

1 Apr 2014

Share Price	\$0.160
Price Target (12 month)	\$0.22

TIGERS REALM COAL LIMITED (TIG)

Winter drilling extends Project F bypass coal

Tigers Realm Coal Limited recently completed 6,000m of drilling at Project F extending the orebody strike length from 3km to 11.6km. This successful program increases the inventory of Lower Chukchi (~10% ash) coal seams which are potentially a direct shipping product (bypass coal). TIG is aiming to convert a substantial portion of the Lower Chukchi exploration target (35-215Mt) to Resource over the coming months. The Lower Chukchi coal allows TIG to postpone the cost of a coal handling and preparation plant (CHPP) for Project F hence the pre-production capital estimate is a modest ~\$52m.

\$62.5M capital raising approved by shareholders

A general meeting held on 21st March 2014 resulted in shareholders of the Company unanimously approving the placement of two new institutional investors to TIG's share registry. Baring Vostok Mining Holding Limited (A\$36.2M) and Russian Direct Investment Fund (A\$16.3M) provided the majority of the recent \$62.5M capital raising. The funds will go towards completing the Amaam North (Project F) Bankable Feasibility Study (BFS), the mine project design and further drilling at the Amaam and Amaam North projects. With a small amount of project debt to supplement the recent raising we see the Amaam North starter project F as basically funded. We expect production from the 1Mtpa Amaam North starter project F in late CY15 expanding to 3Mtpa in CY20 by linking Amaam North to the proposed port at Arinay. Assuming no further equity dilution, we value Amaam North 1Mtpa (NPV14) at ~\$115m or 12c per share.

Starter project F may be superior to the main prize

With the recent results continuing to improve the orebody at Amaam North project F we question whether Amaam North may now be the superior project? Project F has a potentially large portion of low ash (Lower Chukchi) coal at exceptional thickness (cumulative up to 21.4m) amenable to low strip ratio mining (~5:1). With the Lower Chukchi combined with the higher quality Middle Chukchi seams we see the Amaam North project F as potentially of the same calibre as the flagship Amaam Project. If TIG is able to define coal of quality similar to the Amaam Project within the Project F area it would postpone the need to develop Amaam in the near term. The Amaam Project coal is classified as premium coking coal while the Project F coal is currently classified as semi hard coking coal attracting ~\$25/t penalty to the premium coking coal price.

Retain our Speculative Buy recommendation

We expect results from the BFS for Amaam North to be announced in Q2 CY14 confirming the starter project as a low capital, low risk project with lowest quartile (US\$75/t FOB) cash costs. Further metallurgical test work will examine whether Amaam North has potential for improved quality products and the prevalence of the low ash bypass coal. Following the BFS we expect TIG to start initial development work at Amaam North in Q3 CY14 to achieve first production in late CY15. This guidance suggests TIG has one of the most advanced coking coal developments on the ASX and given the recent capital raising are well placed to achieve these milestones. In addition to these milestones we see the granting of a mining licence at Amaam North being a key catalyst for TIG in the near term. We retain our Speculative Buy recommendation with a price target of 22 cents per share.

Brief Business Description:

Coking Coal explorer and developer

Hartleys Brief Investment Conclusion

Amaam Coking Coal project on Russia's far east coast is well placed to supply the seaborne coking coal market into Asia

Chairman & MD

Antony Manini (Non-Exec Chairman)

Craig Parry (Managing Director)

Top Shareholders

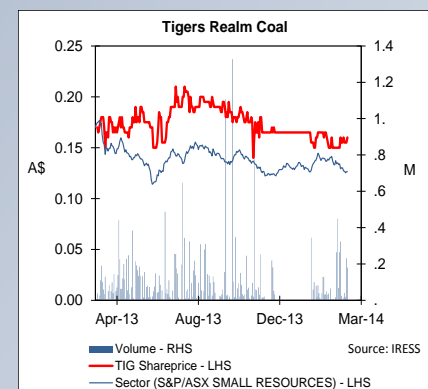
BV Mining Holdings Ltd	23.7%
Tigers Realm Minerals Pty Ltd	13.0%
Bruce Nathaniel Gray	12.6%
Russian Direct Investment Fund	10.7%

Company Address

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Issued Capital	923.6m
- fully diluted	973.1m
Market Cap	A\$147.8m
- fully diluted	A\$155.7m
Cash (est)	A\$60.0m
Debt	A\$0.0m
EV	A\$87.8m

Resources Total VHM	('000t)
Inferred	401
M&I	90



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VALUATION

We model an “all or nothing” approach for TIG, which assumes full development of the Amaam project. This is a reasonably risky assumption as it assumes the timing of multiple capital requirements and completion of construction occur on a predictable time line. To account for some of the risk, we use a 14% discount rate. However, it should be remembered that our undiluted valuation based on a 1Mtpa operation at Amaam North project F is 12 cps.

We value Tigers Realm Coal Limited at \$915m or \$0.23 per share.

We model the Amaam Nth starter operation initially producing 1Mtpa from the existing Beringovsky port and ramping up to 3Mtpa through the planned port at Arinay. The increased production from the low capex starter at Amaam Nth allows the capital intensive Amaam Open Pit and Amaam Underground to be postponed until later in the mine life. The assumptions we have used in our model are derived from our assessment of the most appropriate mining sequence to maximise NPV. We model TIG to provide 80% of the capital required for both projects as per the current pro-rata agreement with the 20% JV partners for both projects. We model the current 3% JV partner royalty and a 2% government royalty. Our model assumes consensus pricing for commodities and under these assumptions we value the Amaam Coking Coal projects unfunded at \$326m or \$0.36 per share.

After tax, corporate overheads, options, forwards and equity dilution we value TIG at \$915m or \$0.23 per share.

Fig. 1: TIG sum-of-parts valuation

	A\$m	A\$/share
80% Amaam North (pre-tax NAV at disc. rate of 14%)	361.8	0.09
- 1mtpa only	115.7	0.03
- 3mtpa expansion	246.0	0.06
80% Amaam Open Pit (pre-tax NAV at disc. rate of 14%)	387.8	0.10
80% Amaam UG (pre-tax NAV at disc. rate of 14%)	92.2	0.02
Other Assets/Exploration	50.0	0.01
Forwards	0.0	0.00
Corporate Overheads	-21.1	-0.01
Net Cash (Debt) Mar 14e	60.0	0.02
Tax (NPV future liability)	-46.4	-0.01
Options & Other Equity	31.2	0.01
Total	915.4	0.23

Source: Hartleys Research Estimates

PRICE TARGET

Our price target is a risked weighted average of our valuation under consensus and spot pricing. We apply weighting according to the early stage of the project and will change the weighting towards lower discount rates as the project reaches development milestones. We have a 12 month price target for TIG of \$0.22.

We have a 12 month price target for TIG of \$0.22 per share

Fig. 2: TIG 12 month price target

Price Target Methodology	Weighting	Spot	12 mth out
NPV14 Consensus prices	60%	\$0.23	\$0.24
NPV10 Consensus Prices	5%	\$0.33	\$0.35
NPV14 spot commodity and fx prices	10%	\$0.16	\$0.16
NPV10 spot commodity and fx prices	5%	\$0.20	\$0.19
No further equity dilution, NPV14	1%	\$0.96	\$1.01
No further equity dilution, NPV8	1%	\$1.44	\$1.50
Net cash backing	8%	\$0.06	\$0.06
Amaam Nth (1Mtpa starter only) NPV14 Consensus prices	10%	\$0.03	\$0.04
Risk weighted composite		\$0.21	
12 Months Price Target		\$0.22	
Shareprice - Last		\$0.155	
12 mth total return		43%	

Source: Hartleys Research Estimates

RISKS

Fig. 3: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Consensus commodity price	Moderate	Moderate	We assume consensus prices for coking coal. Our model is sensitive to movements in the coal price.
Timing	High	Moderate	The development of Amaam will be a major project with all the challenges inherent in a large scale project. We therefore believe that there is a chance of changes to the project delivery timeline albeit a reasonably conservative estimate.
Resource risk	Low	Upside	We believe that resource risk is to the upside. A significant resource has already been defined at Amaam OP/UG with large exploration targets at both projects.
Coal Quality	Moderate	High	We assume 5% penalty to the spot premium coking coal price for Amaam OP/UG and 15% for Amaam Nth to allow for impurities and reduced coal quality. Differing penalties can affect the model to the upside and downside.
Technical risk	High	High	There will be significant technical and engineering challenges to be overcome in the construction and operation of the Amaam Projects. Due to the early stage of the project we consider these to be high risk but expect that the project will be derisked as it progresses through its study phases and into operation.
Funding risk	High	High	Our capex estimates are substantial and there is a risk TIG will not be able to raise sufficient funds although the low capex starter project and the recent raising lowers this risk

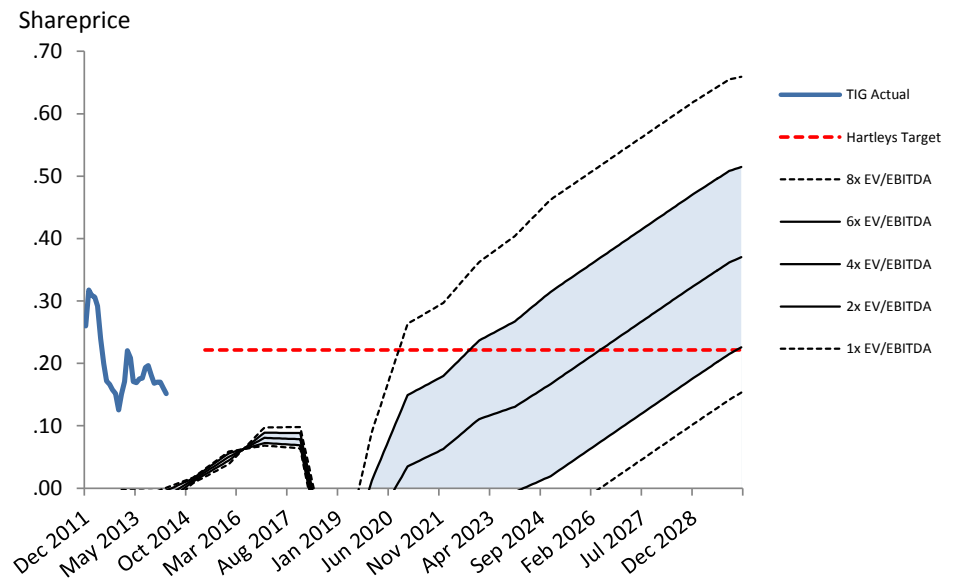
Conclusion

While the assumptions we have used are reasonable, we consider some assumptions as moderate to high risk and the consequential reduction to our valuation would be significant if they were not achieved.

Source: Hartleys Research

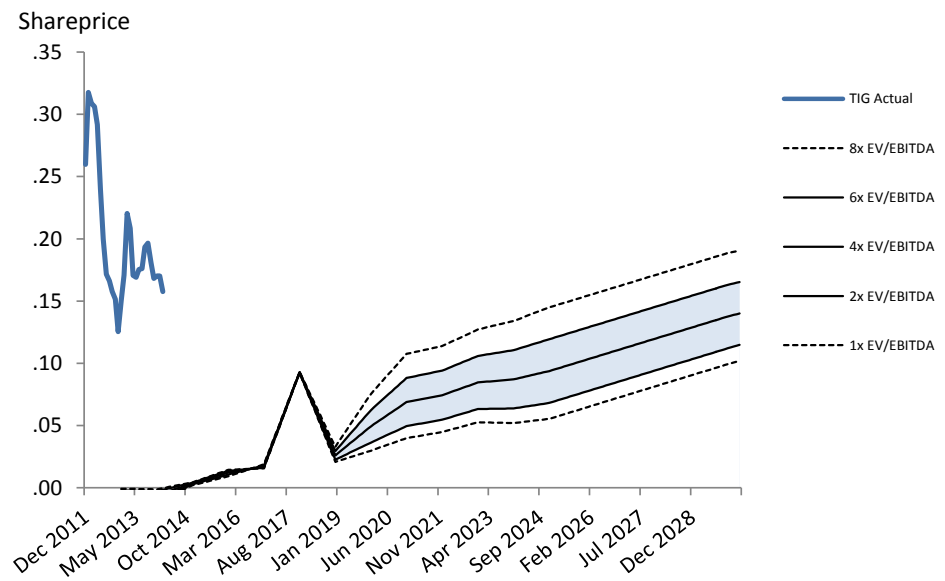
EV/EBITDA BANDS

Fig. 4: Using Hartleys base case commodity forecasts



Source: Hartleys Research Estimates, IRESS

Fig. 5: Using spot commodity prices



Source: Hartleys Research Estimates, IRESS

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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