

Mining Proposal Lodged

Mining Leases granted

Recommendation

Strong BUY, High Risk

Price

16.0c

Valuation

32c

Commodity

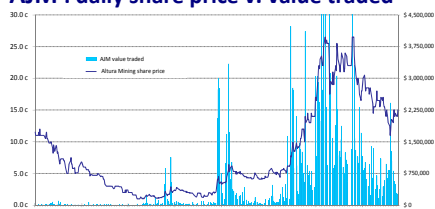
Lithium

- **AJM announced that it has been granted the 2 required Mining Leases for its Pilgangoora project. These follow the execution of access agreements with the pastoral lease holders and Native Title agreements with the traditional owners.**
- **AJM has now lodged its Mining Proposal and expect that this will be granted in December, 2016.**
- **AJM expects to announce the results of its DFS very soon, which will enable AJM to secure finance to be able to begin construction in December.**
- **AJM has previously announced a Binding Off-take Agreement for about half of the expected production, with the other the subject of an MOU.**

Snapshot

Market Cap	\$197m
Cash on hand (30 June 2016)	\$22.1m
Net cash (Debt)	Approx. \$8m
Shares on Issue	1,231.6m
52 Week High	28.2c
52 Week Low	1.6c
1 month / 6 month VWAP	13.9c / 19.0c

AJM : daily share price v. value traded



AJM listed in 2001 and focussed on Tantalum, initially at Bald Hills. It acquired Pilgangoora in November 2001.

AJM acquired Indonesian coal interests in 2007 and developed iron ore operations at Mt Webber, with Atlas Iron.

AJM produced a scoping study on Pilgangoora in November 2012.

AJM has exited its 30% of the Mt Webber iron ore operations and is seeking to list its Indonesian coal on the SGX, to focus on Pilgangoora spodumene.

The results of a PFS were announced in February 2016, and the DFS is expected soon, for first product in late 2-017.

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MLs granted; Mining Proposal Lodged

AJM announced that it has been granted the 2 Mining leases (MLs) on which its Pilgangoora project is based.

AJM has now lodged its mining proposal which it expects to be granted in December 2016.

DFS September. Construction in December.

AJM expect to announce the results of their DFS soon.

AJM has a Binding Off-take Agreement (BOA) for about half of the expected production, and a non-binding MOU for the other half.

AJM needs to convert the MOU into a BOA, or provide some other sales certainty, to be able to secure the finance, following completion of the DFS, so that project construction can begin in December.

Product in 13 – 14 months

AJM has already ordered some long lead time items, giving confidence of first product by October 2017.

Beer & Co's risked valuation 32c/share, with strong upside

Beer & Co's valuation is driven by the high grade reserves at Pilgangoora; we assume spodumene at current levels for about 5 years, and then falling to \$475/t FOB for benchmark 6.0% Li₂O.

Beer & Co has given zero value to AJM's coal interests; even though the Newcastle thermal coal price is now about \$70/t, up 40% since the start of 2016, when it was \$50/t. Coupled with operational improvements, Beer & Co expects AJM's coal to now have a meaningful value, though slight in AJM's overall context.

Beer & Co conclusions

AJM is progressing its Pilgangoora project, working through permitting.

There are still more "boxes to be ticked", but this is being progressed.

Beer & Co affirms our recommendation of Strong BUY, High Risk.

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MLs Granted; MPs lodged

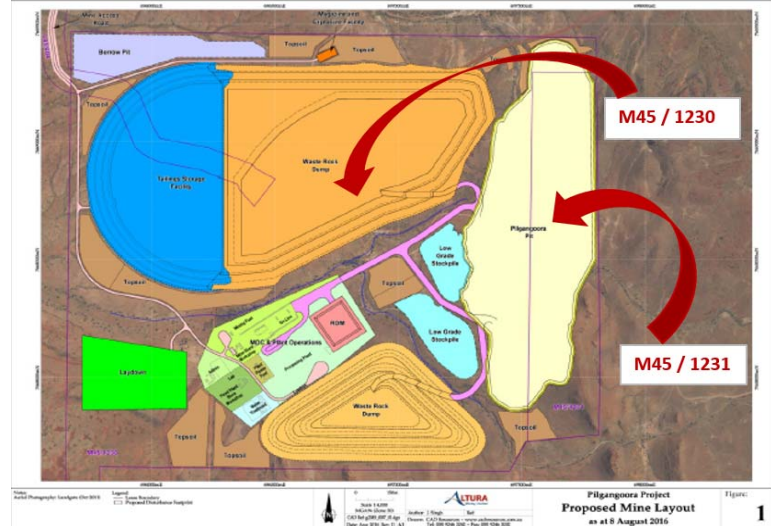
MLs Granted

On 7 September, AJM announced that it had been granted the Mining Leases (MLs) for its Pilgangoora project. Figure 1 shows the location of these 2 MLs with the proposed mine lay-out.

AJM's mining proposal covers 2 Mining Leases.

The MLs have just been granted.

Figure 1 : AJM's 2 granted MLs



Source : AJM ASX announcement, 7 September 2016, Beer & Co

Figure 2 shows the location of the MLs in comparison with AJM's other tenements in the Pilbara, and in relation to Port Hedland and related infrastructure.

The MLs are only a small part of AJM's tenement area in the Pilbara region of WA

Figure 2 : AJM's tenements in the Pilbara



Source : AJM presentation, February 2016

Mining Proposal Lodged

Having been granted the MLs, AJM lodged their Mining Proposal to be able to be granted the Works Permit which should be the final permit required before construction can begin on the project.

Approval of the Mining Proposal is expected in December.

AJM has submitted its Mining Proposal

AJM is expected to announce the results of its DFS soon.

DFS

AJM expects to announce the results of its DFS very soon; in a presentation on 1 September, AJM stated the results of the DFS would be announced in early September.

It had previously been expected by the end of August, but the 25 August announcement of the agreement with PLS will have delayed completion as AJM and PLS work on rationalising roads as well as other services.

Completion has been delayed slightly by the recently announced agreement with PLS to share roads and services

Finance / Off-take

AJM will then work to secure finance. In the base case, 1.4Mt/yr processing rate, AJM expects to produce just over 200kt/yr of spodumene concentrate.

On 22 February, AJM announced a Letter of Intent with Lionergy to take a minimum of 100kt/yr of spodumene, up to 150kt/yr. Lionergy was then a recently established firm focussed on lithium and physical trading.

After completing the DFS, AJM will work on finance, including off-take, at least half of which is accounted for by a Binding Off-take Agreement and the balance under an MOU

On 29 February, AJM announced a Memorandum of Understanding with Optimum Nano Energy (ONE) for a mine to market concept for lithium ion batteries, with ONE to take a minimum of 100kt/yr, up to 150kt/yr, of spodumene concentrate.

On 26 April, AJM announced that it had executed a Binding Off-take Agreement (BOA) with Lionergy for a minimum of 100kt/yr of spodumene concentrate, with the potential to take more.

Beer & Co understand that ONE has been delayed in converting its MOU into a BOA by its own public listing. However, we understand that this has been done.

These sales agreements, together with the DFS are the keys to securing finance.

Beer & Co expects that this will be completed before the final permits are granted so that on-site construction can begin as soon as the final permits are granted.

Markets

Background

There is a very wide range of views on expected prices for lithium feed-stocks due to

The market for lithium feed-stocks is strong.

- Projected high growth in demand, so that only a small change in demand, with battery plants being brought forward or delayed having a significant impact;
 - In addition to uses such as watches, phones, computers and electric vehicles, there are other developments, such as micro-grid, off-grid as well as grid based storage where lithium ion has penetration but may not be the best solution, technically or commercially;

Demand is growing very fast

- A large number of new supply projects;
 - Brines produce a lithium carbonate product at the mine site, but have proven to be tricky, taking significant time to fine tune, while future growth in supply is threatened by tighter environmental restrictions on the pumping of the brines due to the impact on wetlands and water tables;
 - Hard rock sources are more simple, but require further processing, which can add significant costs;
 - While spodumene is the dominant hard rock source, other technologies have been developed to use other sources, such as Lepidolite and potentially zinnwaldite;

- Varying projections of the form of demand, with the newer generation lithium-ion batteries using lithium hydroxide (Li.OH) as the lithium source as opposed to lithium carbonate (Li₂CO₃)
 - The former is more easily produced from hard rock sources.

Also :

- the cost of the lithium feedstock is very small in relation to the cost of the battery so supply is not very sensitive to the cost of the lithium feedstock
 - BMI (see below) provided data that
 - : Materials are only 24% of the cost of a lithium ion battery; and
 - : Lithium is only 22% of the materials cost, or 5% of the battery cost.
- There are other battery technologies in development, though none, as far as we are aware, use a material other than lithium to move ions between cathode and anode, other than some which are still very early days

The independent battery materials analysis firm, Benchmark Minerals Intelligence, believes that production is supply constrained

Benchmark Minerals Intelligence

On 8 September, Beer & Co attended a seminar by BMI on batteries.

The key point was that BMI expected price to remain elevated for at least 5 years.

Other points made included :

- LCE (lithium carbonate equivalent) demand was 160kt in 2015 and is expected to grow by between 250kt to 280kt in 2020; and
- Current capacity of all battery producers was 65GWh in 2015 and is expected to reach 180GWh by 2020.
 - Supply will be an issue, as plans are made without securing feedstock

BMI's conclusion was that all known projects will need to proceed as planned to satisfy the projected demand.

BMI projected that product prices will remain at elevated levels for at least 4 years

Tianqi

Tianqi Lithium Australia has announced that it will be expanding its mine at Greenbushes, in south-west WA, to be able to supply a plant that Tianqi will build at Kwinana to produce 24kt/yr of Li.OH from the end of 2018.

Note that this plant will produce Li.OH, while Tianqi's existing plant in Jiangsu produces 17kt/yr of Li₂CO₃, and the original plant in Sichuan produces 17kt/yr of lithium carbonate equivalent across a range of products.

Tianqi announced it would expand mining at Greenbushes to feed a lithium hydroxide plant to be built at Kwinana.

Beer & Co comment

We note that the new plant is to produce lithium hydroxide, which Beer & Co expects will have greater growth in demand than lithium carbonate.

As a result, we should expect plants such as this to be announced.

Albemarle, which has a 40% stake in Greenbushes, announced in 2015 that, instead of supplying third party plants in China, it would construct its own lithium carbonate plant in China to process its own feedstock.

AJM has secured its output to plants in China.

AJM will be shipping spodumene at least a year before the Kwinana plant is in production.

While Beer & Co maintains high prices over the medium term, the long run price used in our valuation is \$475/t, which is well below prices of recent history.

Beer & Co expects that there will be significant growth in demand for lithium hydroxide.

Valuations

Risked, Base Case

Figure 3 shows the detail of Beer & Co's risked, base case valuation.

In reviewing our model, Beer & Co re-worked areas relating to tax which reduced our valuation. Beer & Co still sees significant upside potential in our valuation :

Beer & Co's risked base case valuation is now 32c/share

- The increase in coal prices will have increased the value of AJM's Mining Services operations and also its 3 coal operations, with the 33% of the operating mine at Delta Coal and 70% of the Tabalong project in Indonesia, plus its Philippines project;
- There is potential for further mineralisation within AJM's tenements, as AJM has focussed on having enough for a project, rather than spending scarce capital on mineralisation that will be many years away from generating revenue; and
- The results of the DFS, which is expected very soon, are to be factored in.

Figure 3 : AJM's risked, base case, valuation

discount rate = 12.0 %	risk :	30 June 2016		7-Sep-16	
		100%	Product	per share	
Pilgangoora Reserves	90 %	\$ 339m	\$ 305m	21.6 c	22.3 c
franking credits	54 %	\$ 92m	\$ 50m	3.5 c	3.7 c
Conversion	80 %	\$ 37m	\$ 30m	2.1 c	2.2 c
Low grade / Stocks	90 %	\$ 6m	\$ 5m	0.4 c	0.4 c
franking credits	30 %	\$ 17m	\$ 5m	0.4 c	0.4 c
Indonesian Coal	90 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Mining Services	90 %	\$ 5m	\$ 4m	0.3 c	0.3 c
Philippines Coal	90 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Mt Webber Iron Ore	90 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Lithium Corp	90 %	\$ 1m	\$ 1m	0.1 c	0.1 c
Corporate	100 %	\$ 0m	\$ 0m	0.0 c	(0.8c)
Cash / Debt	100 %	(\$ 11m)	(\$ 11m)	(0.8c)	2.1 c
Equity raisings	100 %	\$ 22m	\$ 22m	1.6 c	1.1 c
TOTAL		\$ 509m	\$ 412m	29.1 c	31.7 c
Shares on issue	1,222m	F P O shares	0.0m	Options	
	186m	to be issued	6.4m	Perf Rights	

Beer & Co's valuation will be further revised when AJM's announces the results of its DFS.

Source : Beer & Co estimates

Figure 4 shows that the investment conclusion is quite robust at the current share price.

Figure 4 : Sensitivity of Beer & Co's valuation

US\$ 400 /t	US\$ 425 /t	US\$ 475 /t	US\$ 525 /t	US\$ 575 /t	US\$ 600 /t
14.6 c	17.1 c	22.0 c	27.0 c	31.9 c	34.3 c

Source : Beer & Co estimates

Conclusions

Beer & Co affirms our Strong BUY, High Risk, recommendation

As our base case valuation is more than 2x the share prices, and our valuation is not very sensitive to a range of parameters, Beer & Co affirms our Strong BUY, High Risk recommendation.

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Analyst Certification

The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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