

Churchill Mining Plc

(LSE : CHL)

Sendawar Coal Acquisition... Kalimantan Coal Province

16th May 2006

Recommendation: Speculative Buy

Capital Structure:

Share Price (p)	43
Shares (m)	44.58
- Unlisted Options (ex 20p 15-04-10) (m)	1.30
- Unlisted Options (ex 25p 22-03-07) (m)	0.14
- Unlisted Options (ex 35p 18-04-11) (m)	0.57
-Unlisted Options (ex 35p 10-05-09) (m)	0.14
Market Capitalisation (undil) (£m)	19.17
Market Capitalisation (dil) (£m)	20.0
Cash (01.05.2006) (£m)	4.5

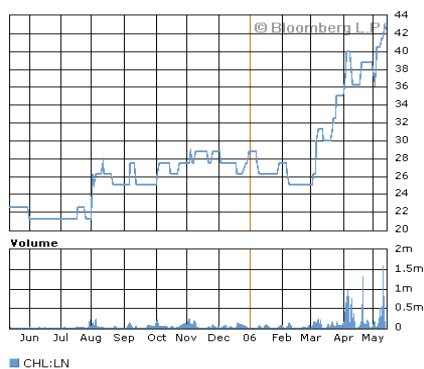
Directors & Management:

Non Executive Chairman	David Quinlivan
Joint Managing Director	Paul Mazak
Joint Managing Director	James Hamilton
Non-Executive Director	Melissa Sturgess

Major Shareholders:

NAME	(m)	%
PROFIT POINT GP LIMITED	9.5	21.31%
BBHISL NOMS LIMITED	4.33	9.70%
GLG EUROPEAN OPP FUND	3.0	6.73%
WILLBRO NOMS LIMITED	2.18	4.89%
MORSTAN NOMS LIMITED	2.0	4.51%
ROY NOMS LIMITED	2.0	4.49%
J M FINN NOMS LIMITED	1.71	3.85%
FERLIM NOMS LIMITED	1.31	2.93%
PERSHING KEEN NOMIS LTD	1.27	2.85%
JAMES HAMILTON	1.05	2.35%

Share Price History:



Investment Highlights

- ❑ Churchill is a junior explorer listed on the Alternative Investment Market (AIM) of the London Stock Exchange which has recently acquired the Sendawar Coal Project, a thermal coal exploration project located in Indonesia;
- ❑ The Sendawar Coal Project is located in the world renowned Kalimantan Coal Province adjacent to and in the same geological setting as thermal coal deposits currently producing high quality coal;
- ❑ The Sendawar Coal Project consists of a very large land holding close to the Mahakam River which has existing barging operations connecting to ocean ports;
- ❑ Churchill's strategy is to prove up a resource of 5Mt and commence trial mining in the next 12 months and use cash flows to increase the resource to 50Mt and complete a feasibility study on a substantial mining and export operation in the subsequent year;
- ❑ Kalimantan has a number of advantages over other coal exporting regions including excellent infrastructure, low operational cost base and proximity to key markets;
- ❑ Given its location and size, the potential of the Sendawar Coal Project to produce a substantial resource of good quality thermal coal is considered high;
- ❑ Churchill also holds the South Woodie Woodie Manganese project which is located in the same geological province as the Woodie Woodie mine (owned by Consolidated Minerals Limited) in the Pilbara Region of Western Australia which is currently producing 1 million tonnes per annum of high-grade direct shipping manganese ore which equates to 10% of the world supply of this premium product;
- ❑ Initial sampling from the South Woodie Woodie project has returned ore grade mineralisation (up to 51.5% Mn) over two zones with a combined strike length of 1.8km;
- ❑ Newly developed mineralisation models combined with state-of-the-art aerial and ground geophysical exploration techniques have been successful in finding large manganese deposits in the region previously undetected by conventional exploration methods;
- ❑ Churchill's management team, headed by James Hamilton and Paul Mazak continues to assess mineral exploration and development projects in Australia and Asia with a focus on bulk commodities used as feedstock for the booming steel and energy sectors for export within the region and particularly to China and India.

COMMENT

An investment in Churchill gives the investor pure exposure to the booming energy and steel industries in Asia currently being lead by China's burgeoning economy. Churchill's management team has demonstrated their ability to deliver on this strategy through the acquisition of high quality coal and manganese exploration projects. There is real potential for exploration success in turn leading to near-term production. Upside in the stock will be realised through the successful exploration and development of the existing projects as well as the acquisition by Churchill of further high quality assets.

Churchill plans to lever off the rapid growth in China

Sendawar is a world renowned coal province



Figure 1: A Barge loader at the Mahakam River

Sendawar.....added advantage of being near proven, world-class mines in the right geological setting

Figure 2: Haul road to a loading facility on the Mahakam River

Background to Churchill Mining PLC

Churchill Mining PLC (“Churchill” or “the Company”) listed on the Alternative Investment Market (AIM) of the London Stock Exchange in April 2005 raising £1M at 2p per share. Churchill’s business plan is to leverage off the rampant growth currently experienced in China and India and in particular its appetite for raw commodities used as feedstock in its burgeoning steel and energy industries.

The execution of this business plan has been instigated with the recent acquisition of the Sendawar Coal Project in East Kalimantan, Indonesia as well as continued exploration of the South Woodie Woodie manganese project in Western Australia. Furthermore Churchill’s management continues to assess further opportunities in Australia and southern Asia to acquire quality projects in line with the Company’s business plan.

To progress this business plan the Company recently raised £5.25 million via the issue of 210 million shares at 2.5p. At the completion of the acquisition of the Sendawar Project the Company had cash reserves of approximately £5 million. The Company has also completed a 1 for 10 share consolidation resulting in the Company having 44.58 million shares outstanding.

THE SENDAWAR COAL PROJECT

The Sendawar Coal Project is located in Kalimantan, Indonesia. The project represents a very large land holding in a world renowned coal province where coal production is currently growing at approximately 20% per annum.

Summary of Transaction

Churchill Mining Plc, and its wholly owned subsidiary Planet Mining Ltd, acquired the shares of PT Indonesia Coal Development (ICD), a private Indonesian company. In turn, ICD controls 80% of five companies which have tenements totaling 106,000 hectares in the Kalimantan coal province. The residual 20% interest is free-carried to Bankable Feasibility Study after which the minority owner must either contribute or dilute.

The consideration payable to the vendors for the acquisition was 100 million pre-consolidation (10:1) Churchill shares and £250,000 cash. The vendors also retain a scaled production royalty.

Location and Geology

The Sendawar Coal Project is located within the Mahakam River area of the Kalimantan Coal Province. In the past, most Kalimantan coal developments have taken place near the southern and eastern coasts. However, near-coast opportunities have thinned as ground positions shrink or are broken up to accommodate existing and new smaller local miners. Consequently, larger miners have begun a consolidated push inland, roughly following the Mahakam River looking for prospective positions big enough to provide the necessary economies of scale. The Sendawar Coal Project is an example of this; however, it has the added advantage of being near proven, world-class mines and in the right geological setting.





Figure 3: Churchill geologist testing a coal seam and calculating orientation.

Nearby mines are producing high quality thermal coals

Sendawar highly prospective for thermal coal

The Sendawar Coal Project is located 50km south of the Mahakam River, about 190km inland from the coast. Coal production from the Mahakam River area is currently estimated at about 20mtpa. The Sendawar Coal Project is located in the same geological setting as the nearby operating coal mines including the newly-commissioned 6mtpa Trubaindo mine operated by Banpu Public Company Ltd (“Banpu”) and the immediately adjacent Gunung Bayan mine which produces 3.4 mtpa. Other deposits are expected to start in the area including Banpu’s Ekatama coal deposit, west of Trubaindo which is slated to produce 6mtpa. Banpu have built a 20Mtpa coal load-out facility (figure 2) on the Mahakam River, which will have excess capacity even when the Trubaindo and Ekatama mines are in full production.

The nearby mines produce high quality thermal coal with high energy (6,000 to 8,000kcal/kg) and low ash (<4%), moisture (10%) and total sulphur (<1%). The coal is mined and trucked to the loading port where it is crushed prior to loading onto barges which transport the coal to ocean-going vessels for delivery to customers primarily in East and South East Asia (Japan, Taiwan and South Korea). Kalimantan has an inherent advantage over other coal exporting countries due to its proximity to the major coal importing countries and the well established barging and ship loading infrastructure. Furthermore, the Kalimantan operations have the added advantage of an operational cost base denominated in Indonesian rupiah.

The Sendawar Coal Project is highly prospective to host high quality thermal coal for the following reasons;

- ❑ Its location adjacent to producing coal deposits (figure 4);
- ❑ Its location in the same stratigraphic sequence and structural setting as adjacent deposits;
- ❑ Regional mapping has indicated favourable structural positions located within the project area, and
- ❑ Initial geological mapping carried out to date over only a part of the project area has located twenty four coal outcrops within the project area.

Given its location and size, the potential of the Sendawar Coal Project to produce a substantial resource is considered high.

The environmental considerations and cultural considerations of the project areas are similar to other areas of Indonesia and pose no exceptional difficulty.



Figure 4: Typical flat coal seam in the Sendawar region.

Unprecedented demand for coal

Coal Demand

Metallurgical and thermal coal prices in 2004 and 2005 clearly reflected the unprecedented demand for coal that began in the second half of 2003. The underlying driver of both markets has been the booming Chinese economy and the strong economic growth in India. The indications are that demand from China will continue to support global coal markets in the long term while India's influence is likely to increase significantly. This pressure on the demand side of the market will be further strengthened in the current economic climate where the prices of alternative energy commodities such as petroleum and uranium are at cyclical highs.

Project Development

The Sendawar Coal Project provides Churchill with a rare opportunity to become a producer in the global thermal coal market. The Company has acquired a world-class ground position with a highly prospective geological setting, close to large-scale existing mines and critically within reach of port facilities.

Full exploration program has been designed. Excellent connections in the local and national governments

The Company has designed a full exploration programme to be conducted over two years, which includes mapping, geophysics, drilling and mine development studies. The key goals for Year 1 are the delineation of a 5Mt resource and to conduct trial mining. Churchill's strategy is to generate near term cash flow from trial mining operations in order to fund further exploration in Year 2 in order to increase the resource tonnage to 50Mt and complete a feasibility study for a substantial coal mining and export operation.

Churchill has already put together a team of professionals based in Indonesia and Australia to manage the exploration and feasibility programmes outlined above. The 20% holder of the project is an Indonesian entity which has excellent connections in the local and national governments and who will continue to assist in the development of the Sendawar Coal Project.

The comparatively large size of the tenement package will make for exploration efficiency, and provides an excellent chance of discovering sufficient reserves to develop a large, low-cost operation. There is also good potential for the discovery of some reserves that could be placed into production quickly and low cost, selling to neighbouring operations already in production and generating early cash-flow.

It needs to be emphasised that the Indonesian mining tenure regulations now make it difficult to obtain large land packages in prospective areas, such as the one put together by Churchill and that the Sendawar Coal Project is exceptional in this regard.

The South Woodie Woodie Project

Overview

The South Woodie Woodie Manganese Project covers approximately 490km² in the Pilbara region of Western Australia. The project is located approximately 400km southeast of Port Hedland in the highly prospective East Pilbara Manganese Province. The Woodie Woodie mine, located 40 km to the north, is operated by Consolidated Minerals. It contains reserves as at 31 December 2005 of 10.7Mt at 43.2% Mn and currently supplies approximately 10% of the world's high-grade manganese ore.

Woodie Woodie manganese mine is located 40km to the north

Areas of outcropping manganese mineralisation have been identified by previous explorers as early as the 1970's, however, little exploration has been carried out since this time due to unfavourable manganese prices and the perception that the area hosted only small deposits. The continued success of the Woodie Woodie mine and recent discoveries of further large manganese deposits in the East Pilbara Manganese Province using updated geological models and modern exploration techniques has demonstrated the potential of the Province. Churchill and Consolidated Minerals are the only significant land holder in the East Pilbara Manganese Province.

Outcropping manganese has been identified on the tenement

Churchill's exploration strategy is to further test the already identified prospects as well as use modern and systemised exploration techniques to generate further exploration targets within the South Woodie Woodie Manganese project.

Enacheddong is the highest priority manganese target

Drilling programme has been designed to test the manganese mineralisation

Manganese is primarily used in the steel industry

High grade - low impurity resources as found in the East Pilbara manganese Province are scarce

Enacheddong Creek Prospect

The highest priority target within the South Woodie Woodie Manganese project area is the Enacheddong Creek Prospect. Rock samples collected during 2005 returned assays up to 51.5% Mn with 57 of the 74 rock samples (77%) returning Mn levels above 30%. Low levels of impurity elements including iron, phosphorous and silica were recorded. High levels of Mn recorded in soil samples indicate that the Mn mineralisation probably extends under thin soil cover. Geological mapping has identified bedding and other features which suggest that the Mn mineralisation is of primary and not secondary nature. The results of the rock and soil sampling programmes indicate a zone of Mn mineralisation approximately 1,500m long. Furthermore a new 300m long zone of mineralisation located east of the main zone was also delineated with rock samples up to 40.3% Mn.

A drilling programme has been designed to test the manganese mineralisation at depth and clearances for the drilling from Native Title parties and Mines Department have been sought.

Other Prospects

Following on from the positive results received from the field work carried out at Enacheddong Creek a regional study was commissioned to delineate further manganese mineralisation. The review was successful and has identified 33 new target areas. Sampling of 15 of these target areas has returned manganese results up to 56%. Six new areas have been prioritised – Baldwin, Callaghan, Disraeli North, Disraeli South, Disraeli West and Walpole.

Historically, the geological model for the formation of manganese deposits in the East Pilbara Manganese Province has been that mineralisation formed by recent, near surface supergene enrichment. Exploration therefore focused on finding outcropping manganese mineralisation. However recently the development of a more sophisticated genetic model based on the identification of favourable structures and rock types has been successful in the delineation of a number of non-outcropping "hidden" deposits by Consolidated Minerals. These new discoveries include Greensnake (4.85 M tonnes at 47.2%Mn), Canyon (discovery drill hole intersection of 34m at 44.8%Mn) and Cracker East (best drill hole intersection of 20m at 45.1% Mn).

Exploration for hidden manganese deposits using the new geological model necessitates the use of a number of different modern geological methods. The first step of the process is the completion of a regional aerial magnetic survey from which geological and geophysical maps of the project area can be generated. Target areas then delineated from these maps and are prioritised based on field mapping and sampling. The high priority targets are then further investigated by prospect scale geophysical techniques to generate drill targets.

The Manganese Market

Around 95% of manganese consumed is used in metallurgical applications, mainly (90%) in the steel industry. Manganese is used in the steel-making process to impart strength and toughness in the steel product. It also cleanses the process by removing sulphur and inhibiting oxidation. In these applications manganese has few, if any viable substitutes. Manganese demand reflects the trend in world steel production and since the early part of this decade has been strongly influenced by the high level of growth of China's domestic steel industry as China emerges as one of the key drivers of world economic growth.

Although manganese resources are relatively abundant, high grade - low impurity resources as found in the East Pilbara manganese Province are scarce. The market pays a premium for this ore especially in China where it is used to blend with lower grade domestic ore.

Manganese prices are historically stable. Consolidated Minerals has recently settled benchmark prices for shipments of manganese during the 2006/2007 financial year at US\$3.00 per dry metric tonne unit. This equates to US\$144 per tonne of high grade lump ore FOB Port Hedland.

Quality management team focused on leveraging off the burgeoning Chinese steel and energy sectors

Conclusion

Churchill has a quality management team focused on leveraging off the burgeoning Chinese steel and energy sectors. The acquisition of the highly prospective Sendawar Coal Project in the well-known Kalimantan Coal Province demonstrates the ability of the management team to deliver on the Company's strategy. The Sendawar Coal Project provides Churchill with a rare opportunity to become a producer in the global thermal coal market. The Company has acquired a world-class ground position with a highly prospective geological setting, close to large-scale existing mines and critically within reach of port facilities. On-going exploration of the South Woodie Woodie Manganese Project has confirmed its prospectivity with the discovery of ore-grade mineralisation at surface. Drill testing of existing targets and the use of state-of-the-art exploration techniques to generate additional mineralisation should add further value to this project.

Directors

David Quinlivan, B.Min.Eng, F.AusIMM

CHAIRMAN

Mr Quinlivan is a mining engineer and principal of Borden Mining Services with over 30 years experience. Mr Quinlivan is familiar with all aspects of resources developments from grass roots exploration through to bankable feasibility reviews. He recently oversaw the expansion of Perseverance Deeps nickel mine expansion in Western Australia for BHP Billiton. He is currently assisting the Administrators with the operation and corporate reconstruction of Sons of Gwalia Ltd. Mr Quinlivan is a Fellow of the Australian Institute of Mining and Metallurgy, Member of the Australian Institute of Arbitrators & Mediators Australia and an Associate of the Securities Institute of Australia. He is also a non-executive director of ASX-listed gold explorer Avoca Resources Ltd and ASX-listed oil and gas explorer Jupiter Energy Ltd. Mr Quinlivan is responsible for board performance and bringing technical excellence to Churchill Mining Plc.

Paul G Mazak

JOINT MANAGING DIRECTOR

Mr Mazak is a business development specialist and managing director of Hastings and Associates Pty Ltd for the past 16 years. Responsible for leading and managing financial, investment, consulting and governmental teams across the globe, Mr Mazak has an intimate knowledge of business practice in many parts of Asia, Africa and Europe. Due to his in-depth knowledge of the mining business, Mr Mazak specialises in securing projects for listed companies. In this regard, he was responsible for the creation and management of the successfully bidding, B.Vijakumar Diamond mining consortium, which sort to develop the world-class Madhya Pradesh diamond property in India. In addition, Mr Mazak sourced the mine assets and was part of the reconstruction team of ASX-listed Majestic Resources NL, where he served as a director between 2001 and 2003. He is also currently a director of Boston Noble Pty Ltd. Mr Mazak is responsible for project procurement and joint company management of Churchill Mining Plc.

James Hamilton

JOINT MANAGING DIRECTOR

Mr Hamilton is a former financial journalist who has specialised in covering the global resources industry. For 13 years Mr Hamilton traveled extensively analysing exploration projects, mines and management teams across a variety of mineral commodities, including precious metals, ferrous metals, diamonds, energy minerals and industrial minerals. He is the former Editor of Australian technical mining journal Australia's Mining Monthly. He has also been editor of dedicated mining investment magazine ResourceStocks and is the founder of mining information news service, MiningNews.net. He currently also serves as a director of Planet Mining Pty Ltd, Goldregis Corporation Pty Ltd and Boston Noble Pty Ltd.

Melissa Sturgess-Smith, B.Sc., MSc

NON-EXECUTIVE DIRECTOR

Ms Sturgess has an extensive background in corporate management, development and financing. After an early career with British Airways and lawyers Mallesons Stephen Jacques she was appointed to the board of Dwyka Diamonds Limited in 2001. She rose to become chief executive officer in July 2003 and in August last year was appointed executive chairman. Dwyka is in the middle of an aggressive growth program which includes the development of a diamond tailings re-treatment operation in South Africa with joint venture partner De Beers and the ramp-up of three recently purchased kimberlite mines – two already in production and the third to come on stream in calendar 2006. Ms Sturgess is also a director of emerging ASX-listed PGM producer Sylvania Resources Ltd.

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