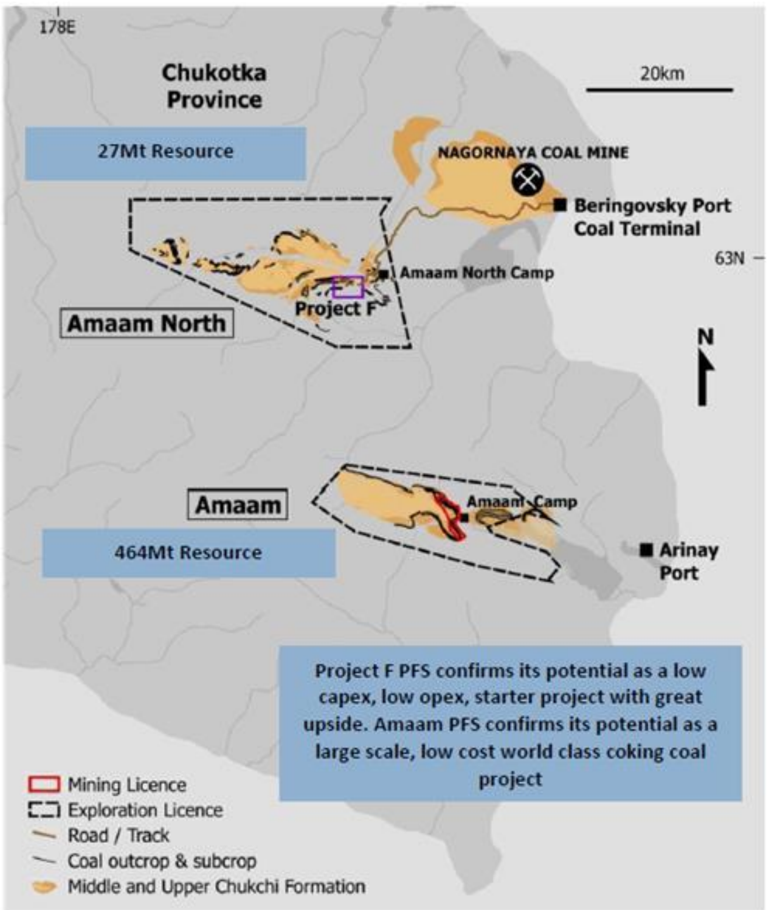
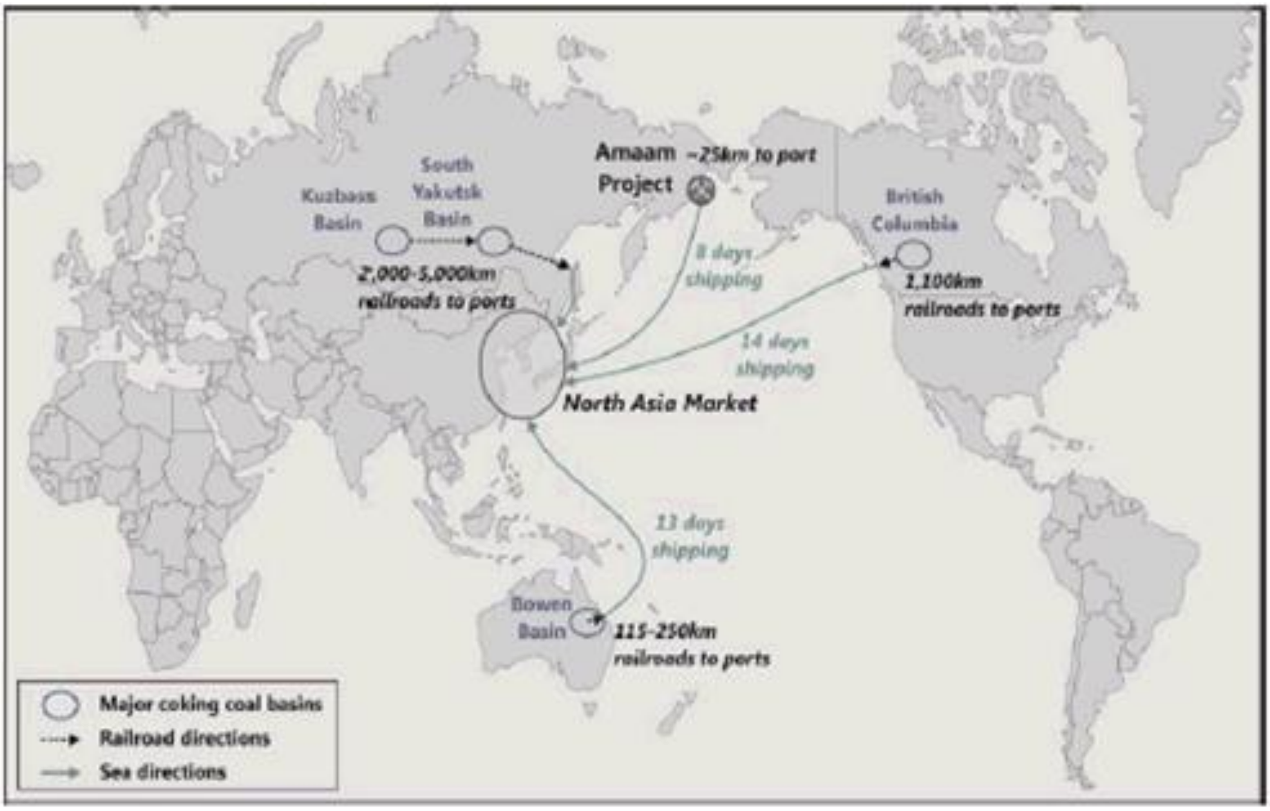
THE TIGERS STAY ACTIVE WHILE RUSSIAN BEARS HIBERNATE

We haven't discussed our favourite small miner Tigers Realm Coal (TIG) for quite a while now. With coking coal prices still struggling and the Ukraine issue front of mind, we thought we'd let the TIG go into investment hibernation until things settled down before bringing the name up again. That time has now come with news slowly heading in the right direction, certainly on the Ukraine front but there are also some small positive signs with respect to what we might expect for met coal prices going forward. **TIG is one of the very few small resource companies that have been able to raise money over the last year or so ($82m between Feb 2013 and Feb 2014), in a time where the small resource names have been completely unloved with some forced to put projects on care and maintenance until the market perceives improvement and funding flows back to the sector.** Some like United Uranium (UUL), which we wrote about last month, are changing company direction entirely and, in UUL's case, turning into a property development company. (surely the sign of the sector close to bottom).

TIG on the other hand, with over $60m in capital raised earlier this year, is going full steam ahead in the development of its high quality met coal Amaam project in far East Russia (as far as you could possibly get from the Ukrainian issues, some 9,500kms to the west). **First production from the Project F deposit at Amaam North is on target for late next year with first shipments due early 2016.** Yes, read that again - this isn't something that is 3 or 4 years away, in mining terms, it's literally just around the corner. Go back to when Peter Botten first raised the idea of PNGLNG and now we are seeing first shipments, when Twiggy first told the market of his iron ore story. These things eventuate and so will TIG's Amaam project. **The cash on hand means TIG can now proceed directly to developing the mine and the infrastructure required for the initial Project F target. The recent acquisition of the local port facility at Beringovsky for only $5.1m is just a further sign to us that TIG is achieving what they always said they would.** As this port in the past has handled over 700,000 tonnes of coal per year from the nearby Nagornaya mine, it only requires a few small upgrades to work efficiently for TIG in the early years - ahead of the bigger year-round Arinay port that is planned to be built slightly further South and closer to the main Amaam deposit. **The Beringovsky port has existing infrastructure including conveyors and barge-loading facilities but also has the optionality to upgrade further to at least 1Mtpa throughput. Compared to virtually all other mine sites in the world and certainly the Queensland coal mines the port positioning is virtually right next door to the mine at just on 35kms distance as shown on this map.**



The added benefit of course is the proximity to the end markets in Asia which is evident in this second map indicating an 8 day ship for TIG coal, compared to 13 days shipping from Australia and 14 from Canada - keeping in mind that is from the port, not from the mine itself, which in TIG's case is so much closer to the coast than any of the others.



The initial forecasts are for approximately 500ktpa of coal to be exported on full ramp up after starting in 2016 with the intention to further ramp up to around 1Mtpa, most likely by 2017/18. This will provide early cash flow to pave the way for full development of the much larger, and higher quality, Amaam resource to the south. The "cap" of thermal coal sitting just over the main HCC deposit will also help bring in early income at the Project F deposit.

Of course, while the production numbers look impressive, the HCC price is the key issue. We would argue that the project looks to be starting up at an opportune time as the balance between supply and demand looks to be swinging back in favour of suppliers from around 2016 on. The fall in prices from the heady days of $320/t in 2011 to today's low $100's means many producers are now losing money and we are reading fairly consistently now of either mine closures or mines being put on care and maintenance. **We have seen figures varying between 17mt and 20mt of production that has been either taken out of the system which goes a long way to bringing equilibrium back into the market. In Queensland we still have mines owned by Anglo, Xstrata and others losing money because of the nature of the take or pay freight contracts** but they remain open because the fixed cost of their rail contracts mean it would cost more to close them. The bulk of the tonnages taken out so far have come in the U.S. but if agreements could be worked out with Aurizon and Asciano here in Qld, we are sure some of those mines would close as well. Similar to iron ore now back at below $100/t, **it is the low cost coal producers who can survive these times and TIG will be one of the lowest cost producers in the world. The latest PFS suggests costs of $75/t meaning they still make a healthy margin at current prices.** BHP have done exceptionally well in lowering their costs at the BMA mines in Qld from $165/t to around $100/t over the last 12 months but it is hard to see them doing much better from there. **We have seen forecasts from highly respected consultants in the space** (which for copyright reasons we cannot pass on) **indicating constant growing demand for HCC, rising from the current approx 280mtpa to around 360mtpa by 2020. On the other hand supplies from existing mines can only meet that demand for about a further 3 years** before the reliance on new mines becomes evident. With the first deliveries from TIG due in 1H16, we'd strongly argue they are coming on line at almost the perfect time.

TIG gives you quality management, a large, high-grade and low-cost resource well located for port access and Asian markets, and which is well placed for funding through to first production. This means for 15c, you are getting an awful lot of project that is now only around 18 months away from receiving first cash flow and is well positioned to ride the recovery in HCC prices. We've been on this tiger's tail for a while now but we firmly believe the hunt is nearly over.

Cheers,
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