

16 April 2010

ASX Code | PZC
Speculative Buy

Pan Asia Corporation Limited

Emerging Thermal Coal Producer

*Pro-Forma Capital Structure

Sector	Materials
Share Price	\$0.039
Fully Paid Ordinary Shares (m)	1149.2
Shares Acquisition	655.0
Performance Shares (m)	150.0
Opt (ex \$0.01, exp 30/11/10) (m)	159.9
Opt (ex \$0.025, exp 27/11/12) (m)	12.0
Opt (ex \$0.05, exp 29/11/12) (m)	4.0
Opt (ex \$0.05, exp 11/01/13) (m)	4.0
Opt (ex \$0.05, exp 30/03/13) (m)	2.0
Opt (ex \$0.045, exp 30/04/12) (m)	175.4
Market Capitalisation (dil) (m)	\$77.1
Pro-Forma Cash (A\$) (m)	\$5.0
<i>*Assumes placement of 175.4m Shares + 175.4 Opt (ex A\$0.045, exp 30/04/2012)</i>	

Directors

Domenic Martino	Non Exec Chairman Elect
Allan Hopkins	Chief Executive Officer
Luke Martino	Non Exec Director
Honardy Boentario	Exec Director Elect
Michael Pixley	Non Exec Director
Athan Lekkas	Non Exec Director

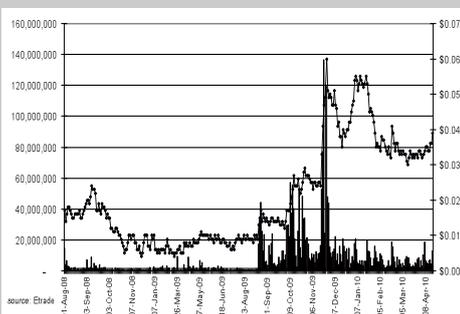
Major Shareholders

Indian West Pty Ltd	5.6%
Merrill Lynch (Aust) Noms P/L	4.9%

Analyst

Guy Le Page +61 8 9321 3277

Share Price Performance



Investment Highlights

- Pan Asia** has accumulated a portfolio of Indonesian coal projects covering the spectrum of producing operations to grass-roots exploration. This portfolio provides exposure to the burgeoning demand for thermal coal in the South East Asia and China region whilst deriving near-term cash flow for reinvestment into their development and exploration projects.
- The Company have spent the past 12 months establishing solid working relations with its Indonesian partners. They are now on the cusp of completing all the necessary regulatory and due diligence steps required to complete the acquisition of a suite of projects in Indonesia. This acquisition will result in **Pan Asia** becoming a profit share partner in one producing thermal coal mine (Nadvara or NAD) and one near-term mine development (Perdama Maju Utama or PMU). Additionally it will have majority ownership in more than four coal projects that have the potential to be developed into producing mining operations within the next few years.
- The TransCoal Minergy (TCM) Project, which will be 75% controlled by **Pan Asia**, offers a particularly interesting investment outlook. This project is adjacent to a significant coal mine owned by a subsidiary of Bumi Resources, Indonesia's largest coal producing company. Already, a Memorandum of Understanding has been entered into with the mining contractor of the adjoining mine to extract, via conventional open pit mining methods, the down dip extensions of the coal seams currently being mined that lie on the TCM property.
- The TCM project also offers underground potential, which has been proven by recent drilling. This potential could be commercialised in the short to medium term unlocking significant value for shareholders.
- In addition to acquiring majority interests in a portfolio of coal projects, **Pan Asia** has secured the marketing and off-take rights for the production of these projects. This provides an extra string to the Company's bow and further enhances its opportunities to extract value.
- The outlook for thermal coal demand in the South East Asia and China region is very robust. Due to its proximity to the developing nations of Asia, Indonesia has a freight advantage over the Australian export market. This ensures that demand for the product remains strong, as long as coal quality is acceptable.

Outlook

RM Research believes that **Pan Asia** is on the cusp of completing the acquisition of a portfolio of Indonesian coal projects that will deliver substantial uplift in value to its shareholders. The Company has invested significant time and effort into establishing strong relations with its Indonesian business partners and the structure of the deals suggests that the interests of its partners and project vendors are aligned with those of the Company's shareholders. On successful execution of the necessary regulatory approvals, which we envisage to occur in the June 2010 quarter, **Pan Asia** will almost immediately generate a return on its investment, which can be used to progress the exciting pipeline of development projects, not the least of which is the TCM project.

The likes of Kangaroo Resources (ASX: KRL) (274 Mt resources) with a market capitalisation of around A\$150 million and Gloucester Coal Limited (ASX: GCL) (297Mt resources) at A\$1.0 billion, while we are not drawing direct comparisons, provides some indication of the potential uplift if the Company is successful in implementing its business plan.



Company Background

From seafood scraps to emerging coal company

With a focus on Indonesia

Pan Asia Corporation (“Pan Asia” or “the Company”) emerged from external administration in August 2008 after being recapitalised by parties associated with Domenic Martino (new Chairman elect) and upon entering into an agreement to acquire an indirect 80% interest in exploration rights covering potential coal deposits in South Kalimantan, Indonesia. The acquisition was finalised in February 2010.

The Company has subsequently expanded its mineral exploration assets in Indonesia by entering into an agreement to acquire Innovation West Pty Ltd (“Innovation West”), which owns a suite of coal and manganese assets. Some of these assets are near-term small-scale mine development and production opportunities.

At a General Meeting held in November 2009 the company known as Sam’s Seafood Limited (ASX: SSS) changed its name to Pan Asia Corporation Limited (ASX: PZC). The acquisition of Innovation West is due to be settled in the June 2010 quarter after extensive due diligence investigations. 655 million shares will be issued in consideration for this acquisition.

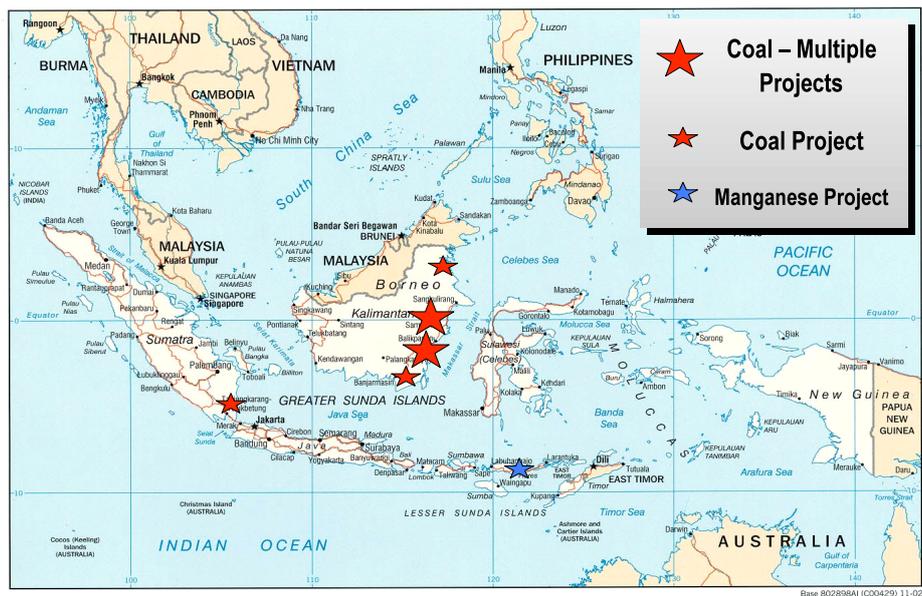
Innovation West – Large Footprint of Projects in Indonesia

Project portfolio has been refined to enhance its quality and to ensure alignment of interests

The acquisition of Innovation West has been a work in progress for the past six months, having first been announced to the ASX in October 2009. Whilst the time taken to complete the acquisition may have tested the patience of some investors, **RM Research** considers that management have acted with diligence and will ultimately deliver a portfolio of quality assets with multiple opportunities to generate strong investment returns.

Another important factor has been the structure of the deal. It seems that the interests of the Indonesia partners and project vendors will be aligned with those of the shareholders of **Pan Asia**, as the acquisition is predominantly scrip based.

Figure 1: Indonesian Projects
(source: Pan Asia Investor Presentation, ASX Announcement 12/04/2010).



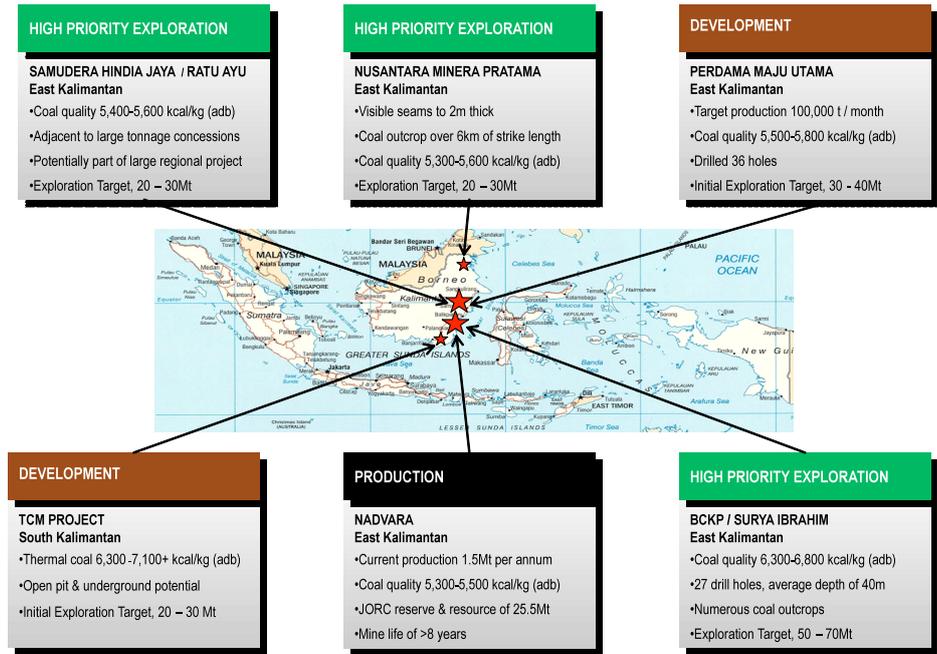
Project portfolio consists of producing mines, near-term developments and exploration assets

The project portfolio consists of one production asset, two near-term developments, three high priority exploration targets, and at least two more projects currently being assessed. The projects that are labelled as production, development or high priority exploration all are located in Kalimantan, Indonesia’s largest production province.

The production asset, the Nadvara (NAD) coal mine, currently has JORC compliant Proven and Probable ore reserves of 5.84 million tonnes and Measured and Indicated resources of 19.63 million tonnes. NAD produces around 1.5 million tonnes per annum of mid ranking thermal coal (5,300-5,500 kcal/kg (adb)) and has access to the necessary road transport, crushing, barging, and ship loading infrastructure to deliver to export markets.

It is proposed for the Company to profit share in this asset at a rate of US\$2.60 per tonne produced.

Figure 2: Major Coal Projects in Kalimantan
(source: Pan Asia Corporation, Investor Presentation ASX Announcement 12/04/2010).

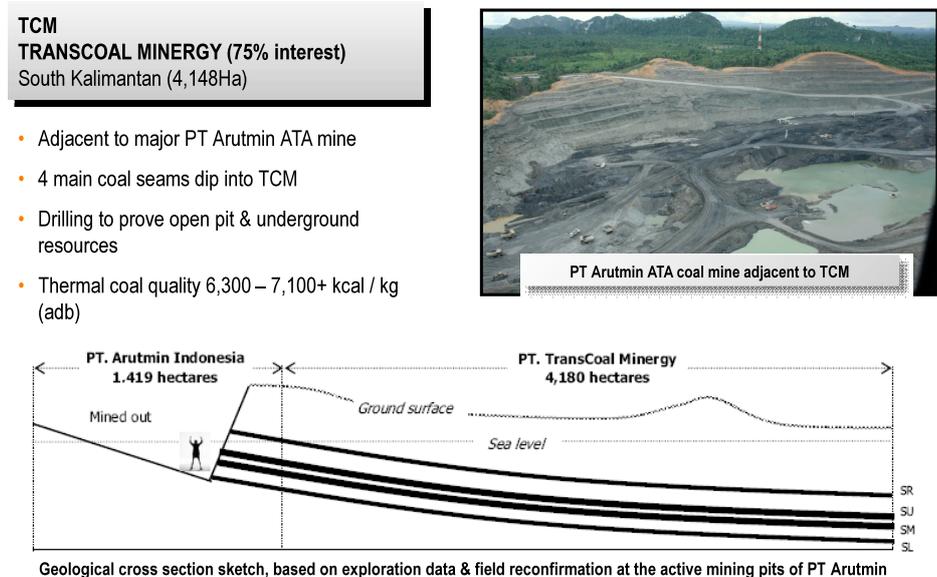


Of the two development projects, the Perdama Maju Utama (PMU) has the potential to be in production by the end of the September 2010 quarter, with the deal structure being almost identical to that at NAD, whereby **Pan Asia** will generate a US\$2.60 per tonne of coal production net cashflow in exchange for providing the necessary capital to develop the mine.

We consider TCM to be the jewel in the crown

In our view the jewel in the crown of the current asset portfolio is the second of the development projects, TransCoal Minery (TCM). It is proposed that **Pan Asia** will own a 75% interest in this project, which lies in the down dip position of a current mining operation called ATA that has limited life due to its proximity to the tenement boundary.

Figure 3: TCM Project – proximity to existing ATA mine
(source: Pan Asia Corporation, Investor Presentation, ASX Announcement 12/04/2010).



A Memorandum of Understanding has already been entered into with the mining contractor at the ATA operation to continue mining across the tenement boundary. This presents the opportunity to derive a cash flow from this project at relatively low risk whilst investigating the potential to extract further product through underground mining methods.

The quality of the product from the ATA mine and that expected from the TCM Project is of vastly superior quality to that of most other operations in Kalimantan (including the NAD and

Three high-quality exploration targets should provide opportunity to expand coal production

PMU projects that **Pan Asia** has an interest in). This should enhance project economics and product demand.

The three high priority exploration targets, one of which already has 27 drill holes into it defining coal seams of variable thickness from 0.6m to 4.2m, provide opportunities to expand coal production leveraging off the operational expertise the Company has and will continue to develop, as well as its emerging marketing presence initially derived from its offtake agreements for the NAD and PMU projects.

Production Outlook – What Could be Achieved

Pan Asia, in assembling the Innovation West project portfolio, has outlined short and medium term production targets. These targets are outlined in the below table 1:

Table 1: Coal Production Targets
(source: Pan Asia Corporation, Investor Presentation, ASX Announcement 12/04/2010).

Project	Status	Coal Quality (kcal / kg) (adb)	Production Target 2010 (part)	Production Target 2011	Production Target 2012
Nadvara (NAD)	Production	5,300 – 5,500	0.9 Mt	1.5 Mt	1.8 Mt
Perdama Maju Utama (PMU)	Development	5,500 – 5,800	0.6 Mt	1.2 Mt	1.2 Mt
Transcoal Minergy (TCM) (open pit)	Development	6,300 – 7,100+	---	1.0 Mt	1.0 Mt
Transcoal Minergy (TCM) (underground)	Development	6,300 – 7,100+	---	---	1.5 Mt
BCKP/Surya Ibrahim (BCKP/SIM)	Exploration	6,300 – 6,800	---	---	1.8 Mt
Samudera Hindia Jaya/Ratu Ayu (SHJ/RA)	Exploration	5,400 – 5,600	---	---	1.2 Mt
Nusantara Minera Pratama (NMP)	Exploration	5,300 – 5,600	---	---	1.5 Mt
TOTAL			1.5 Mt	3.7 Mt	10.0 Mt
Project 1 (in process of being acquired)	In Process	~6,000	---	---	3.0 Mt
Project 2 (in process of being acquired)	In Process	5,500 – 5,600	---	1.0 Mt	2.0 Mt

Note : Production tonnage targets relate to the total for each specific project (and not just the PZC share of such). Production tonnage targets for 2012 depend on successful exploration outcomes. Other exploration projects exist in addition to above High Priority projects.

RM Research anticipate that **Pan Asia** will be sharing in coal production of around 1.5 million tonnes in calendar year 2010, with the potential to expand output to 3.7 million tonnes in CY 2011 and to around 10 million tonnes per annum in CY 2012.

To support this production profile, it will be necessary to reinvest the financial returns it should receive from the profit share agreements on the NAD and PMU mines into resource definition drilling, project development studies and capital expenditure on its pipeline of coal projects. Alternative funding initiatives such as attracting mining and logistics experts and potential customers may assist in reducing future shareholder dilution.

Pan Asia is targeting resources of in excess of 150Mt by late CY 2012

The Company has aspirational targets for the delineation of mineral resources on its coal projects. These are the 80 million tonnes of resource defined by the end of CY 2010 growing to in excess of 150 million tonnes by December 2012.

Whilst the production and resource targets outlined by **Pan Asia** are dependent on exploration success that cannot be assured, the achievement of these goals would provide enormous upside to the Company's valuation. At this stage, **RM Research** considers it premature to assign a target valuation to **Pan Asia**, given that the project acquisitions are not complete and exploration and project development activities are yet to be ramped up. Suffice to say, that a Company with a thermal coal production profile of greater than 5 million tonnes per annum and a resource base of 75 million tonnes (based on a conservative assumption that **Pan Asia** holds an interest in 50% of the total project portfolio), should command a market capitalisation of several hundred million dollars.

Directors and Management

Domenic was formerly CEO of
Deloitte Touche Tohmatsu
(Australia)

Domenic Martino – Non-Executive Chairman Elect

Mr Martino is a Chartered Accountant and a former CEO of Deloitte Touche Tohmatsu (Australia). He specializes in corporate finance including mergers and acquisitions, initial public offerings and strategic opportunities. He has assisted many high profile companies in a diversified number of industries and is currently Chairman of Synergy Plus Limited (ASX: SNR); a Director of AIM listed Gladstone Pacific Nickel Ltd; Chairman of ORH Limited (ASX: ORH) a mining services company; Chairman of Australasian Resources Limited (ASX: ARH) currently developing a billion tonne iron ore resource in the Pilbara; and a Director of Clean Global Energy Ltd (ASX: CGV), an underground coal gasification company. Mr Martino was a founding Director and former Chairman of coal bed methane companies Blue Energy Limited and Sydney Gas Limited (acquired by AGL Energy Limited, one of Australia's major integrated companies with a market capitalisation of around \$6 billion).

Allan has extensive experience
with numerous public
companies including the highly
successful Carnegie
Corporation

Alan Hopkins – Chief Executive Officer

Mr Hopkins brings over 20 years' experience serving as CEO in resource companies with international operations. This includes extensive experience with start-ups and turnaround situations managing through phases of exceptional growth. His previous positions include serving as a founding Australian Executive of international mining engineering group Edward L Bateman Pty Ltd, CEO of Carnegie Corporation Ltd, CEO of Moonstone Diamond Corporation Ltd as well as CFO of Grants Patch Mining Ltd.

Honardy Boentario – Executive Director Elect

Mr Boentario is a highly experienced Indonesian business with in excess of 25 years operational experience in the coal industry. He has strong networks in the region and he is currently the President Director of ECI an active Indonesian coal producer with significant advanced coal exploration programmes. His other roles include serving as technical adviser to the board of HMU a JVCO with Australian coal group New Hope.

Luke's experience includes
other Indonesian focussed
companies such as Nu Energy

Luke Martino – Non Executive Director & Company Secretary

Luke has over 20 years experience at partner and board level with major accounting firms and is a Director of several private and public companies engaged in minerals and resources, property and hospitality. Luke is a Non Executive Director of ASX Listed Nu Energy Capital Limited which is developing coal bed methane projects in the Republic of Indonesia, Director of Indian Ocean Living, Director of WestZone Enterprises Pty Ltd as well as the Company Secretary for Victory West Moly Limited. He is the former Chairman of Konekt Ltd, a former Director of South Pacific Resources, a Canadian publicly listed company with mining projects in the Republic of Indonesia and a former Board Member of the Deloitte Australian practice.

Michael Pixley – Non Executive Director

Mr. Pixley has worked as a merchant banker with over 20 years experience in Asia and has extensive networks and relationships that provide the Group with access to key personnel in the government, corporate and private business sectors. Mr. Pixley has been a Director of both listed and unlisted companies in Australia and the United States. In addition, in 1992 he joined a prominent Asian group with both listed and private companies having extensive business interested throughout Asia, United States of America and Australia.

Athan Lekkas – Non Executive Director

Mr Lekkas has participated in a broad range of business and corporate advisory transactions and projects for a range of listed and unlisted companies. He is experienced in the treasury and financial market sectors including financial feasibility studies for the provision of debt or equity for project funding. Athan has more recently focused and specialised on the restructure and recapitalisation of a range of ASX listed resource companies.

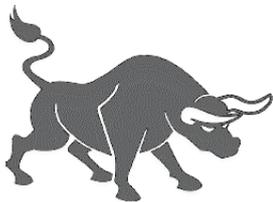
Brett McKay – Chief Geologist

Mr McKay holds both geology and finance and has experience as a consulting geologist, project geologist, exploration geologist and a research analyst. Since graduating with Honours with a Bachelor of Science majoring in Geology from the University of Newcastle, Mr McKay has worked with the geological teams of RCA Australia, Equity Exploration Consultants Ltd and Malachite Resources NL in both Australia and Canada. He has also worked as a research analyst (resources & mining) with BBY Ltd. He is a member of the Australian Institute of Geoscientists (AIG), the Society of Economic Geologists (SEG) and an Associate of the Financial Services Institute of Australasia (Kaplan).



Bulls and Bears

The Bulls Say



- Substantial exploration upside from deep pipeline of projects located in known coal accumulations.
- Short lead time to positive cash flow generation due to the acquisition of an existing mining operation and several projects that could be delivered into production within three to twelve months.
- Access to existing transport and coal processing infrastructure facilitates rapid project development and a quick return on investment.
- The predominantly scrip based acquisition of Indonesian coal projects aligns the interests of the project vendors and in-country partners with those of the existing shareholders.
- **Pan Asia** possesses a Board of Directors (included people in Board Elect positions) and Senior Management team capable of advancing its suite of projects from exploration to development and mining operations.
- The Company continues to review the acquisition of several other Indonesian projects and, with a network of partners with vast operating experience in the region, possesses the skills and capacity to commercialise these new opportunities.

The Bears Say



- Indonesia has a history of being a difficult operating environment for foreign companies. Recent changes to the foreign investment rules and regulations have secured more robust project tenure and more desirable monetary policies.
- It is likely that **Pan Asia** will require more funding in the near term, so that it can inject capital into the production and near-term development coal projects. This may cause dilution to existing shareholders although **RM Research** anticipates that alternative funding arrangements such as project partnering may reduce the likelihood of future dilution.
- Thermal coal is seen as a less attractive long term solution to the world's energy requirements due to its relatively large carbon footprint. **RM Research** believes that demand for thermal coal is unlikely to diminish in the medium term. This is due to the introduction of new clean coal burning technology and the necessity for a gradual phase out of coal fired power generation due to the limited supply of alternative energy fuels such as crude oil, uranium and natural gas and long lead time to production.

Conclusion

RM Research believes that **Pan Asia** has diligently assembled a portfolio of Indonesian coal projects that should be able to deliver rapid growth in mineral resource inventory and output. This is likely to translate into a healthy generation of operating cash flow within a time frame measured in months rather than years, which will initially be used to grow the Company through further project acquisition and exploration success.

Although not without sovereign, project execution and financing risk **Pan Asia** offers substantial upside from current share price levels. Accordingly **RM Research** rates the Company as a **Speculative Buy**.

Research Analysts

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RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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