



**Churchill Mining PLC**

**51p**

**Speculative Buy**

Sector

Mining

Report Date

27<sup>th</sup> November 2007

**Churchill has shown great exploration success in their 75% owned East Kutai thermal coal project in Indonesia. In addition they have an interesting 70% owned coal bed methane (CBM) project at Sendawar also in Indonesia, and have 49% of Spitfire Resources Limited which is just about to list on the Australian stockmarket. Spitfire holds the South Woodie Woodie Manganese project which is adjacent to Consolidated Minerals' (CNM) operating manganese mine.**

**Following the recent placing, which is raising £9.6m, the company is well placed to advance its projects, with total cash of about £10.5m. Over the next year and a half they intend to spend over £6m on East Kutai.**

Analyst

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Year end June	Turnover £000's	Admin £000's	Other Income and Interest £000's	After tax loss £000's	EPS (p)	PE times
2006A	-	(2,211)	79	(2,132)	NM	NM
2007A	-	(1,266)	158	(1,108)	NM	NM
2008E	-	(1,500)	180	(1,320)	NM	NM

Source data: Company reports and Hoodless Brennan forecasts. Where necessary £1=US\$2.10, and £1=A\$2.30.

Key Data

AIM Ticker ..... CHL  
 Broker..... Blue Oak  
 Website  
[www.churchillmining.com](http://www.churchillmining.com)

Year High/Low ..... 72-9p  
 No. of Shares ..... 64.876m  
 Mkt. Cap ..... £33.1m  
 Results ..... March 2008  
 Interims

NMS ..... 3,000  
 Screen Size ..... 5,000  
 Bid/Offer ..... 50p/52p (4.0%)  
 No Of Market Makers..... 7

□ The company hold 75% of a large tenement area with near surface multi seam coal resource target areas already defined at East Kutai on the Indonesian island of Borneo. The company hope to define 500 Million tonnes (Mt) of resources including 100 Mt of reserves by the end of Q4 2008. Further drill results are due to be reported before the end of December 2007, while the pre-feasibility study is due to commence in January 2008. East Kutai coal is very low sulphur and the only treatment required to produce a saleable product is possibly some crushing. The company has already signed the first coal supply agreement with a nearby power station, but the real upside exists in regard to export sales.

There is significant demand for thermal coal for Asian power stations. Indonesia alone is expanding coal fired power stations by 10,000MW. Churchill has been overwhelmed by offers of finance to set up coal exports. East Kutai is a mere 45 kilometres from the Pakar project where a new US\$135m coal mine using coal resources of 270Mt has just been funded by Merrill Lynch.

□ The company's Woodie Woodie manganese project has recently been vended into a new company Spitfire Resources Ltd, which is about to list on the Australian Stock Exchange. £1.7m has been raised from outside shareholders valuing Churchill's remaining stake at £2.17m. In addition Churchill retains a royalty over any production. There is logic in Consolidated Minerals putting the two prospects into one.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>➤ Significant near surface thermal coal resources are being outlined at East Kutai Indonesia.</li> <li>➤ Due to increased Asian demand thermal coal prices are forecast to continue to go up.</li> <li>➤ Spitfire Resources attractively priced in comparison to Consolidated Minerals.</li> <li>➤ Sendawar CBM is located near potential petrochemical plant demand.</li> </ul>	<ul style="list-style-type: none"> <li>➤ No East Kutai production until 2010.</li> <li>➤ Valuation is subjective at present as they do not have JORC compliant resources or reserves.</li> <li>➤ Political situation in Indonesia may deteriorate.</li> <li>➤ East Kutai may attract adverse environmental comment.</li> </ul>

**This Communication:**

- a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research
- b) is not subject to any prohibition on dealing ahead of the dissemination of investment research



*Coal Outcrop-East Kutai Indonesia-Source Company*

## **Churchill Mining Plc**

In its relatively short life as an AIM listed company Churchill has been busy and is in the process of defining a significant thermal coal resource at East Kutai in East Kalimantan on the Indonesian island of Borneo.

The company initially focussed on the South Woodie Woodie manganese project in Australia. Having advanced this project, the company is in the process of vending its interest into a new company Spitfire Resources Limited that is about to list on the Australian Stock Exchange.

The company acquired the Sendawar coal project in Indonesia in April 2006. The company discovered deeper coal and coal bed methane, and due to location is now pursuing this as a CBM project. There is tremendous demand within Indonesia for natural gas (methane).

## **East Kutai Coal project Indonesia**

East Kutai covers approximately 575 square kilometres in East Kalimantan. The property is located 45 km North East of the Pakar project where a private Indonesian group has outlined a JORC compliant reserve of 270 Mt of thermal coal. The Pakar mine is now under development having secured US\$135m of funding from a Merrill Lynch lead consortium.

In April 2007 Churchill announced that a significant coal discovery had been made at East Kutai, following the drilling of 10 holes on surface outcrops. By the middle of October 2007 the company had mapped over 250 coal outcrops with coal thicknesses ranging up to more than 20 metres. Eight of these initial holes intercepted coal seams greater than 0.5m in thickness. The company was further encouraged by subsequent drilling announced in October 2007 which indicated that almost 4,000m had been drilled in 36 holes. Coal quality is good with very low sulphur (approximately 0.13%). Low ash (about 4.5%), good volatile matter (about 45.5%) and encouraging energy content (just over 22 Giga Joules (GJ) per tonne)). This represents a typical thermal coal that retails at between US\$28-33 per tonne before transport costs in the Indonesian export coal sector.

Exploration drilling is planned to continue throughout 2008, with a first target of 500 million tonnes of JORC compliant resources, including 100 Mt of mining reserves to be outlined from the 10km by 4km target area by the end of Q4 2008. The company's exploration and resource calculation budget runs to almost £4.5m. A pre-feasibility study costing just over £1m is due to commence in January 2008, this could progress into a £0.75m full feasibility study subject to success. The company is looking to start raising finance for the mine by the end of Q3 2008.

## **Asian Coal Demand**

In recent years coal demand, spot coal prices and contract prices in Asia have shot up as increased demand has emanated from China, Taiwan and India. This level of demand is evidenced by the sight of vessels awaiting entry to Australia's largest coal port Newcastle in New South Wales.



Coal vessels awaiting entrance to Newcastle port in Australia: Source ABC News.

### **Indonesian Coal**

In 2005 Indonesia became the world's largest thermal coal exporter with annual shipments of 120Mt, ahead of Australia's 110.5Mt. Indonesia's exports are dominated by six local players, PT Kaltim Prime which exported 22Mt, PT Adaro (16.6Mt), PT Arutmin (14Mt), PT Kideco Jaya Agung (11Mt), PT Indominco Mandri (6.6Mt) and PT Berau Coal (6Mt).

Domestic demand in a number of Asean countries has also increased due to domestic power requirements. This is especially true in Indonesia, and the level of demand is illustrated by the Heads Of Agreement (HOA) signed by Churchill to supply about 840,000 tonnes of thermal coal to two planned local power stations for 30 years based on a 5% discount to the prevailing market price. The HOA will convert into a final coal purchase agreement once a JORC compliant mining reserve of 30Mt has been defined. Power plant construction is due to commence at the beginning of 2008, and are expected to be on stream by mid 2010.

### **Location**

East Kutai is located 120 Km from the coast, in semi virgin rainforest. The company is currently evaluating whether exports should be trucked or sent by conveyor. Conveyors will reduce operating costs and dependence on fuel oil, but will be capital intensive.

In addition to the disturbance offered by the 120 Km haul road and/or conveyor, the open pit mine will also disturb a portion of this potentially significant rainforest. Whilst the company is confident of getting all environmental approvals and there seems to be very little local opposition to this project, it is possible that overseas Non-Governmental Organisations (NGO) may highlight this development in their campaigns to save the Borneo rainforest.

### **Kalimantan Gold (KLG)**

Kalimantan Gold announced on 16<sup>th</sup> November 2007 that it was positioning itself to play a part in Indonesia's burgeoning coal market following the signing of a Heads of Agreement with the Indonesia based Jhoswa Group, designed to earn the company an interest in a number of coal prospects situated in the Kutai provinces which is considered to be the epicenter of coal mining in East Kalimantan. The company believes that East Kalimantan has significant undeveloped coal potential and there is a considerable opportunity for new players to enter the market.

### **Sendawar Coal Bed Methane**

Churchill acquired 70% of Sendawar located 150km south of East Kutai in 2006. However exploratory drilling by Churchill indicated that faulting had downthrown the coal seams to a depth greater than 150m below surface. As yet Indonesian export coal prices do not support significant underground mining operations. However these coals still have potential for Coal Bed Methane, and to this end Churchill has been awarded a Joint Evaluation Agreement (JEA) for CBM at Sendawar. If Churchill report exploration success, they intend to convert the JEA into a Production Sharing Contract (PSC) which would allow them to recover all of the exploration and development costs incurred from the start of the PSC through to the commencement of operations. Once these costs have been recovered, profits are shared between Churchill and the Indonesian Government.

Churchill is already in discussions with potential joint venture partners and end users in the region, including power suppliers, fertilizer plants and petrochemical complexes.

### **South Woodie Woodie Manganese Project –Spitfire Resources Limited**

In order to focus on Indonesian coal, the company has recently vended 80% of this Australian manganese project into Spitfire Resources Limited which is about to list on the Australian Stock Exchange. A\$4m (£1.7m) was raised from outside investors at A\$0.20 (8.7p), and if the share list at that level, Churchill's 49% stake would be worth £2.17m. Spitfire has the option to purchase the 20% balance of the project for A\$3m (£1.3m) on completion of A\$1.5m (£0.65m) of exploration within 18 months of listing. In addition Churchill retains a manganese price indexed production royalty.

South Woodie Woodie is located adjacent to **Consolidated Minerals' (CNM)** operating Woodie Woodie manganese mine. Consolidated Minerals has been subject to a long running take-over saga. Should this situation finally settle there is a obvious consolidation opportunity.

### **Directors & Management**

David Quinlan, Non-Executive Chairman, is principal of Borden Mining Services, and is Chief Executive Officer of **Mt Gibson Iron (MGX-ASX)**. He has 30 years mining project experience worldwide.

Paul Mazak, Managing Director, is also Managing Director of Hastings & Associates and has 18 years experience in business development. He was previously a director of Majestic Resources NL. In addition he serves in an honorary capacity to Dr. Alwi Shihab, the Indonesian President's Envoy to the Middle East, in regard to mining investments into Indonesia.

James Hamilton, Executive Director, is a former mining journalist and has been appointed Managing Director of Spitfire Resources prior to its Australian Stock Exchange listing.

Faroek Basrewan, Director (Indonesia), specialises in dealings with the various Indonesian Governments. He was previously special assistant to the first democratically elected Indonesian President Abdul Rachman Wahid, and is currently Special Advisor and Special Assistant to Dr. Alwi Shihab.

Paul W Benjamin, Executive Director of 100% owned PT Indonesia Coal Development, has numerous years of Indonesian mining experience.

### **Financials**

Following the recent placing, which is raising £9.6m, the company is well placed to advance its projects, with total cash of about £10.5m. Over the next year and a half they intend to spend over £6m on East Kutai. 70% of this amount on exploration the rest on reserve and resource confirmation, the Pre-feasibility study and the Feasibility Study. Recognising the East Kutai should be advanced as quickly as possible they have allocated £0.5m to evaluating Sendawar.

In light of the financing interest in Indonesian coal, and the attractive terms achieved at Pakar, Churchill do not anticipate any difficulty in fully debt funding any East Kutai production decision

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**Valuation**

The company has yet to define JORC compliant resources and reserves. Some indication may be available before the end of the year to June 2008. The company is hopeful of outlining 75% of 500 Mt of coal resources, 100Mt of mineable reserves. If the company is successful in outlining 500Mt JORC compliant Measured and Indicated coal Resources, at a price of £15.20/t coal, and assuming £10.5m of cash, potentially they trade at 0.4% of resource value.

The Welsh based **EnergyBuild (EBG)** has a total of 43.73 Mt of JORC compliant Proven and Probable, and Measured, Indicated and Inferred coal Resources. Assuming the company's in-situ value of £53.1/t and £7.5m of cash, the company's enterprise value represents 0.7% of this resource value.

The South African based **Strategic Natural Resource Group (SNRP)** has just announced increased resources amounting to 40 million tonnes of SAMREC compliant Measured, Indicated and Inferred coal Resources. If we assume an in-situ coal value of £12/t, and SNRP's cash of £2m, the company's enterprise value represents approximately 4% of this resource value.

It can be seen from the above, if they are able to firm up their targeted resources, Churchill is attractively priced in comparison to other AIM listed coal companies

**Conclusion:** Churchill has shown great exploration success in their 75% owned East Kutai thermal coal project in Indonesia. In addition they have an interesting 70% owned coal bed methane (CBM) project at Sendawar also in Indonesia, and have 49% of Spitfire Resources Limited which is just about to IPO in Australia. Post this issue, the company may not need to raise any more money to bring East Kutai on stream. With the IPO of Spitfire Resources and drill results from East Kutai, news flow could be encouraging over the next few months. **Kalimantan Gold (KLG)** has recently announced that it is moving into Indonesian coal; potentially further illustrating that this is an interesting area for investment.

**Recommendation: Speculative Buy.**

**Previous recommendation: NA**

**Date of previous recommendation: NA**

**Profit and Loss**

Year to June £000's	2006A	2007A	2008E
Turnover	-	-	-
Other income	11	-	-
Administration	(2,211)	(1,266)	(1,500)
Operating loss	(2,200)	(1,266)	(1,500)
Interest	68	158	180
Loss before and after tax	(2,132)	(1,108)	(1,320)

**Balance Sheet**

Year to June £000's	2006A	2007A	2008E
Exploration assets	3,330	5,336	8,450
Fixed Assets	16	50	80
Associate	-	-	2,170
Receivables	93	196	250
Cash	5,230	2,415	8,035
Creditors	(284)	(519)	(300)
Borrowings	-	(12)	(12)
Net assets	8,383	7,466	18,673

**Cash Flow**

Year to June £000's	2006A	2007A	2008E
Operating activities	(586)	(923)	(1,600)
Interest	68	181	180
Fixed Assets	(12)	(42)	(60)
Exploration	(685)	(1,843)	(2,500)
Share issues	5,694	(150)	9,600
Borrowings	0	19	0
Net cash flow	4,478	(2,759)	5,620

**Board of Directors**

Name	Position held
David Quinlan	Non-executive Chairman
Paul Mazak	Managing Director
James Hamilton	Executive Director
Faroek Basrewan	Director (Indonesia)

**Key Events**

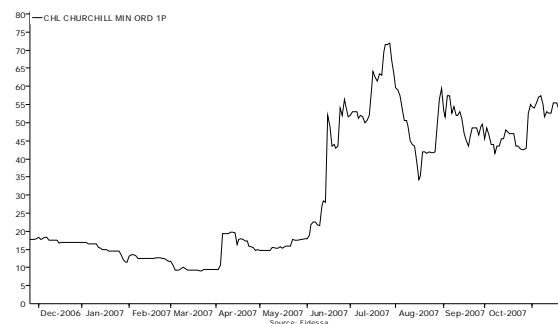
Date	Event
November 2007	Placing of 20m shares at 50p
4 <sup>th</sup> October 2007	Disposal of Woodie Woodie and proposed listing of Spitfire Resources
15 <sup>th</sup> June 2007	Coal off-take signed with Indonesian Power utility
5 <sup>th</sup> April 2007	Coal discovered at East Kutai
5 <sup>th</sup> April 2006	Sendawar acquired, 10m shares issued at 25p
15 <sup>th</sup> April 2005	Listed on AIM, 5m shares placed at 20p

**Financial Calendar**

Date	Event
June	Year End
March 2008	Interims
December 2008	Finals

**Major Shareholders-Pre placing**

Shareholder	%
Profit Point/Andreas Rinaldi	21.61
Brown Bros Harriman	14.71
Fidelity	10.00
JO Hambro	9.49
GLG European Opportunity Fund	6.73
Williams de Broe	4.49
Morgan Stanley	4.28
JM Finn	4.13
Pershing Keen	3.50

**Share Price Chart**


Source data: Company reports and Hoodless Brennan forecasts. Shareholder list is before recent placing.

**Activities:**

The company is exploring for steam coal at East Kutai in Indonesia, Coal Bed Methane at Sendawar also in Indonesia. Its interest in the Woodie Woodie manganese project in Australia has been vended into Spitfire Resources Limited which is about to list on the Australian stock market.

**Key to Material Interests**

Below are five standard disclosures of Material Interests. Of these five disclosures, the following numbers are relevant in this case:

**Churchill Mining plc****Relevant disclosures: None Applicable**

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