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THE AUSTRALIAN STOCKBROKER

Patersons Securities Limited
Indonesian Coal Review - The short term option

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Contents

Highlights

Indonesia is going to play a major role in the coal markets, particularly thermal, in the short to medium term. As other major producers such as Australia, Colombia, Russia, South Africa and the US battle infrastructure constraints, Indonesia is widely seen as one producer that can expand production to meet increasing demand.

- Indonesia has been the one producer over the last 5 years that has been able to consistently expand production. It is also the largest contributor to the growth of global thermal seaborne trade. Indonesia produced over 300Mt of coal in 2010, an annual increase of 15%. The increase in coal production in 2010 continues the trend of expansion the Indonesian coal industry has achieved since 2000. Between 2000 and 2010, Indonesia's coal industry increased its output by 12% per annum from 76Mt in 2000.
- Bituminous and sub-bituminous coals account for the majority of Indonesia's coal production, totalling 120Mt and 137Mt respectively for 2010. Production of low rank coal has grown significantly over the last 5 years. Low rank coal production totalled almost 45Mt in 2010. Metallurgical coal production totalled 5Mt in 2010 with the majority being mined in the Murawai coking coal Basin on the northern Barito River, Central Kalimantan. We expect low rank and sub-bituminous coals will accounts for the majority of Indonesia's coal production and exports in the future as bituminous coals become more scarce.
- In 2010, Indonesia exported 260Mt. The five largest export destinations for Indonesian coal were China, South Korea, India, Japan, and Taiwan. China is now the largest export market for Indonesian coal closely followed by India. The strong growth in these export markets has been due to their rapidly increasing energy requirements.
- Potentially the biggest change in Indonesia for investing in the mining industry is the legal environment. The Indonesian Government passed the Mining Law on 12 January 2009 in an effort to provide regulatory certainty and to encourage new investment in the mining sector. This has been successful over the last 3 years but there are sections of the mining law that are starting to slow investment such as the Indonesian reference coal price (HBA). The new coal pricing regulation is causing some investors, such as Indian and Chinese power generators, to re-evaluate the operating parameters.
- End users, particularly in the energy sector are changing the way they buy and use thermal coal. This is similar in some ways to what we have seen in the metallurgical coal markets where blending and changing technologies are changing the coals used. The thermal coal markets in India and China are importing and utilising increasing volumes of lower ranked coals. Korea, Thailand, and Philippines are also looking to alternative lower grade coals and Indonesia is in a position to capitalise on these emerging markets.
- The vast majority of Indonesian coal producers, including the six largest producers, are listed on the Bursa Efek Indonesia (BEI). We do not cover any companies listed on the BEI however there are a number of juniors listed on the ASX. Our pick of these are Altura Mining (AJM), Cokal (CKA) and Realm Resources (RRP).

Our preferred stocks

Company	ASX Code	Price Target	Analyst's View
Altura Mining Ltd	AJM	$0.40	AJM is developing the Tabalong Coal Project in Indonesia, the Mt Webber Iron Ore Project and the Pilgangoora Lithium Project located in WA. There is a high probability that the coal and iron ore projects will be in production in 12-18 months and AJM is in a strong financial position, with $29m in the bank.
Cokal Ltd	CKA	$1.00	CKA has an opencut coking coal project in Kalimantan and is aiming to be in production in 12-18 months. It also has been expanding its search for quality metallurgical coal assets globally from Indonesia and Tanzania to now include Mozambique.
Realm Resources Ltd	RRP	$0.17	RRP have completed the first stage of its acquisition of the Katingan Ria coal project in Central Kalimantan, Indonesia. A feasibility study is being conducted, it has a first mover advantage in a new coal province and could be in production within 12 months.

Research summary

Company	Code	Market cap. ($m)	Recommendation	Price ($)	Target price ($)	Forecast 12m total return (%)
Altura Mining Ltd	AJM	72.50	Speculative Buy	0.17	0.40	150
Cokal Ltd	CKA	165.00	Buy	0.44	1.00	127
Kangaroo Resources Ltd	KRL	481.00		0.14		
Pan Asia Corporation	PZC	12.30		0.11		
Realm Resources Ltd	RRP	21.50	Speculative Buy	0.08	0.17	113

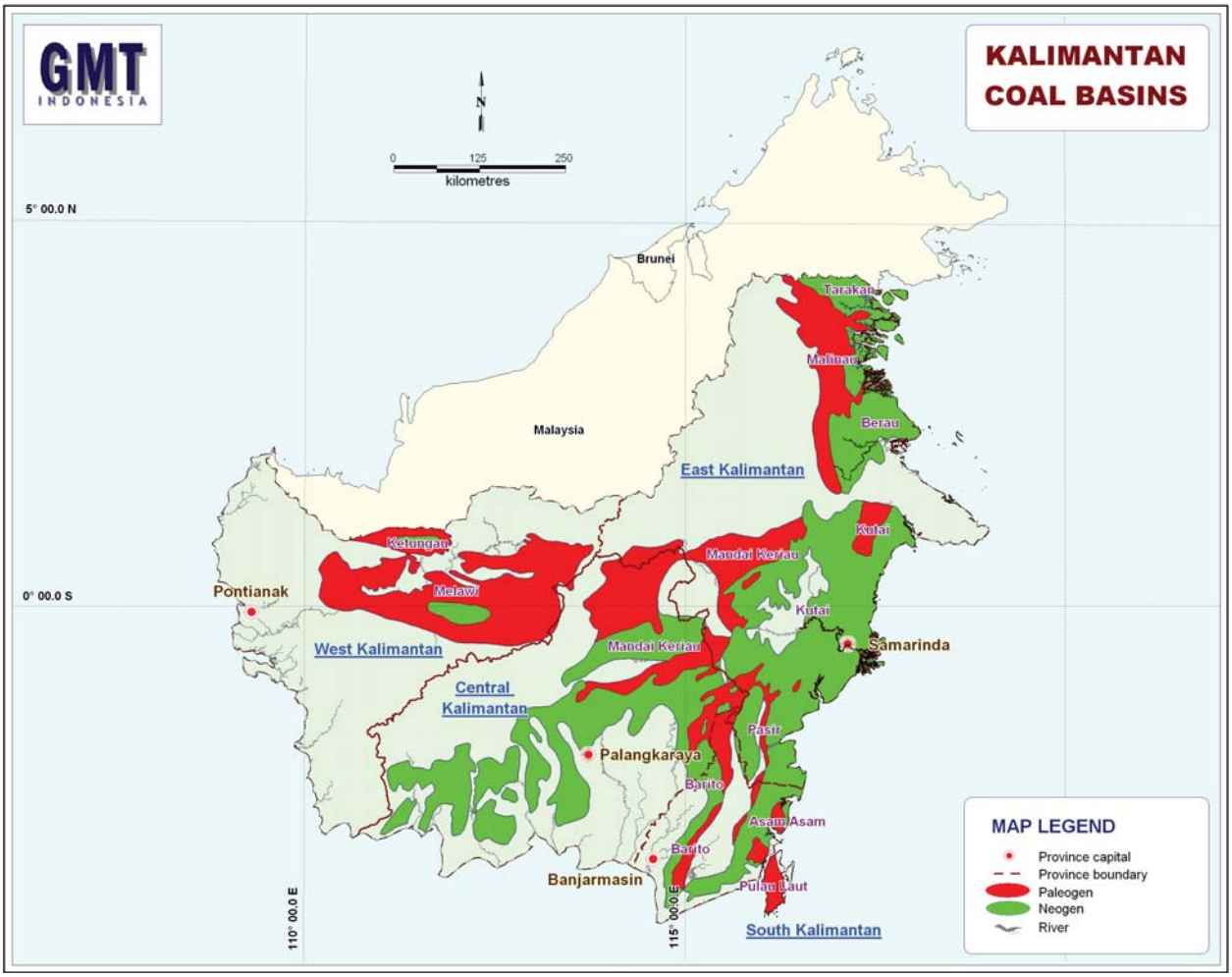
Indonesian Coal

The Indonesian coal deposits are predominately found on the islands of Sumatra and Kalimantan. The sub-bituminous to bituminous tertiary coals of South East Asia are fundamentally different from the geographically close Permotriassic Gondwana coals found in Australia, India and South Africa. In general, the majority of the coal is Paleogene in age but high sea levels during the beginning of this period resulted in deposition of mainly marine sediments and whilst the coal was formed during the Neogene period it tends to be of a lower rank. The existence of higher rank coals at the land surface is dependent on uplift or the presence of igneous intrusions.

Kalimantan

Formerly known as Borneo, Kalimantan is the world's third largest island. The north and north-western part of the island are the Malaysian states of Serawak and Sabah, with the independent state of Brunei Darusalam between them. The rest of the island is part of Indonesia, divided into 4 provinces – East Kalimantan, West Kalimantan, Central Kalimantan and South Kalimantan.

Figure 1: Kalimantan Coal Basins



Source: GMT Indonesia

Coal rank varies across Kalimantan, from lignite through sub-bituminous, high to low volatile bituminous and semi-anthracite to anthracite. Paleogene coals are commonly bituminous or higher in rank. The rank of Neogene coals, in normal geological conditions, is relatively low, except for heat-effected coal deposits. Therefore, the occurrence of high rank coal in Kalimantan is mainly controlled by the distribution pattern of the Paleogene coal measures, and to some extent is also affected by the occurrence of volcanic activity.

Sumatra

Sumatra is the western-most island in the Indonesian archipelago. It is also Indonesia's second-largest island and the world's sixth largest island. Sumatra is divided into eight administrative provinces: Aceh, Bengkulu, Jambi, Lampung, Riau, North Sumatra, and West Sumatra.

The coal measures in the middle Palembang formation extend from central Sumatra to the south for more than 700km. There are three main coal seams that have an average aggregate thickness of about 30-40m. They have been mined for decades by Bukit Assam In general, coals are lignite to sub-bituminous, although there is evidence the coal rank improves in zones where heating has occurred.

Production

Indonesia is estimated to have produced over 300Mt of coal in 2010, an annual increase of 15%. The increase in coal production in 2010 continues the trend of expansion the Indonesian coal industry has experienced since 2000. Between 2000 and 2010, Indonesia's coal industry increased its output by 12% per annum from 76Mt in 2000.

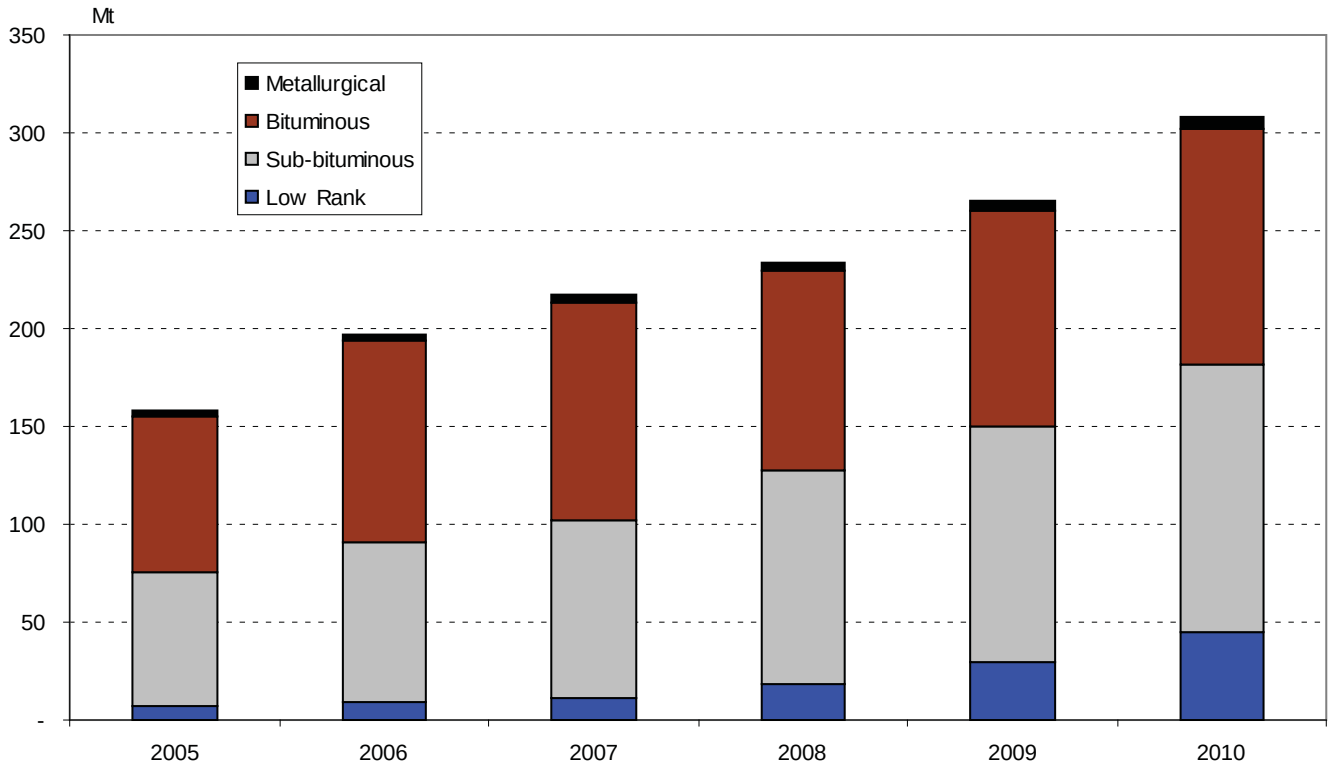
East Kalimantan is the most established mining area providing over 65% of Indonesia's total coal production in 2010. South and Central Kalimantan produced over 100Mt of coal in 2010. The region has very little transport infrastructure, mainly using rivers to barge coal from the mine gate to offshore transhipment or port facilities. Sumatra produced approximately 5% or 15Mt of low rank coal.

Indonesia's coal industry, in addition to being geographically concentrated on the island of Kalimantan, is also concentrated by producer. Indonesia's top six producers, Bumi, Adaro, Kideco, Berau, Banpu, and PTBA accounted for more than 75% of production and (except for PTBA) they are all located on Kalimantan.

Bituminous and sub-bituminous coals still account for the majority of Indonesia's coal production. However, low rank and sub-bituminous coal production have been the main areas of growth and it is expected that bituminous coals will increase in scarcity as current operating mines deplete known resources.

Production of low rank coal has grown significantly over the last 5 years totalling approximately 45Mt in 2010, sub-bituminous production was 137Mt and bituminous was 120Mt. Metallurgical coal production totalled 5Mt in 2010 with the majority being mined in the North Barito Basin in Central Kalimantan.

Figure 2: Indonesian coal production by type



Source: PSL

Demand

Domestic Consumption

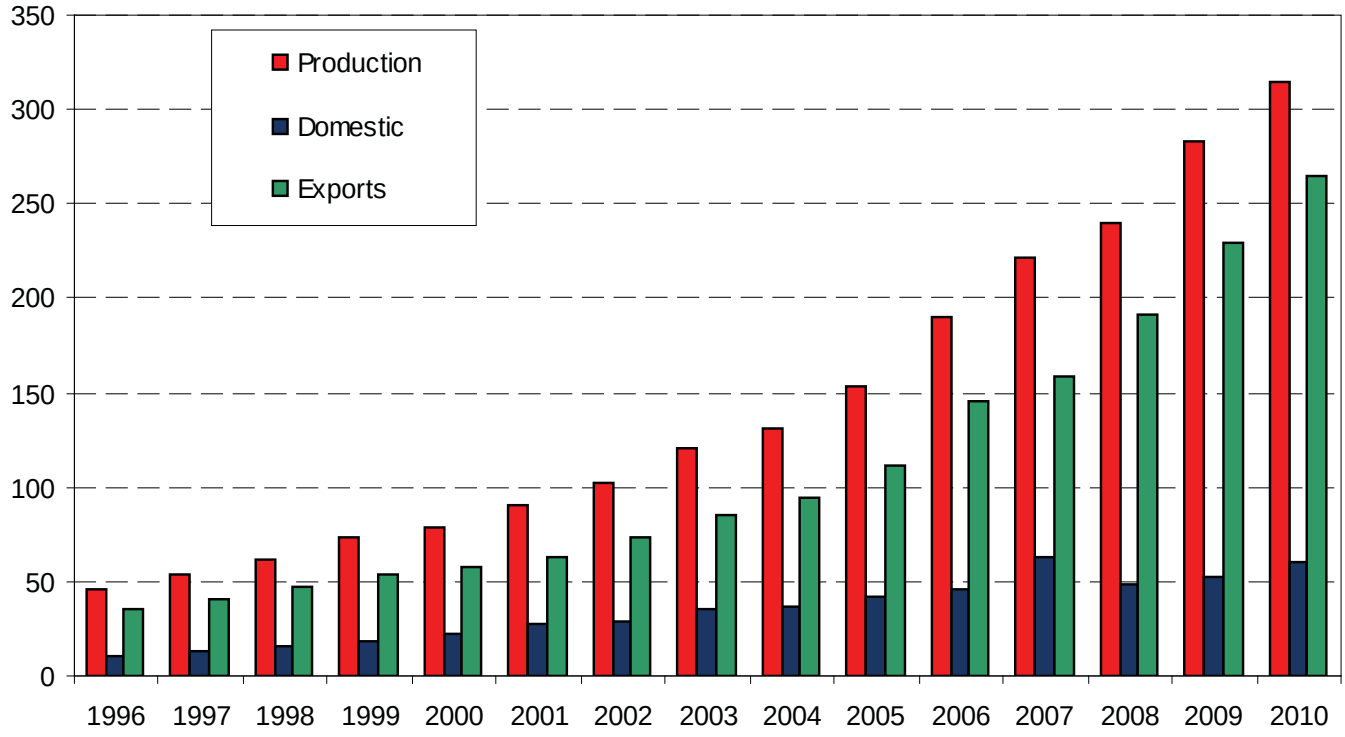
Indonesia is currently well positioned for sustained long term growth. GDP growth has been increasing due to the benefits of a commodity boom, a high savings rate, a growing manufacturing sector and a strong trade surplus with a relatively low exposure to the EU. Current power production is well below demand and the success of the economy will place increasing strains on power generation. Indonesia has one of the lowest per capita electricity consumption in Asia, marginally lower than India and significant new generating capacity is required particularly amongst the non-major island centres.

The Ministry of Energy and Mineral Resource's has identified coal as a logical fuel for new power generation capacity. The abundant resources of coal available make it the most cost effective solution and coal fired generators will reduce the heavy dependency on oil and gas. The Ministry forecasts domestic coal consumption will increase from the current levels of 60Mtpa to 300Mtpa by 2025. We see these goals as optimistic and more likely to be in the 200-250Mtpa range. But this is still a significant increase in domestic consumption and the type of coal used for this increase will predominantly be low energy sub-bituminous coals of less than 4,000kcal/kg.

This has been the main driver behind announcements that the government is seeking to keep this coal in Indonesia. The Ministry of Energy and Mineral Resource is planning to ban the export of low grade coal or coal with calorific value below 5700kcal/kg for the export market by 2014 but there is some doubt whether the proposed ban will be legislated.

It is possible for producers to upgrade lower grade coals to higher-value products for the export market by washing, crushing, and blending and there are a number of companies developing the technology such as White Energy (WEC). However, none of these are commercially viable at this stage.

Figure 3: Indonesian coal fundamentals

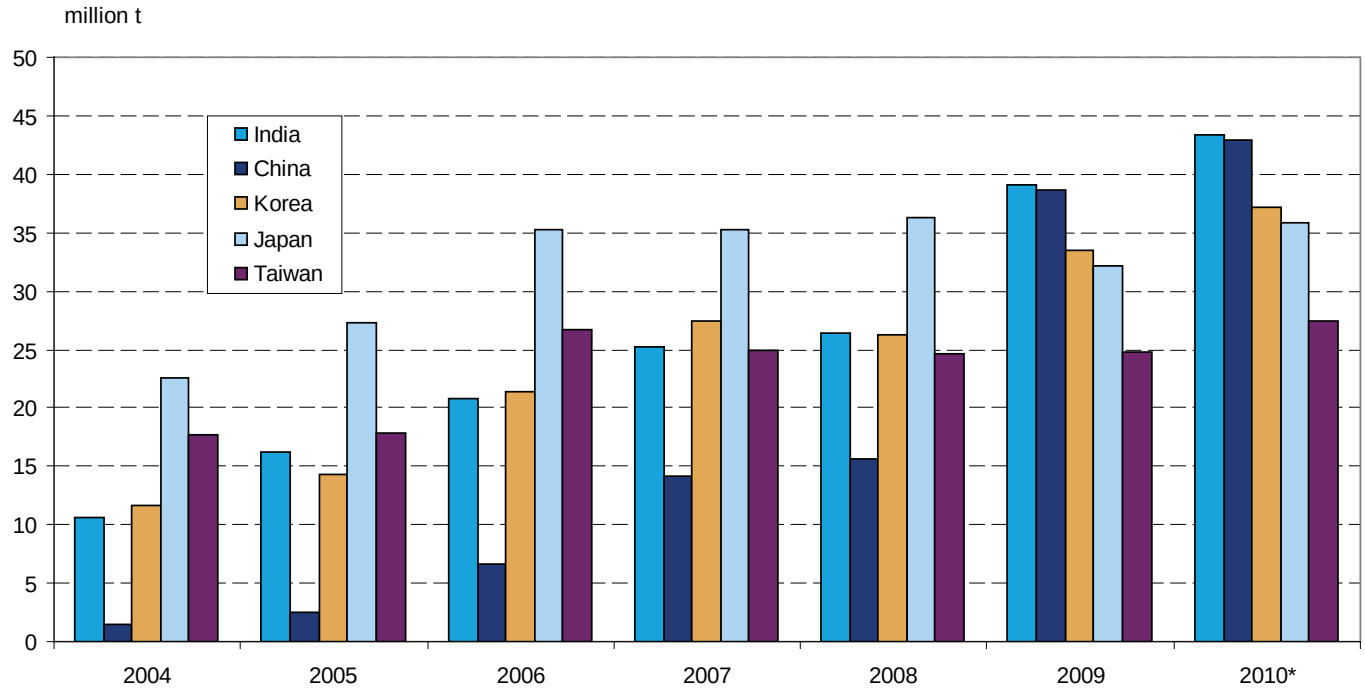


Source: ICMA and PSL estimates

Exports

In 2010, Indonesia exported 260Mt. The 5 largest export destinations for Indonesian coal were China, South Korea, India, Japan, and Taiwan. India is now the largest export market for Indonesian coal closely followed by China. The strong growth in the Chinese and Indian export markets has been due to their rapidly increasing energy requirements and we expect Chinese import requirements to stabilise at current levels and Indian imports to continue to grow strongly. However the changing policy and regulatory environments in Indonesia and India could provide some headwinds to future growth.

Figure 4: Major Indonesian coal destinations



Source: BPS Statistics of Indonesia

One change in Indonesia is that all coal must now be sold at the Indonesian Coal Reference price or HBA which is based on international prices. This is having a significant impact on some of Indonesia's major customers who have invested in the development of the coal industry. The biggest impact is on Indian power utilities. They have operating margins based on set power tariffs and discounted coal prices. Combine these factors with a depreciating Rupee and some operators are being forced to re-evaluate operations and potentially defer future coal purchases.

Government intervention is a common theme in India and it was a significant step for the Government to partially deregulate the power industry. This has lead to the private sector driving the expansion and investment in power generation. It is estimated that the private sector will fund and construct more than half of the growth in installed capacity and investment in coal production in countries such as Indonesia and Australia. However this trend could slow and potentially put imports at risk if there is no mechanism to adjust tariff rates in response to increasing coal prices.

The move to Indonesian Coal Reference (HBA) prices could also be an underlying driver of stagnating Chinese imports of Indonesian coal. This would be in addition to some problems power generators are having with the low-rank coal being imported from Indonesia.

Regulatory Environment

Potentially the biggest change in Indonesia for investing in the mining industry is the changes to the regulatory environment. The Indonesian Government passed the Mining Law on 12 January 2009 in an effort to provide regulatory certainty and to encourage new investment in the Indonesian mining sector. The Mining Law and the mandated implementing regulations issued over the last three years have introduced significant changes to the mining regime. The most significant change is the abolition of the "contract" and "mining authorisation" regime and the adoption of a simplified licensing regime.

The Mining Law reduced the myriad of different licenses and mining authorisations required to get a mine to production. The Mining Law introduced a simplified licensing system in the form of mining business licence (IUP). These are available to both foreign and domestic investors and will be the most common license referred to by listed companies. The Mining Law only requires two licenses, one for exploration and one for production. New mining licences for coal and metallic minerals must be awarded through a competitive auction process and no longer through direct applications. However, once a company is awarded an IUP exploration, it is guaranteed the right to an IUP production without needing to go through a new tender as long as it has fulfilled the terms of its exploration permit.

In the past getting a mine to production depended on a number of things including whether the investor was domestic or foreign and the type of commodity. The different licenses included mining authorisations or KPs, Contract of Work (CoW) and Coal Contract of Work (CCoW). The old system also required a KP for each of six different mining activities. KPs, CoWs and CCoWs will continue to be honoured subject to certain adjustments being made. KPs must be converted into IUPs and holders of existing CoWs and CCoWs are required to enter into amendment agreements with the government.

Despite the changes the Mining Law has implemented there are still a number of concerns with the regulatory environment for the mining industry. These include the time between application and issuance of licenses and the clarity surrounding the regulations. Specifically for the coal industry, clarity in regard to the new domestic market obligations (DMO) is required.

The Indonesian regulatory process has always been fairly slow and it appears this has continued under the new regulations. Unfortunately the slow pace surrounding the issuance process is also accompanied by unclear wording of those regulations that have been issued.

There is also some ambiguity surrounding the DMO. A DMO is set for each calendar year as a percentage of total production that each coal producer must make available to domestic customers. The process requires domestic customers to be surveyed about their coal requirements for that calendar year. The minister is then required to issue a —DMO decree providing the DMO for the next calendar year along with the list of domestic customers and their requirements. Mining companies are then required to submit production plans showing how it intends to meet its fair share of that year's DMO.

It has been indicated that the DMO in any year will not exceed 35% of a producer's total production. However the main concerns surround the lack of contractual obligation on the part of buyers to take the DMO once offered and the lack of detail surrounding coal quality parameters such as CV, moisture, ash, and sulphur limits, which define the specifics of each customer's coal requirements.

The mining law 04/2009 and latest ministerial decree 17/2010 require a coal reference price to be established. The aim is to increase government revenue from coal royalties. The government of Indonesia has been publishing a monthly coal reference price (HBA and HPB) since January 2009 but coal had traded at a discount to this price until recently. Existing coal supply agreements are required to comply with new coal pricing regulation, which was fully implemented on 23 September 2011. The HBA is changing the cost dynamic for foreign investors and international purchases as the reference price is now linked to global prices and the traditional discount applied to Indonesian coal is no longer applicable.

The reference price is to be used by coal producers for all future spot and term contracts. This coal benchmark price is stated as using a formula based on the index average of ICI-1 (Indonesia Coal Index), Platts-1, Newcastle Export Index, and global Coal Index. The assessment basis of the coal price reference was calculated considering coal with GCV 6,322kcal/kg (GAR), Total Moisture (AR) 8.00%, Total Sulphur 0.8% (AR), Ash Content 15% (AR) and delivery Free on Board (FOB) Vessel basis.

Figure 5: Indonesian monthly coal price

Coal Brand	GCV (GAR)	TM (GAR)	Sulfur	Ash	Nov-11 (USD/t)	Dec-11 (USD/t)
Gunung Bayan I	7,000	10	1	15	125.55	121.24
Prima Coal	6,700	12	0.6	5	123.05	119.02
Pinang 6150	6,200	14.5	0.6	5.5	110.92	107.29
Indominco IM East	5,700	17.5	1.6	4.8	95.07	91.86
Melawan Coal	5,400	22.5	0.4	5	89.53	86.67
EnviroCoal	5,000	26	0.1	1.2	82.53	79.99
Jorong J-1	4,400	32	0.3	4.2	66.55	64.50
Eco Coal	4,200	35	0.2	3.9	60.31	58.49

Source: Indonesian Ministry of Energy and Mineral Resources

The Indonesian Government has also reported reference prices for the most commonly traded brands of Indonesian coal, an example is shown in Figure 1. Those eight brands act as the benchmark and are used to calculate other coal types with a quality similar to the main coal price markers. For barge sales, the reference price is reduced by the barging and trans-shipment costs from barge to vessel which makes up FOB prices.

Infrastructure

Indonesian exports were not constrained by infrastructure bottlenecks in 2010 as most operations utilise their own coal logistics chain and do not rely on third party infrastructure. This is a significant competitive advantage relative to other major seaborne thermal coal export countries.

Coal transportation in 2010 was predominantly done using either coastal or river barging. There is some rail transportation but it is limited. It is currently estimated that 65% of exports are loaded onto vessels by trans-shipment facilities and the remaining 35% is loaded through coal terminals.

The river barging and transhipping logistic chain utilised in Indonesia has been the key to the growth of their industry. It will also provide the basis to increase capacity over the short to medium term. It will be of no surprise that trans-shipment usage will continue to grow faster than usage of coal terminals.

Outlook

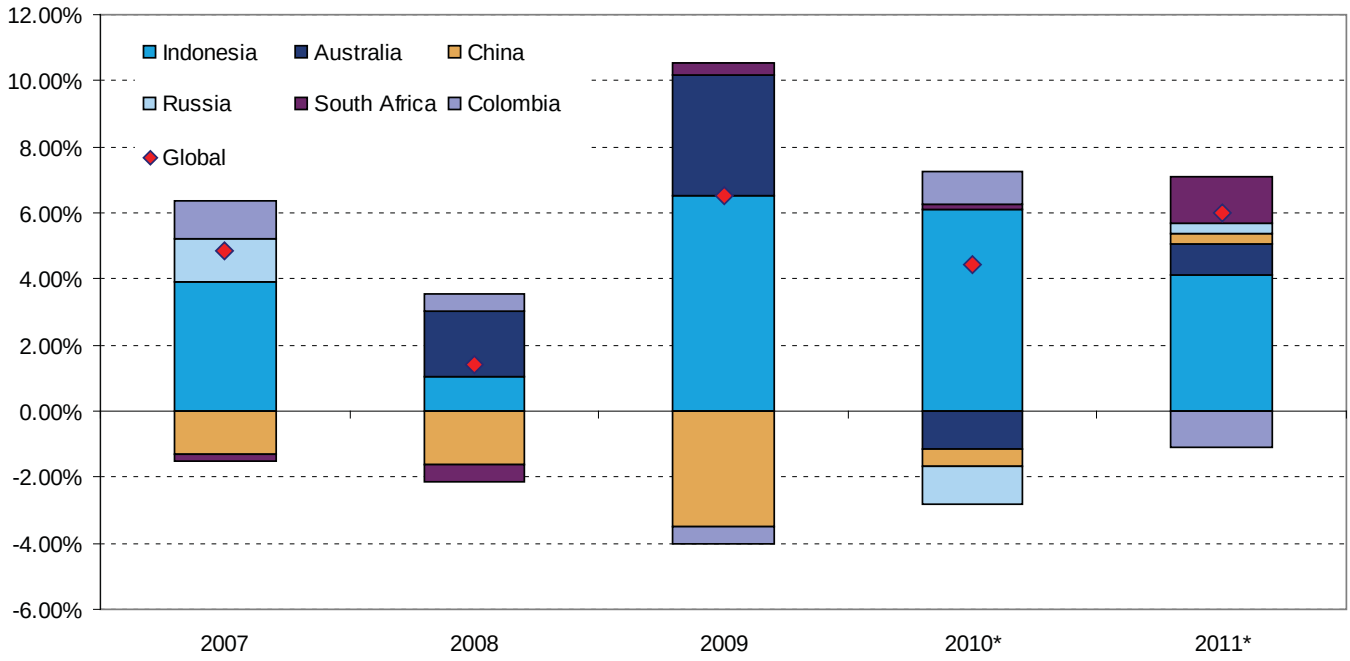
We expect Indonesian production to continue to expand over the next 5 years albeit at a slower rate than the last 5 years. The proposed growth of domestic coal fired generators has raised some questions about Indonesia's ability grow exports. However, we see the domestic growth profile as optimistic and the expansion of the Indonesian industry will be required to fill the predicted demand growth in major Asian market over the next 3-5 years.

We forecast that the growth in thermal demand from both the domestic and export markets will be met largely from the sub-bituminous and low grade Indonesian coals. In the seaborne trade Indonesia enjoys a significant geographic and freight advantage over competitors into major markets in Asia. Indonesian coals are also generally low ash, low sulphur and low phosphorus making them suitable for blending. Lower grade coal is gaining acceptance in global thermal coal markets. International coal trading platform globalCOAL recently announced it is investigating the development of a new product to trade lower CV, higher ash Newcastle thermal coal, which would have formerly been off-spec. However, low quality coal can cause difficulties in older boilers that are not designed to burn these types of coal.

Any additional metallurgical coal produced in Indonesia will undoubtable be quickly absorbed by the market. It is also showing some complementary qualities to Australian metallurgical coals providing potential blending opportunities. New Indonesian metallurgical coal is typically low ash, high vitrinite coking coal while new Australia production is moving to higher ash lower vitrinite.

Indonesia has been the one producer over the last 5 years that has been able to rapidly expand production. Figure 6 shows that Indonesia is the only country to not only expand production but also be the largest contributor to global growth of the thermal coal industry. We see this trend continuing as other major producers such as Australia, Colombia, Russia, South Africa and the US will be battling infrastructure constraints.

Figure 6: Thermal coal export market growth and major suppliers



Source: PSL estimates

Beyond the 5 year time horizon equipment shortages, rising stripping ratios and more challenging logistics for new mines will make bringing on new capacity increasingly difficult and costly. Growing domestic demand will also start to impact exports. The increasing demand for Indonesian coal could potentially harden the political attitude towards the DMO and limit exports.

Political risk is a risk that needs to be considered when investing. However, we see it as unlikely that the Government would adopt a coal policy that favoured the use of its coal resources for domestic purposes and restricted exports. This would counter the work done by the current government in implementing the new Mining Law and opening the industry to foreign investment. Furthermore we think that the power station expansion programme is unlikely to achieve the ambitious targets despite the obvious need, further limiting domestic coal demand.

ASX-listed Indonesian Coal Resources Companies

Indonesia is going to play a major role in the coal markets, particularly thermal, over the next few years at least. As other major producers such as Australia, Colombia, Russia, South Africa and the US battle infrastructure constraints, Indonesia is widely seen as one producer that can expand production in the short term.

The vast majority of Indonesian coal producers, including five of the largest producers, Bumi, Adaro, Kideco, Berau, and PTBA, are listed on the Bursa Efek Indonesia (BEI). We do not formally cover any companies listed on the BEI however there are a number of juniors listed on the ASX. These include the following companies:

Altura Mining (AJM) - is a junior exploration company that is generating revenue from drilling and exploration services. AJM is developing three key projects; the Tabalong Coal Project in Indonesia, the Mt Webber Iron Ore Project and the Pilgangoora Lithium Project located in Western Australia. The Tabalong Coal Project will be a small operation with relatively good thermal coal for Indonesia. We see the main hurdle being the transport of coal 100km to the Barito River. AJM is actively looking to expand its asset base in Indonesia and seeking a well established local partner to develop Tabalong and other potential assets. We rate AJM as a speculative BUY with a price target of $0.40/share.

Cokal (CKA) - has been expanding its search for quality metallurgical coal assets globally from Indonesia and Tanzania to now include Mozambique. Despite the expanded search the focus is still on developing the Indonesian assets which CKA aims to bring into production by 2013. The most progressed of these Indonesian assets is Bumi Barito Mineral (BBM) and CKA recently announced its 60Mt maiden resource on the project. The coal is a mix of coking coal and PCI with very low in impurities, phosphorus and sulphur. CKA is attractive as a pure play metallurgical coal company with a strong board and management team and a strong cash position with $34m in cash. We rate CKA a BUY with a price target of $1.00/share.

Kangaroo Resources (KRL) – KRL has completed an all script deal with Bayan that will see KRL acquire the large scale low rank thermal coal Pakar project in East Kalimantan plus $18m in cash for 2.3bn ordinary shares in KRL or approximately 57% of outstanding shares. Bayan has nominated 4 directors to the board. KRL now has 3 projects in the development/production stage and another 5 exploration concessions all on Kalimantan. 4 of the projects have metallurgical coal potential and the remaining have varying qualities of thermal coal. KRL has the assets to become a sizable coal producer in Indonesia with a significant partner however we see a lot of the value already priced in the $515m market cap of KRL and Bayan will be in court with WEC over damages for breach of a Joint Venture Deed.

Pan Asia Corp (PZC) – 75% interest in the TCM project in South Kalimantan. The concession is immediately adjacent and down dip to the PT Arutmin open cut thermal coal mine. An 114Mt JORC compliant resource of high calorific thermal coal has been delineated on the concession. PZC is proposing an underground mine with a mechanized longwall. A feasibility study on the underground operation producing 1.5Mtpa saleable coal with an initial LOM of 15 years is underway and it is scheduled to be completed this quarter.

Realm Resources (RRP) - has successfully completed the first stage of its acquisition of the Katingan Ria coal project in Central Kalimantan, Indonesia. A feasibility study is being conducted and positive economics from the study will require RRP to increase ownership to 75%. RRP will need to raise additional funds to achieve this next stage but we believe that RRP will benefit from the growing demand for low rank coal, it has a first mover advantage in a new coal province and could be in production within 12 months. We rate RRP as a speculative BUY with a price target of $0.17/share.

Investment Ideas

In addition to these brief descriptions we have attached research notes on our preferred stocks Altura Mining (AJM), Cokal (CKA) and Realm Resources (RRP).

Altura Mining Limited AJM ($0.17)

Recommendation: SPECULATIVE BUY

Diversified portfolio

Analyst: Matthew Trivett

OUR VIEW

Altura Mining (AJM) is a junior exploration company that is generating revenue from drilling and exploration services. AJM is developing three key projects; the Tabalong Coal Project in Indonesia, and in Western Australia, the Mt Webber Iron Ore Project and the Pilgangoora Lithium Project. There is a high probability that the coal and iron ore projects will be in production in the next 12–18 months and AJM is in a strong financial position, with $29m in the bank, to fund these projects. The Tabalong Coal Project will be a small operation with relatively good thermal coal for Indonesia and the main hurdle will be transporting the coal 100km to the closest river. The Mt Webber Iron Ore Project is majority owned and managed by Atlas Iron. We value Mt Webber $600m and AJM's 30% share equates to $0.40/share. The Pilgangoora Lithium Project currently has a JORC complaint resource of 13.29Mt at 1.21% Li_2O (contained lithium oxide 161kt) which is marginally smaller than resources developed by RDR and GXY. Considering the cash position and resources developed on AJM's three key projects we rate AJM a speculative buy with a price target of $0.40/share.

Investment Highlights

- ***Tabalong Coal Project -*** *comprises two 100% owned mining permits, IUPs. Operation and production approval has been received and the final remaining approval process, Forestry Land Use Permit, has commenced. AJM would like to develop the project with a well established Indonesian partner. Potential partnerships could expand the holdings in the region and provide access to further coal resources. It would also solve the issue of the mandatory 20% divestment to a local business after 5 years of production.*

- ***Standalone operation –*** *AJM is planning on developing a simple open pit operation that is 110km to river ports on the Barito River (West) or Kuaro River (East). A 13.4Mt JORC compliant resource has been defined on one area that would be enough for an annual production rate of 500-750ktpa of thermal grade coal. The Initial mining area contains a shallow seam that is up to 18m thick. Coal qualities include a relatively high calorie thermal coal (6,300kcal – as received) with low ash and moisture. A second area is currently being explored. Field mapping and sampling is underway and drilling will commence after the receipt of the required permits.*

- ***Mt Webber Iron Ore -*** *Located 150km south-southeast of Port Headland, AJM owns 30% and Atlas Iron (AGO) is the majority owner and manager with 70%. Mt Webber has reserves of 25.2Mt at 57.5% Fe with a resource base of 41.9Mt at 57.1% Fe. Infill drilling is expected to continue to upgrade existing resources to ore reserves. AGO are likely to build a hub at Mt Webber to produce at a rate of 3Mtpa by the end of 2012.*

- ***Pilgangoora Lithium Project -*** *metallurgical testing has been completed and the ongoing drilling program to date has identified five mineralised pegmatite zones. The total Pilgangoora Mineral Resource estimate is currently 13.29Mt of mineralised spodumene pegmatites at 1.21% Li_2O (contained lithium oxide 161kt). The deposit is characterised by thick mineralised pegmatites outcropping at surface. AJM will decide on committing to a feasibility study, before the end of 2012.*

- ***Strong cash position -*** *AJM received more than $18.6m in funds through the exercise of its listed options with an exercise price of $0.15 and expiry on 31 August 2011. This places AJM in a strong position with a cash balance of approximately $29m to fund the majority of the development of its near-term projects – Tabalong Coal and Mt Webber Iron Ore.*

Management & Shareholders

Name	Position
James Brown	Managing Director
Paul Mantell	Executive Director
Allan Buckler	Non Executive Director
BT Kuan	Non Executive Director
Dan O'Neill	Non Executive Director

Substantial Shareholders	Shares (m)	%
Allan Buckler	83.1	18.3
Max Smith	83.0	18.3
Farjoy Pty Ltd	29.5	6.5
John Caldon	22.3	4.9
Paul Mantell	9.2	2.0

Company Statistics & Performance

Shares on Issue	453.5m	**Daily Vol.**	471,845
Market Cap.	$72.6m	**Debt**	$0.0m
52 Week Range	$0.135 - $0.22	**Cash**	$29.0m

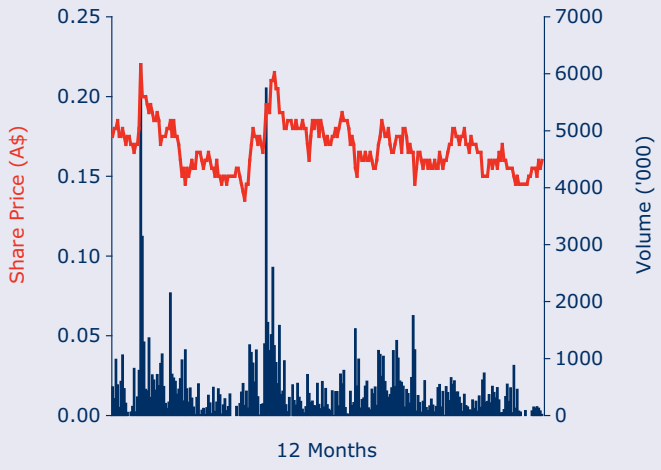


Figure 1: Tabalong location map

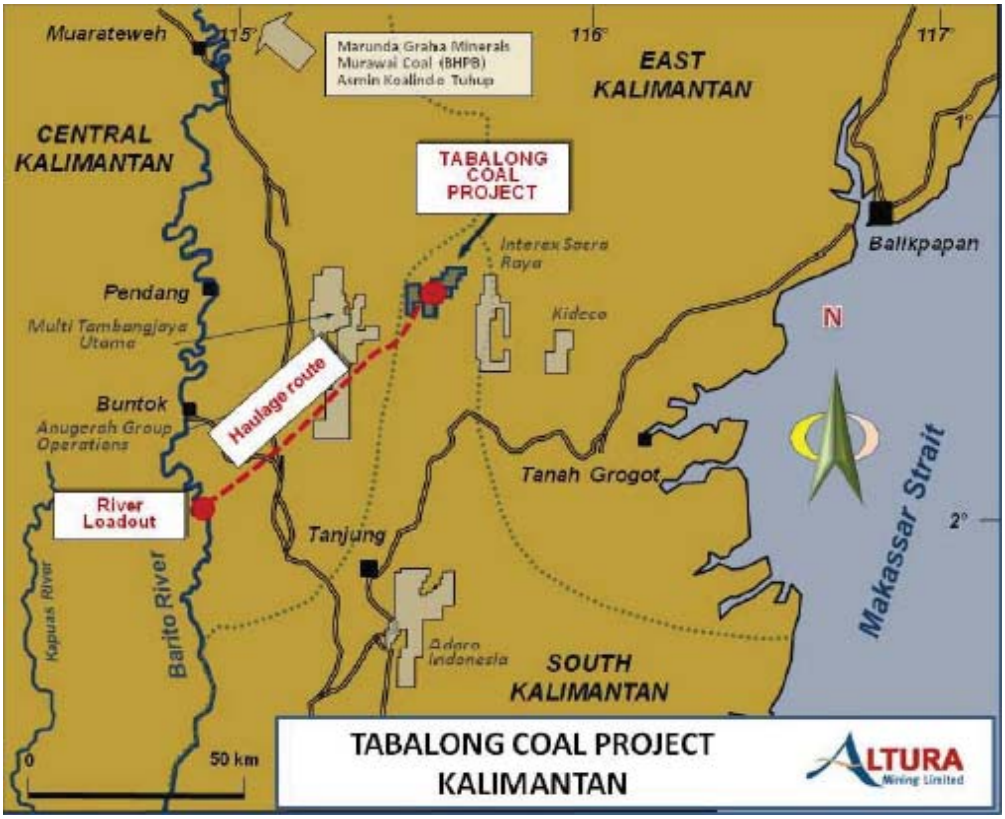


Figure 2: Pilgangoora drill locations

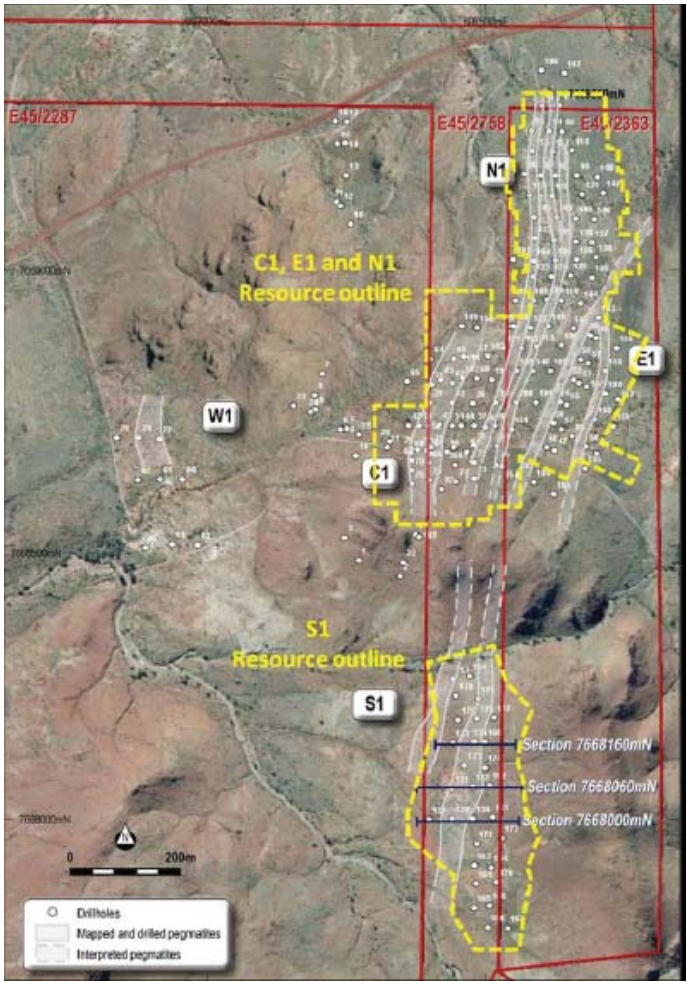
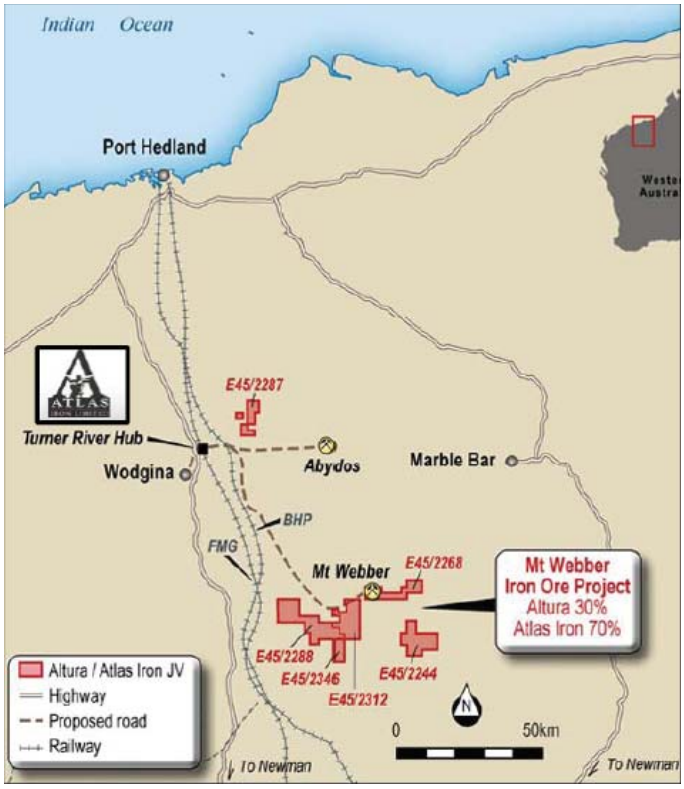


Figure 3: Mt Webber location map



Disclosure: Patersons Securities Limited acted as Lead Manager and partial underwriter in July 2010 to Altura Mining Limited's Rights Issue to raise $16.9m. Patersons received a fee for this service.

Realm Resources Limited RRP ($0.08)

Recommendation: SPECULATIVE BUY

Over the first hurdle

Analyst: Matthew Trivett

OUR VIEW

Realm Resources (RRP) has successfully completed the first stage of its acquisition of the Katingan Ria coal project in Central Kalimantan, Indonesia by raising $15m. This has secured 51% of the project and financed the feasibility study required to take Katingan Ria to the next stage and into production in 2012. Once the feasibility study is completed RRP will essentially be at the decision to mine stage and will need to raise additional funds to increase ownership to 75% and develop the project. RRP has done significant work to develop the project to date including receiving all the permits required to explore Katingan Ria and lodged the remaining application for the Pinjam Pakai (Forestry) Operations permit. We are expecting an increase in the current resource base which is currently 40Mt as the additional drill programme on the northern section has been completed and the modelling of the seams is underway. We believe that RRP will benefit from the growing demand for low rank coal, It has a first mover advantage in a new coal province and could be in production within 12 months. Accordingly we retain our speculative buy recommendation with a price target of $0.17/share.

Investment Highlights

- *RRP successfully raised $15m to enable the first stage of the acquisition process of the Katingan Ria coal project. The funds were used to acquire of 100% of Kalres Ltd and 51% of Katingan Ria. Taurus Funds Management became a cornerstone investor with 19.9%. RRP is considering a number of options for funding the acquisition of an additional 24% of the project and subsequent project development.*
- *The Katingan Ria Project feasibility study is being progressed with its Indonesian 49% partners PT Goku (formerly indoNRG) Successful completion of the study with positive outcomes is a condition precedent to RRP's acquisition of the remaining 24% of PT Katingan Ria by 31 March 2012.*
- *Permitting for the project has advanced from IUP Exploration to IUP Operation. The final application required for mining operations to commence, the production forestry permit Pinjam Pakai (Forestry) Operations, has been lodged.*
- *In addition to the maiden JORC compliant resource of 40.1Mt in the southern area a drilling program of 8 holes, including 2 cored holes, has been completed in the northern area. The modeling of seams has commenced and an increase in the total resources is expected in early 2012.*
- *Andrew Matheson joined the company in June 2011 as an executive director and after the capital raising was appointed Managing Director. Mr Matheson has 25 years experience in the resources industry including CEO of Carbon Materials with the Talbot Group, General Manager of Aquila Resources' coal portfolio.*
- *Following the change in focus of the company to coal, RRP is performing a strategic review of its South African platinum projects and its aluminium dross retreatment operation. The realized funds from the sales of some or all of the assets would make a significant contribution to the $20m funding requirements of the Katingan Ria Project.*

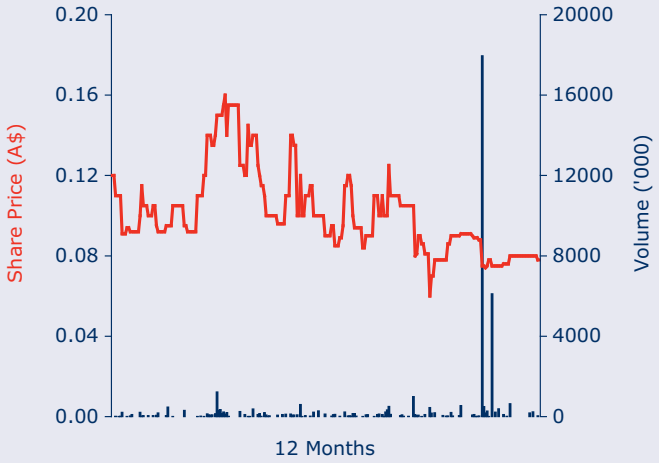
Disclosure: Patersons Securities Limited acted as Joint-Lead Manager to Realm Resources Limited's Share Placement to raise $15m in September 2011. Patersons received a fee for this service.

Investment Summary

Year End December 31	2011F	2012F	2013F	2014F
Reported NPAT ($m)	(2.4)	3.8	11.1	5.9
Recurrent NPAT ($m)	(2.4)	2.6	9.9	5.9
Recurrent EPS (cents)	(0.6)	0.6	2.4	1.5
EPS Growth (%)	na	na	275.5	(40.4)
PER (x)	(13.1)	12.0	3.2	5.4
EBITDA ($m)	(2.2)	5.7	16.0	11.7
EV/EBITDA (x)	(16.2)	10.0	3.0	5.6
Capex ($m)	0.1	19.9	0.3	21.5
Free Cashflow	(2.8)	(16.4)	10.9	(15.5)
FCFPS (cents)	(0.7)	(4.0)	2.7	(3.8)
PFCF (x)	(11.4)	(1.9)	2.9	(2.1)
DPS (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0

Company Statistics & Performance

Shares on Issue	281.1m	**Daily Vol.**	158,486
Market Cap.	$21.9m	**Debt**	$0.0m
52 Week Range	$0.06 - $0.16	**Cash**	$1.9m

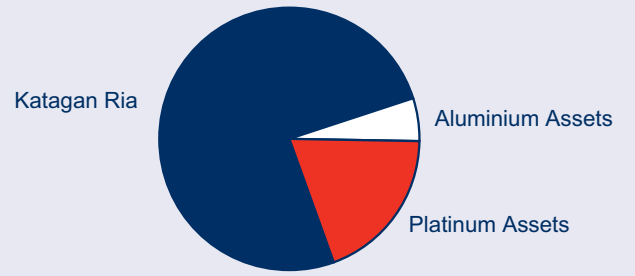


Realm Resources Limited **$0.08**

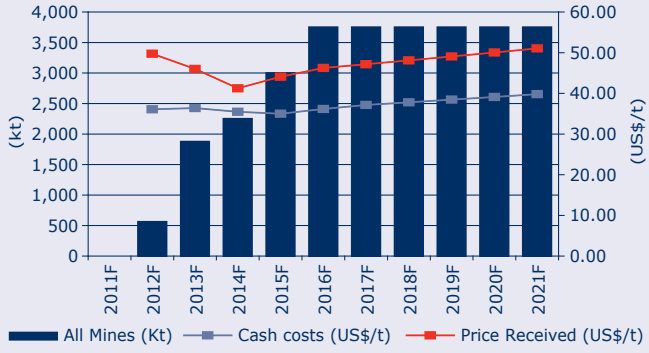
Year End December 31

Valuation	A$m	A$/sh
Katagan Ria	61.8	0.15
Aluminium Assets	4.4	0.01
Platinum Assets	15.7	0.04
Corporate	(12.9)	(0.03)
Unpaid Capital	0.0	0.00
Cash	1.9	0.00
Debt	0.0	0.00
NPV	**70.9**	**0.17**
Price Target		**0.17**

Coal Sales (equity basis) by coal type



Coal Production Summary



Resources 100% Basis (Mt)

Mine		Total
Katagan Ria Coal Project		
Measured	0.0	0.0
Indicated	0.0	0.0
Inferred	41.0	41.0
Total Resources		**41.0**

Directors

Name	Position
Richard Rossiter	Chairman
Andrew Mathison	Managing Director
Theo Renard	Executive Director & Company Secretary
Dr Neale Fong	Non-Executive Director
Michael Davies	Non-Executive Director
Andrew Purcell	Non-Executive Director

Significant Shareholders	Shares (m)	%
JP Morgan Nominees	58.8	20.9
Nkwe Platinum (South Africa) (Pty) Limited	15.2	5.4
Sunshore Holdings Pty Ltd	6.6	2.3
Berpaid Pty Ltd	6.3	2.2

Commodity Assumptions	2011F	2012F	2013F	2014F
US$/A$	1.0321	0.9950	1.0000	0.9700
Hard Coking Coal	303.75	247.50	193.75	158.75
Semi-soft Coking Coal	227.50	182.50	137.50	107.50
PCI	235.00	187.50	142.50	112.50
Export Thermal Coal	122.00	107.50	92.50	82.50
Domestic Thermal Coal (A$/t)	47.41	49.31	50.38	51.39

Production Summary	2011F	2012F	2013F	2014F
Attributable Saleable Coal Production				
Katagan Ria (kt)	**563**	**1,875**	**2,250**	
FOB costs (US$/t)	36.08	36.37	35.46	
Price Received (US$/t)	49.75	46.00	41.25	
All Mines (Kt)	**563**	**1,875**	**2,250**	
Cash costs (US$/t)	36.08	36.37	35.46	
Price Received (US$/t)	49.75	46.00	41.25	

Profit & Loss (A$m)	2011F	2012F	2013F	2014F
Sales Revenue	**0.0**	**28.1**	**86.3**	**95.7**
Other Income	2.0	0.2	0.2	0.5
Operating Costs	0.0	20.4	68.2	82.3
Exploration Exp.	0.0	0.0	0.0	0.0
Corporate/Admin	4.1	2.2	2.3	2.3
EBITDA	**(2.2)**	**5.7**	**16.0**	**11.7**
Depn & Amort	0.0	0.1	0.5	0.6
EBIT	**(2.2)**	**5.5**	**15.6**	**11.1**
Interest	0.2	1.8	1.4	2.7
Operating Profit	**(2.3)**	**3.8**	**14.1**	**8.4**
Tax expense	0.0	0.0	3.0	2.5
Abnormals + Minorities	(0.1)	0.0	0.0	0.0
NPAT	**(2.4)**	**3.8**	**11.1**	**5.9**
Normalised NPAT	**(2.4)**	**2.6**	**9.9**	**5.9**

Cash Flow (A$m)	2011F	2012F	2013F	2014F
Adjusted Net Profit	(2.4)	3.8	11.1	5.9
+ Interest/Tax/Expl Exp	0.2	1.8	4.5	5.2
- Interest/Tax/Expl Inc	0.6	2.2	4.9	5.6
+ Depn/Amort	0.0	0.1	0.5	0.6
+/- Other (Associates)	0.2	0.0	0.0	0.0
Operating Cashflow	**(2.6)**	**3.5**	**11.2**	**6.0**
- Capex (+asset sales)	14.6	33.9	0.3	21.5
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**(17.3)**	**(30.4)**	**10.9**	**(15.5)**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	8.7	10.0	0.0	0.0
+ Debt drawdown (repaid)	5.2	22.0	(8.0)	19.0
Net Change in Cash	**(3.4)**	**1.6**	**2.9**	**3.5**
Cash at End Period	1.9	3.5	6.3	9.9
Net Cash/(Debt)	(3.3)	(25.1)	(15.8)	(33.6)

Balance Sheet (A$m)	2011F	2012F	2013F	2014F
Cash	1.9	3.5	6.3	9.9
Total Assets	16.9	47.9	70.2	98.2
Total Debt	5.2	28.5	22.1	43.4
Total Liabilities	8.3	25.6	36.8	58.9
Shareholders Funds	8.5	22.3	33.4	39.3
Ratios				
Net Debt/Equity (%)	38.9	112.5	47.2	85.4
Interest Cover (x)	na	3.1	10.8	4.2
Return on Equity (%)	na	16.9	33.3	15.0

Cokal Limited CKA ($0.45)

Recommendation: SPECULATIVE BUY

Coking coal developer

Analyst: Andrew Harrington, Matthew Trivett

OUR VIEW

Cokal Ltd (CKA) has an opencut coking coal project in Kalimantan and is aiming to be in production in 12-18 months. It also has been expanding its search for quality metallurgical coal assets globally from Indonesia and Tanzania to now include Mozambique. CKA signed an agreement with a state owned corporation to participate in exploration and mining development. Despite the expanded search, the focus is still on developing the Indonesian assets which CKA aims to bring into production by 2013. The most progressed of these Indonesian assets is Bumi Barito Mineral (BBM) and CKA recently announced a 60Mt maiden resource on the project. The coal is a mix of coking coal and PCI which is very low in impurities like phosphorus and sulphur. CKA is attractive as a pure play metallurgical coal company, a rare thing on the ASX. Our attraction is based on the highly experienced board and management team with strong coal backgrounds, solid cash position after raising $28.5m from two institutional placements and our fundamental view of the metallurgical coal market which we expect to remain in a structural supply shortage in the coming years. The share price has roughly halved over the past 6 months and conservatively modelling BBM, we rate CKA a BUY recommendation with a price target of $1.00/share.

Investment Highlights

- ***Increased ownership and resource –*** *Increased ownership and resource – CKA increased its ownership of the Indonesian concessions, Bumi Barito Mineral (BBM) and Borneo Bara Prima (BBP) to 60%. BBM is the primary focus for CKA, covering an area of 20,000ha in the North Barito Basin. It is immediately to the south of PT Juloi Coal (BHP 75%, Adaro Energy 25%). BHP recently announced that it will be progressing with the Juloi project. Scoping studies have commenced on BBM and CKA believes production will commence in 2013.*
- ***Maiden inferred JORC compliant resource of 60Mt.*** *The resource is from 3 seams located from surface to a depth of 300m. The coal quality is all metallurgical coal products comprising of 60% coking coal and 40% PCI with very low ash, low sulphur, low phosphorous and high energy. Drilling will continue on BBM generally in areas of low strip ratio and with higher percentages of coking coal.*
- ***Transporting -*** *The project is located on the upper parts of the Barito River which is currently being utilised to transport coal by barge down river for transhipping into vessels. Barging studies have been implemented to assess the viability of the project. The capacity of the river may vary in the drier months between July and October.*
- ***Empresa Moçambicana de Exploração Mineira*** *(EMEM) and CKA signed an agreement to explore tenements and jointly develop mines in Mozambique. EMEM will have 20% ownership and Cokal 80% of the JV Company. EMEM is a state owned corporation formed to participate in mining projects, undertake exploration and mining development. No tenements are currently in the JV.*
- ***Strong cash position –*** *CKA has approximately $31m in cash after placing 57m shares at $0.50/share with Passport Capital and Blackrock. This should be sufficient funding for exploration and development of CKA assets over the next 18 months.*
- ***Valuation –*** *We have modeled a 2Mtpa operation at BBM using information from CKA and PT Borneo Lumbung, located 80km west of BBM. Borneo Lumbung have an operating mine producing 5Mtpa of similar grade coal. We have used a capital cost of $145m and average operating cost of $91/t over the 25 year LOM.*

Investment Summary

Year End June 30	2011A	2012F	2013F	2014F
Reported NPAT ($m)	(2.6)	(3.0)	(3.5)	10.0
Recurrent NPAT ($m)	(2.6)	(3.0)	(3.5)	7.5
Recurrent EPS (cents)	(0.7)	(0.8)	(0.9)	2.0
EPS Growth (%)	na	na	na	na
PER (x)	(63.2)	(54.8)	(47.4)	22.2
EBITDA ($m)	(2.6)	(3.0)	(2.8)	19.8
EV/EBITDA (x)	(56.8)	(45.5)	(64.2)	11.7
Capex ($m)	0.0	0.0	30.6	59.8
Free Cashflow	(25.7)	(8.7)	(40.2)	(52.5)
FCFPS (cents)	(6.7)	(2.3)	(10.5)	(13.7)
PFCF (x)	(6.5)	(19.1)	(4.2)	(3.2)
DPS (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0

Company Statistics & Performance

Shares on Issue	384.0m	**Daily Vol.**	510,049
Market Cap.	$167.1m	**Debt**	$0.0m
52 Week Range	$0.385 - $0.82	**Cash**	$34.0m

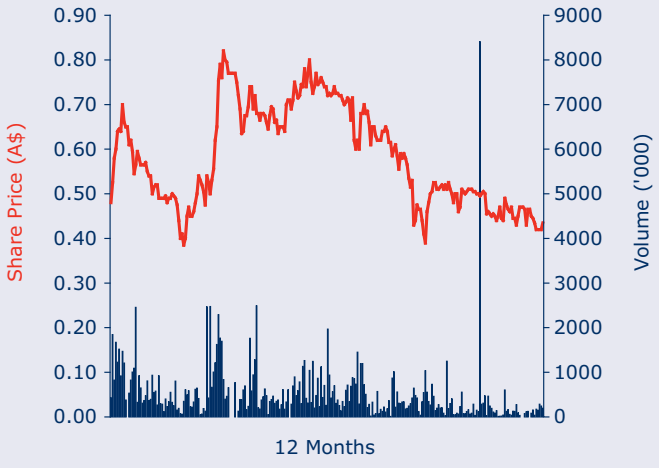


Figure 1: Indonesian concession location map

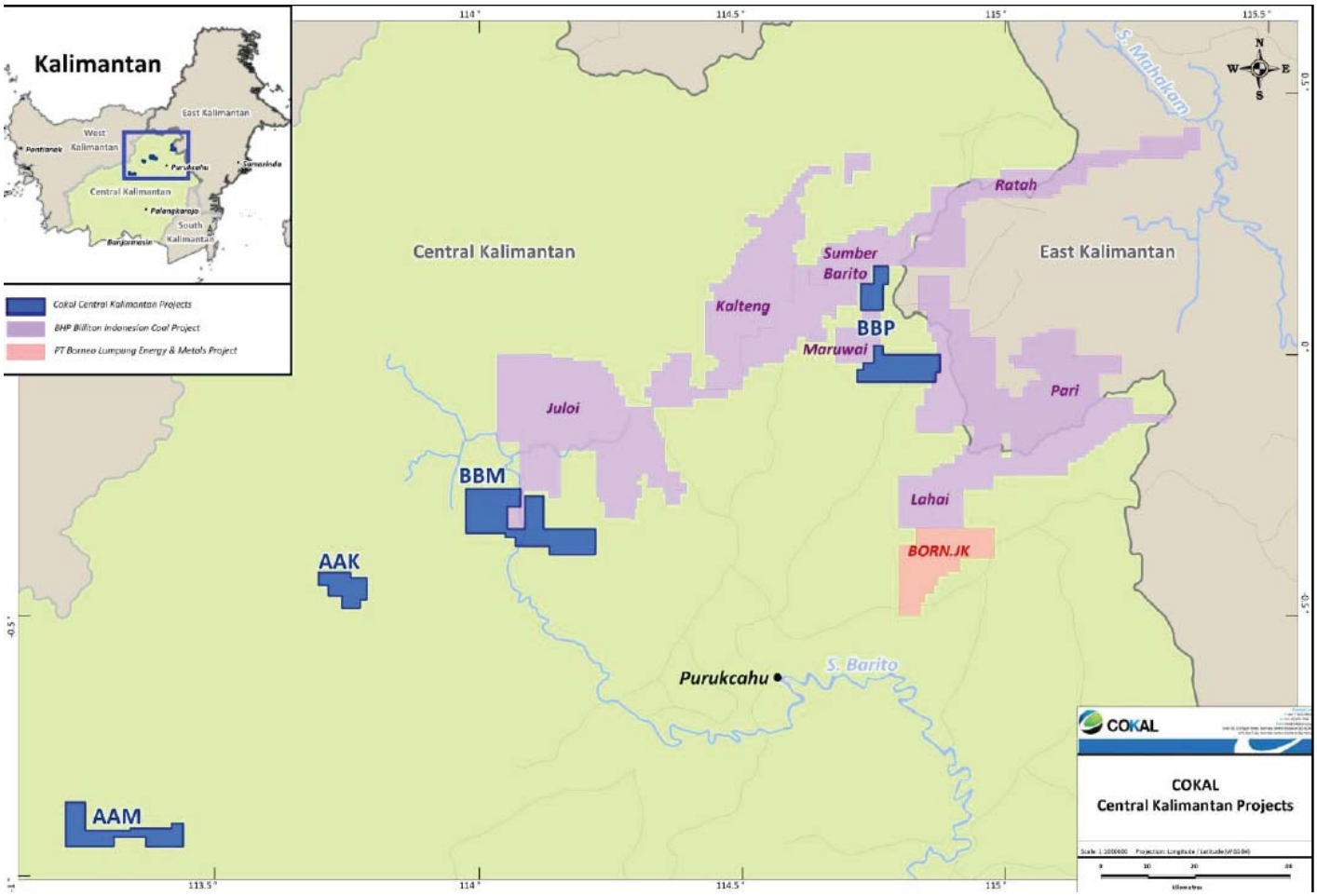


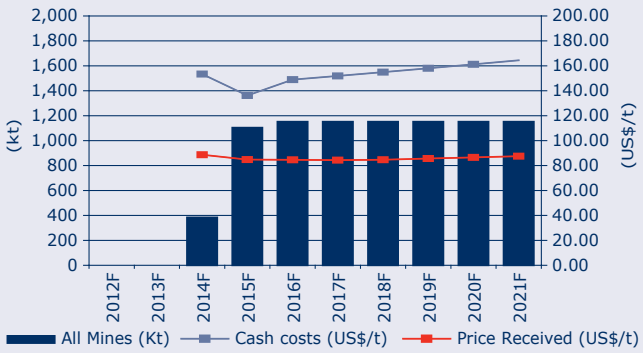
Figure 2: Coal quality results by seam

Seam	Product	Inherent Moisture	Ash	Volatile Matter	Fixed Carbon	Total Sulphur	Calorific Value Kcal/kg	CSN	Relative Density	Phos-phorous
D	PCI	0.9	5.1	10.3	83.7	0.43	8,204	1.5	1.36	0.002
D	Coking	0.9	5.1	14.4	79.7	0.39	8,287	9.0	1.33	0.002
C	PCI	1.0	5.5	9.3	84.3	0.41	8,191	1.0	1.36	0.001
C	Coking	0.5	5.5	14.5	79.5	0.24	8,265	8.5	1.33	0.001
B	PCI	0.9	14.0	9.5	75.6	0.41	7,676	1.5	1.40	0.004
B	Coking	0.5	12.6	13.8	73.1	0.23	7,591	7.5	1.38	0.002

Cokal Limited **$0.45** **Year End June 30**

Valuation	A$m	A$/sh
Bumi Barito Mineral	362.4	0.94
FX Hedging	0.0	0.00
Corporate	(23.5)	(0.06)
Unpaid Capital	6.7	0.02
Cash	30.8	0.08
Debt	0.0	0.00
NPV	**376.4**	**0.98**
Price Target		**1.00**

Coal Production Summary



Resources 100% Basis (Mt)

Mine	M & I	Inferred	Total
Bumi Barito Mineral		60	60
Other Indonesian Assets		0	0
Tanzania		0	0
Mozambique		0	0
Resources			**60**

Directors

Name	Position
Mr Peter Lynch	Executive Chairman
Mr Pat Hanna	Executive Director
Mr Jim Middleton	Managing Director
Mr Domenic Martino	Non Executive Director
Mr Duncan Cornish	CFO & Company Secretary
Mr Chris Turvey	Exploration & Resource Manager

Significant Shareholders	Shares (m)	%
Peter Lynch	55.0	14.3
Domenic & Sandra Martino	36.5	9.5
Blackrock Group	31.6	8.2
Patrick Hanna	25.0	6.5
Norges Bank	17.8	4.6
Passport Capital	14.5	3.8
Jim Middleton	10.0	2.6

Commodity Assumptions	2011A	2012F	2013F	2014F
US$/A$	0.9869	1.01	1.00	0.99
Hard Coking Coal	248.75	303	211	176
Semi-soft Coking Coal	182.50	228	153	123
PCI	195.00	233	158	128
Export Thermal Coal	106.00	123	98	88
Domestic Thermal Coal (A$/t)	45.39	49	50	51

Production Summary	2011A	2012F	2013F	2014F
Attributable Saleable Coal Production				
Bumi Barito Mineral (kt)				**384**
FOB costs (US$/t)				88.66
Price Received (US$/t)				153.41
All Mines (Kt)				**384**
Cash costs (US$/t)				88.66
Price Received (US$/t)				153.41

Profit & Loss (A$m)	2011A	2012F	2013F	2014F
Sales Revenue	**0.0**	**0.0**	**0.0**	**59.8**
Other Income	0.6	1.1	1.3	0.9
Operating Costs	0.0	0.0	0.0	34.6
Exploration Exp.	0.0	0.0	0.0	2.3
Corporate/Admin	3.2	4.1	4.1	4.1
EBITDA	**(2.6)**	**(3.0)**	**(2.8)**	**19.8**
Depn & Amort	0.0	0.0	0.0	1.2
EBIT	**(2.6)**	**(3.0)**	**(2.8)**	**18.6**
Interest	0.0	0.0	0.7	7.8
Operating Profit	**(2.6)**	**(3.0)**	**(3.5)**	**10.8**
Tax expense	0.0	0.0	0.0	0.7
Abnormals + Minorities	0.0	0.0	0.0	0.0
NPAT	**(2.6)**	**(3.0)**	**(3.5)**	**10.0**
Normalised NPAT	**(2.6)**	**(3.0)**	**(3.5)**	**7.5**

Cash Flow (A$m)	2011A	2012F	2013F	2014F
Adjusted Net Profit	(2.6)	(3.0)	(3.5)	10.0
+ Interest/Tax/Expl Exp	0.0	0.0	0.7	10.8
- Interest/Tax/Expl Inc	14.7	5.7	6.8	14.7
+ Depn/Amort	0.0	0.0	0.0	1.2
+/- Other (Associates)	(8.3)	(0.1)	0.0	0.0
Operating Cashflow	**(25.7)**	**(8.7)**	**(9.6)**	**7.3**
- Capex (+asset sales)	0.0	0.0	30.6	59.8
- Working Capital Increase	0.0	0.0	0.0	0.0
Free Cashflow	**(25.7)**	**(8.7)**	**(40.2)**	**(52.5)**
- Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	31.3	28.8	0.0	0.0
+ Debt drawdown (repaid)	0.0	0.0	30.6	55.1
Net Change in Cash	**5.6**	**11.5**	**(9.6)**	**2.6**
Cash at End Period	17.2	28.7	19.1	21.7
Net Cash/(Debt)	17.2	28.7	(11.5)	(64.0)

Balance Sheet (A$m)	2011A	2012F	2013F	2014F
Cash	17.2	28.7	19.1	21.7
Total Assets	44.8	62.2	89.3	174.0
Total Debt	0.0	0.0	30.6	85.7
Total Liabilities	8.6	0.2	30.8	105.5
Shareholders Funds	36.2	62.0	58.5	68.5
Ratios				
Net Debt/Equity (%)	na	na	19.7	93.5
Interest Cover (x)	na	na	na	2.4
Return on Equity (%)	na	na	na	14.6

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