



Quarterly Review

Australian Coal Index

Quarter 2, 2011

About the Indices

The Bakers Australian Coal Index is the leading index tracking the performance of Australian coal companies listed on the ASX. Launched in January 2011, the Australian Coal Index is comprised of three subsectors; Coal Producers & Explorers, CSG/UCG Producers & Explorers, and Coal Service. These subsectors are run individually to give the market a metric to gauge the performance of these sectors within Australia. The subsectors are also aggregated into the Australian Coal Index to give an overall metric for the coal industry as a whole.

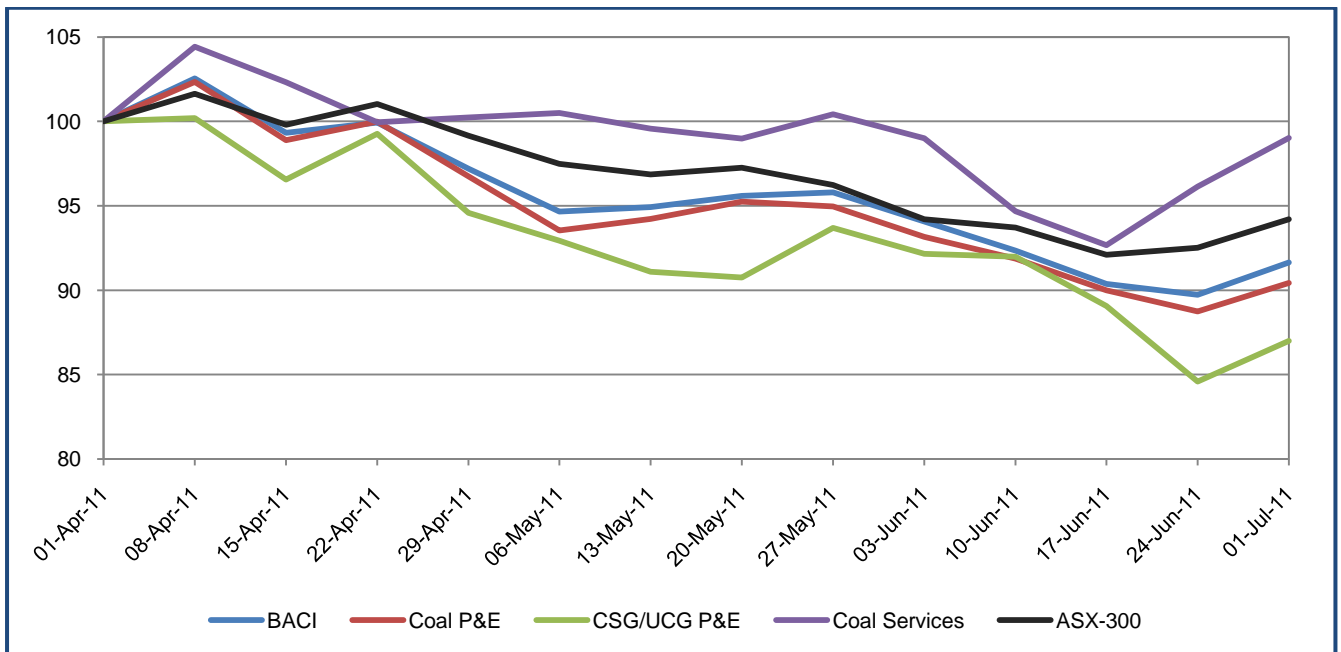
Quarterly Performance

The Australian Coal Index has not had a strong Quarter 2, with the aggregate index and two sub-sector indices underperforming the market, with on the coal services sector out-performing on the back of QR National's return to similar prices as at the beginning of the period. The major reason for this collective performance has been the uncertainty surrounding the Federal Government's proposed carbon tax and how it would affect the industry. However, in the first weeks of Quarter 3, when after the details of carbon tax were released, investment in the coal industry increased, including a well publicized takeover bid, which suggests that the long-term value of the coal industry remains even factoring in the proposed carbon tax.

However, there were some companies which did not follow the Q2 trend achieving positive gains. This was largely due to good market engagement, such as regular announcements with positive news, such as takeover bids, and independent analyst research, which allowed these companies to differentiate themselves from the sector in general and highlight their investment and value potential.

Performance Data

Index	Quarter 2 Performance	Year to Date Performance
Bakers Australian Coal Index	-8.35%	-5.69%
Coal Producers & Explorers	-9.58%	-10.08%
CSG/UCG Producers & Explorers	-13.01%	-12.55%
Coal Services	-0.99%	+22.70%
S&P ASX-300	-5.80%	-3.51%



Coal Producers & Explorers

Best Performing Companies		
Name	Ticker	Performance
Rocklands Richfield	RCI	+130.77%
Metrocoal	MTE	+81.25%
Kangaroo Resources	KRL	+42.31

Worst Performing Companies		
Name	Ticker	Performance
Nucoal Resources	NCR	-30.85%
Rey Resources	REY	-31.75%
Newland Resources	NRL	-44.71%

Quarter 2 was a mixed quarter for coal producers and explorers, with some very strong performances from some companies, but losses from the majority of constituents. Of the three best performers, Rocklands Richfield (RCI) was buoyed by takeover speculation from Jindal Steel and Power, and Metrocoal (MTE) and Kangaroo Resources (KRL) were lifted following announced resource upgrades. The three worst performing companies of the quarter had either no significant news this quarter, or only limited news which the market initially favored but then left sold down positions when no follow-up was announced. From these, it can be seen that the coal producers and explorers are driven heavily by market sentiment, and given the number of players, both listed and unlisted in the market, those companies which continually engage with the market highlighting their value, have seen the best results for their shareholders.

CSG/UCG Producers & Explorers

Best Performing Companies		
Name	Ticker	Performance
Liberty Resources	LBY	+16.67%
Linc Energy	LNC	-3.39%
Clean Global Energy	CGV	-6.38%

Worst Performing Companies		
Name	Ticker	Performance
Exoma Energy	EXE	-38.64%
Red Sky Energy	ROG	-53.33%
Cougar Energy	CXY	-55.56%

Quarter 2 was generally a poor quarter for coal seam gas (CSG) and underground coal gasification (UCG) companies, with all but four companies having price drops greater than 10%. Generally this has been fueled



investments in other segments of the economy in the lead up to the announcement of the Federal Governments carbon tax, with natural gas being overlooked or assumptions that it will be badly affected under the scheme.

The exception to this trend has been the performance of the underground coal gasification (UCG) companies. While having similar poor performance, they have been driven by different factors. Cougar Energy, one of the three companies permitted to operate a trial pilot plant in Queensland to prove the technology, has suffered significant setbacks, both politically and less so technically. Setbacks with its Kingaroy project have resulted in significant media and community interest, which may impact on UCG political viability, particularly in Queensland. The other two companies, Linc Energy and Carbon Energy have both made moves to differentiate and distance themselves from Cougar through various means.

Disclaimer - Bakers has been engaged by Cougar Energy (ASX:CXY) and Liberty Resources (ASX:LBY) in the past. Please see the disclaimer at the end of this document for more information.

Coal Services

Best Performing Company			Worst Performing Company		
Name	Ticker	Performance	Name	Ticker	Performance
QR National	QRN	-0.88%	Bounty Mining	BNT	-35.00%

Quarter 2 has been a poor quarter for the small, but operationally diverse listed coal services sector. While some companies, such as QR National ended the quarter at a similar price to where they began, during the period there was much more volatility, reflective of the general performance of the coal producers and explorers sector.

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This report was prepared by our Senior Analyst, Thomas Paul.



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Absolute performance, long-term recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

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