\$119/t and for washed coal was US\$206/t. The seaborne benchmark hard coking coal price averaged US\$300/t.

**Table 20: Coking coal reference prices and royalty rates in Mongolia**

Unprocessed coal US\$/t		Washed coal US\$/t	
0-25	5.0%	0-100	5.0%
25-50	6.0%	100-130	6.0%
50-75	7.0%	130-160	6.5%
75-100	8.0%	160-190	7.0%
100-125	9.0%	190-210	7.5%
Above 125	10.0%	Above 210	8.0%

SOURCE: AKM

### Taxes

- Corporate tax rates in Mongolia are 10% on the first MNT3 billion (US\$2.4m) of taxable income and 25% on taxable income over this threshold;
- A VAT of 10% is payable on all goods sold, work performed and services provided within Mongolia; and
- A duty of 5% is applied to goods imported into Mongolia. Certain petroleum products and motor vehicles are subject to additional excise taxes.

## Appendix 3: Board and key management

### AKM Board of Directors

#### **David McSweeney - Non Executive Chairman**

Mr McSweeney is a lawyer by training and has over 20 years experience in the resources sector ranging from exploration to project management, project finance, commercial and legal structuring and corporate development. He was a founder of Gindalbie Metals Ltd and the Managing Director from 1998 until December 2006. During this time at Gindalbie McSweeney oversaw the discovery and commissioning of two gold production centres and the repositioning of the company as an emerging Australian iron ore producer with a +\$300m market capitalisation. He is currently the Executive Chairman of Avalon Minerals Ltd, a Non Executive Director of Bauxite Resources Limited and Chairman of MSP Engineering Pty Ltd

#### **Mr David Paull - Executive Director**

Mr Paull has over 20 years experience in resource business development and industrial minerals marketing. Paull was previously Executive General Manager Business Development and Marketing at Sons of Gwalia Ltd where he oversaw the sale of over half the world's annual tantalum concentrate requirements and two thirds of the world's lithium minerals supply. Over the last six years he has been working on private equity and seed capital opportunities in the biofuels, transport services and resource sectors. David holds a Bachelor of Commerce from the University of Western Australia and a Master of Business Administration with Distinction from Cornell University New York. He is a fellow of the Financial Services Institute of Australia. Paull currently serves as Non-Executive Director of Pacific Wildcat Resources Corp, a TSXV listed company and Director of Red Island Resources Limited, a public unlisted company.

#### **Mr Neil Lithgow - Non-Executive Director**

Mr Lithgow has over 20 years experience in mineral exploration, mineral economics and mining feasibility studies, covering base metals, coal, iron ore and gold. He has previously worked for Aquila Resources Limited and Eagle Mining Corporation NL. Lithgow is a Non-Executive Director of Bauxite Resources Limited and Red Island Resources Limited, a public unlisted company. He is a member of the Australian Institute of Mining and Metallurgy and the Financial Services Institute of Australia.

#### **Mr Gan-Ochir Zunduisuren - Non-Executive Director**

Mr Zunduisuren has over 10 years of experience in the resource sector in Mongolia and Canada where he has worked as an underground mining engineer. He has a degree in Mining Engineering from Mongolian University of Science and Technology, a Master of Science from NYU Stern School of Business and is founder and Director of Altai Gold LLC.

#### **Mr Tony Pearson - Non-Executive Director**

Mr Pearson has approximately 15 years experience in the resources, mining and infrastructure sectors. He is currently Vice President Corporate Development with SouthGobi Resources, a leading Mongolian coal producer. Mr Pearson has previously held senior positions with the Australian Securities & Investments Commission, Citigroup's Metals and Mining Investment Banking team and Westpac Banking Corporation. During his time with Citigroup, Mr Pearson advised mining clients on capital raisings, mergers, acquisitions and divestitures, particularly for Asian and Australian mining companies. At Westpac, Mr Pearson was integral to the establishment of the bank's infrastructure and funds management business, focusing on financing and investment activities in the infrastructure and transportation sectors.

**Mr Andrew Edwards - Non-Executive Director**

Mr Edwards is a recently retired senior partner with PricewaterhouseCoopers. Mr Edwards had a distinguished career with PwC spanning 35 years in Perth, Auckland and Sydney. He served as Managing Partner of the Perth practice for five years and led the Perth Advisory business. Mr Edwards is a past National Vice President of the Financial Services Institute of Australasia (formerly Securities Institute of Australia) and past President of the Western Australian division of that Institute. He currently serves as a Non-Executive Director of Mermaid Marine Australia Ltd, Nido Petroleum Ltd and is Non-Executive Chairman of MACA Ltd. He is also a past director of Calibre Global Pty Ltd.

**Mr Mark Read - Non-Executive Director**

Mr Read is the immediate past CEO and Managing Director of ASX listed coal engineering and technology company Sedgman Ltd. While at Sedgman, he was responsible for an overseas expansion strategy that led Sedgman to position itself in emerging high-grade coal regions including Mongolia and Mozambique. Prior to his appointment as chief of Sedgman, Read was Global General Manager of Mining and Metals and Executive Director of engineering services firm SKM, where he was employed for 20 years.

**Mr Phil Rundell - Company Secretary**

Mr Rundell is a former Partner of a big 4 accounting firm and is now a sole practitioner Chartered Accountant specialising in company secretarial, compliance, accounting and reconstruction services. In addition to AKM, services are currently provided to the listed public companies Syngas Limited, TPL Corporation and TVN Corporation Limited.

SOURCE: AKM WEBSITE

**Key senior management****Fergus Campbell – Chief Operating Officer**

Mr Fergus Campbell was appointed Chief Operating Officer of Aspire Mining Limited in February 2010. Fergus has in excess of 22 years of management experience in mining businesses including lead roles in all phases of mining project delivery from feasibility studies through project development and into operations. Fergus has also worked for approximately 12 years as a mining contractor with a successful track record of developing and operating mining projects in challenging and remote environments. Fergus holds a Bachelor of Engineering (mining) from the University of Sydney.

**Glen Ainsworth – Country Director**

Mr Glen Ainsworth was appointed Country Director, in July, 2011 being responsible for the Safety, Health, Environment, and Community Relations in Mongolia. Glen has over 35 years' experience in the mining industry, including 31 years with bauxite mining company "Alcoa World Alumina" in Perth, Western Australia and Guinea, West Africa. Over the last 4 years Glen has been working at the JV Oyu Tolgoi Project between Ivanhoe Mines, Rio Tinto and the Mongolian Government as Environmental Manager.

**Iestyn Broomfield – Exploration Manager**

Mr Broomfield joined the AKM Mongolian Team as Exploration Manager in June 2011. He has 15 years in the resources sector covering roles in geology/geophysics, business development, and various field operation and exploration management roles. Broomfield has worked for a major Australian coal producer in Queensland and Indonesia, and for a junior explorer managing exploration and mine development projects within Indonesia. He holds an Honours Degree in Applied Science (Applied Geology) from the University of South Australia, and a Master of Project Management from the University of Adelaide.

SOURCE: AKM

Table 21 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	2014f	Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	2014f
Revenue	\$m	-	0	-	127	161	<b>VALUATION</b>						
Expense	\$m	(1)	(4)	(8)	(104)	(143)	NPAT	\$m	(1)	(3)	(5)	6	4
<b>EBITDA</b>	\$m	<b>(1)</b>	<b>(4)</b>	<b>(8)</b>	<b>23</b>	<b>18</b>	Reported EPS	c/sh	0	(1)	(1)	1	1
Depreciation	\$m	(0)	-	-	(17)	(15)	PER	x	111.3x	-82.2x	-58.8x	49.0x	67.3x
EBIT	\$m	(1)	(4)	(8)	7	4	DPS	c/sh	-	-	-	-	-
Net interest expense	\$m	0	1	2	2	2	Yield	%	-	-	-	-	-
<b>PBT</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(6)</b>	<b>8</b>	<b>6</b>	EV/EBITDA	x	-339.0x	-85.0x	-38.8x	13.9x	17.6x
Tax expense	\$m	-	1	2	(2)	(1)	<b>PROFITABILITY RATIOS</b>						
NPAT of associates	\$m	-	-	-	-	-	EBITDA margin	%	0%	-1969%	0%	18%	11%
<b>NPAT (reported)</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>6</b>	<b>4</b>	EBIT margin	%	0%	-1969%	0%	5%	2%
NPAT attributable to MI	\$m	-	-	-	-	-	Return on assets	%	-9%	-11%	-8%	7%	2%
<b>NPAT attributable to DTE</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>6</b>	<b>4</b>	Return on equity	%	-11%	-11%	-8%	7%	2%
Abnormal items	\$m	-	-	-	-	-	<b>LIQUIDITY &amp; LEVERAGE</b>						
<b>NPAT (adjusted)</b>	\$m	<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>6</b>	<b>4</b>	Net debt (cash)	\$m	(6)	(15)	(38)	(38)	(88)
							ND / E	%	-42%	-51%	-45%	-41%	-30%
							ND / (ND + E)	%	-71%	-104%	-81%	-70%	-42%
							<b>ASSUMPTIONS - Prices</b>						
							Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	LT Real
							<b>Coal prices</b>						
							Hard coking	US\$/t	146	247	280	235	181
							Semi-hard coking	US\$/t	119	209	239	201	155
							LV PCI	US\$/t	110	196	225	190	147
							Semi-soft coking	US\$/t	102	190	205	160	121
							Thermal	US\$/t	77	106	128	118	91
							<b>CURRENCY</b>						
							AUD/USD	US\$/A\$	0.87	0.99	1.08	0.98	0.85
							<b>ASSUMPTIONS - Production</b>						
							Year ending 30 Jun	Unit	2010a	2011f	2012f	2013f	2014f
							<b>Production</b>						
							Ovoot - Stage 1	Mt	-	-	-	0.6	0.8
							Ovoot - Stage 2	Mt	-	-	-	-	-
							Total	Mt	-	-	-	0.6	0.8
							<b>Production split</b>						
							Hard coking	%	0%	0%	0%	100%	100%
							Semi-hard coking	%	0%	0%	0%	0%	0%
							LV PCI	%	0%	0%	0%	0%	0%
							Semi-soft coking	%	0%	0%	0%	0%	0%
							Thermal	%	0%	0%	0%	0%	0%
							<b>VALUATION</b>						
							<b>Issued capital</b>	<b>Unit</b>					
							Shares on issue	m	540				
							Options	m	248				
							<b>Total</b>	<b>m</b>	<b>938</b>				
							Discount rate	%	13%				
							<b>Issued capital</b>					<b>\$m</b>	<b>\$/sh</b>
							Ovoot - Stage 1					7.77	0.01
							Ovoot - Stage 2					1,337.69	1.43
							Infrastructure					(319.75)	(0.34)
							Other assets					20.00	0.02
							Corporate overheads					(30.00)	(0.03)
							<b>Total</b>					1,015.72	1.08
							Net cash					75.65	0.08
							<b>Equity value</b>					<b>1,091.36</b>	<b>1.16</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Spec Buy:** Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

**Buy:** Expect >15% total return on a 12 month view

**Accumulate:** Expect total return between 5% and 15% on a 12 month view

**Hold:** Expect total return between -5% and 5% on a 12 month view

**Reduce:** Expect total return between -15% and -5% on a 12 month view

**Sell:** Expect <-15% total return on a 12 month view

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