SMALL RESOURCES REVIEW

By their very nature – explorers and/or small producers – the following companies are highly speculative.

AIM Resources (AIM) - $0.12

- The company's main asset is the Perkoa Zinc Project in Burkino Faso, West Africa. Other projects are the Mumbwa copper-gold project in Zambia, and the Mokopane nickel-platinum project in South Africa.
- Construction and development at Perkoa is proceeding, but information on progress is scant. There appears to be a total disconnect between proposed commissioning of the plant in early 2008 and the lack of progress in underground development.
- Likewise, there is no information on the level of spending to date and how this compares to budget. The company has not clearly communicated how the remainder of the project will be financed, and there is still no reference to debt financing. In November, the company announced a proposal to sell up to $70m of convertible debentures but this has apparently been withdrawn due to errors in the report for its proposed listing on the Toronto Stock Exchange.
- As at 30 September 2007, the company had $85.6m in cash and short term deposits.
- The share price continues to drift, partly as a result of the weaker zinc price but also as a result of concerns regarding the development timetable of the flagship project.
- Lonsec remains of the opinion that Perkoa is a robust zinc project but is concerned about the lack of clarity and detail around both the project and the company.

Recommendation: Sell

Alkane Resources (ALK) - $0.35

- The scoping study at the Tomingley Gold Project near Parkes, NSW indicated that the project was capable of producing between 60,000 ozs and 70,000 ozs a year for at least four years. Drilling at the recently discovered Caloma prospect continues to show great promise and the mineralisation is expected to expand the overall resource and provide the necessary additional open pit material to secure an acceptable financial return for the project.
- A resource update is due in March 2008. A full feasibility study is expected to be completed by mid-2008. The Caloma resource is not just expected to increase the mine life, but the higher grade is likely to improve the project economics and potentially boost gold production in the earlier years.
- The Dubbo Zirconia Project demonstration plant, which was constructed at the facilities of ANSTO Minerals at Lucas Heights, should be fully operational in early 2008.
- The original base case treatment rate was 200,000tpa, but it is now likely to be closer to 400-500,000tpa. A throughput rate of 500,000t of ore pa would generate revenue in excess of $100 million a year, based on product pricing that had been assumed in the 2002 study.
- In November, the company announced that it was making a fully underwritten 1 for 5 non-renounceable entitlement issue at $0.32 per share to raise up to $12.9m. The proceeds of the offer will be used to advance the Tomingley Gold Project definitive feasibility study, fund the Dubbo Zirconia Project definitive feasibility study, and for continuing exploration and other working capital requirements.

Recommendation: Buy

Alliance Resources (AGS) - $1.33

- AGS has a 25% free carried interest in the potentially very large and high grade Four Mile Uranium Project located within eight kilometres of Beverley SA, one of Australia's three producing uranium mines.
- In May 2007, the JV announced an Inferred Mineral Resource for the Four Mile West Deposit of 3.9Mt at 0.37% U_3O_8 containing 15,000t (32Mlbs) of U_3O_8. The grade is significantly higher than any resource estimates being reported by other uranium explorers.
- An intense drilling programme at Four Mile East has established mineralisation of a similar magnitude to that at Four Mile West. An initial resource is expected to be announced in April, although an Exploration Target Range should be established by the end of January. If the 'untested potential' at both Four Mile East and Four Mile West is converted into resources, Lonsec believes that the potential resource base could ultimately be increased to around 130Mlbs U_3O_8.
- The project has the strong support of the South Australian government. Its other main advantages are its close proximity to an existing operation and potentially low capital and operating costs, if the ore body is amenable to in situ leaching and is treated at the Beverley plant.

Recommendation: Buy

Aquila Resources Limited (AQA) - $8.49

- Aquila is a mid-sized miner and explorer with an interesting portfolio of large scale coal and iron ore projects at various stages of development.
- Cash flow is currently derived from the Isaac Plains coal mine (AQA 50%) in the Bowen Basin. Subject to port expansions, Isaac Plains has been built to export 2.8Mtpa of coal (75% of which is metallurgical grade) from 2009.
- In June 2007, a resource of 696Mt of coal was estimated at Peak Downs East (Aquila 50%). Coal quality tests and mining studies indicate Peak Downs East could produce 7Mtpa of hard coking coal from underground.
- Vale (formerly CVRD) has spent $140m acquiring and assessing the Belvedere coal project (Aquila 24.5%) as part of a move into Australian coking coal. A multiple longwall mine capable of producing between 9Mtpa and 11Mtpa is envisaged.
- The company is currently conducting pre-feasibility studies on the West Pilbara channel iron deposits. Based on the current resource, production rates of between 20Mtpa and 25Mtpa are being evaluated; the major constraints are rail and port facilities.
- In addition to the extensive landholding in the Pilbara, the company has manganese and iron ore exploration projects in the northern Cape Province of South Africa.
- At the end of September, Aquila had $48m in cash and combined cash reserves and liquid investments of $179m.
- Since Lonsec initiated coverage in September 2007, the share price has risen by 72%. Whilst the fundamentals remain sound, the recent price outperformance suggests accumulating at lower levels.

Recommendation: Hold

Aurox Resources Limited (AXO) - $0.975

- Aurox is developing the Balla Balla iron ore/vanadium deposit located midway between Karratha and Port Hedland in Western Australia.
- The mineralogy/metallurgy of the titaniferous magnetite differs from other magnetites in that it is both higher grade and requires a much coarser grind, thereby considerably reducing power consumption and hence costs.
- The project is favourably located in relation to gas and electrical power, roads, abundant water and the shipping facilities of Port Hedland.
- Both estimated capital and operating costs are considerably lower than many of the Western Australian magnetite deposits.
- The company has signed offtake agreements with two Chinese steel mills for 6Mtpa with potential ramp up to 10Mpta by 2014. The concentrate is to be sold at Hamersley premium price.
- Investors should be aware that despite the development timetable being ahead of some of the prospective iron ore producers, production is not due until mid-2010 and there is a potential for delays in the current operating environment.

Recommendation: Buy

Aussie Q Resources Limited (AQR) - $0.165

- The company holds five prospective copper/molybdenum tenements in central Queensland near the town of Mondo. Exploration prior to the IPO suggested large scale, low grade porphyry style copper/molybdenum mineralisation.
- Molybdenum is a metallic element used primarily for steel alloying and as a catalyst. It usually occurs with copper, although the company's Whitewash project also contains silver, tungsten, and rhenium (used in high temperature superalloys and petroleum refining).
- Results from 27 holes have been reported. The average grades are 0.05% for molybdenum, 0.16% for copper, 2.1g/t silver, 44 ppm tungsten (W) and 0.19 ppm rhenium. Based on a recovery factor of 85% and conservative long term prices, the molybdenum oxide equivalent (MoO_3eq) is 0.11%.
- The mineralised area drilled to date covers an area of 1,000m x 1,000m. The initial drilling programme was based on 7,000m of RC and diamond drilling. Assay results for more than 3,500m drilling from 16 holes are still awaited. Drilling is expected to recommence in mid-January and two drill rigs are expected to be active from February.
- There is little doubt that the mineralisation is consistent but relatively low grade. The challenge will be to establish higher grade zones.
- Cash balance at 30 September was approximately $10m.

Recommendation: Hold

Avoca Resources Limited (AVO) - $2.32

- Lonsec initiated coverage in July 2006, when the share price was $0.76 describing Avoca as "Australia's best gold junior". Since the August 2007 small companies review, the share price has risen a further 57% from $1.48.
- Underground development at the high grade Trident mine is in progress. The 1Mtpa Higginsville CIL treatment plant is expected to be commissioned in June 2008. Annual production levels in the 160,000 oz to 190,000 oz range are currently being targeted at life of mine cash costs of A$369/oz.
- On 18 December 2007, the company announced that it had increased its resource base at Higginsville by 246,000 ozs, or 23%. The resource now stands at 11.7Mt at 3.6 g/t for 1.35Mozs of gold. This includes initial high grade resources from the Apollo and Poseidon South deposits.
- The company is confident that this resource base will extend the original four year mine life to more than 10 years.
- The company continues to consolidate landholding in the Higginsville area. Its most recent acquisition is the Two Boys gold mine and surrounding leases located 1.5km south of Avoca'a Trident gold deposit at Higginsville.
- At the end of September, the company held $90.9m in cash, which will allow development of the project without the need for project finance, or alternatively, provide further flexibility in its corporate development.

Recommendation: Buy

BC Iron Limited (BCI) - $1.40

- Early exploration results at the company's Nullagine project in the Pilbara have been encouraging, indicating potential for a commercial Direct Shipping Ore (DSO) operation from the development of Channel Iron Deposits (CIDs). There is a strong likelihood that the company will generate a JORC-compliant resource of between 33Mt and 70Mt over the next 3-6 months.
- Channel iron deposits are attractive targets as they form near surface and can be traced for tens of kilometres. This enables exploration to be carried out inexpensively and rapidly as only shallow drilling is required. Capital development costs are relatively low.
- If BCI can establish a modest tonnage at Fe grades of between 56% and 58%, pre-resource, pre-feasibility indicators are that there is a very good chance that the company will be able to proceed to a full feasibility study during late 2008 with a real chance of development and production thereafter.
- BCI has signed a Memorandum of Understanding with Fortescue Metals (FMG) for the provision of bulk commodity transport from FMG's Chichester Project to Port Hedland. Upon completion of a Bankable Feasibility Study, the parties will seek to agree to commercial terms on which FMG may provide BC Iron with rail haulage, port handling and ship loading facilities.

Recommendation: Spec. Buy

Breakaway Resources (BRW) - $0.55

- Breakaway is a later stage exploration company. Its main focus is on nickel (Scotia/St Andrews/St Patricks, NW of Kalgoorlie and Kambalda West) and lead/zinc/silver (Eloise, Qld). The company has an aggressive exploration budget and intends spending between $8m and $10m in FY2008.
- Two holes drilled at the company's 1A deposit in the Kambalda West region have intersected massive and

disseminated nickel mineralisation. The most recent hole intersected 6.6m at 1.9% Ni, including 0.8m at 7.12% nickel. The previous hole intersected 5.6m at 4.19% Ni at a different horizon.

- Breakaway also has a 30% Net Profit Royalty interest in the Eloise copper mine in Queensland. With the estimation of a JORC compliant resource and the commencement of the new production plan, the Eloise Mine now has the basis for developing a longer-term production outlook for the first time in a number of years. This provides positive indications that royalty payments could resume in calendar 2008.
- In early January 2008, the company reported an initial resource of 5.78Mt at 3.96% lead, 40.3 g/t silver and 0.49% zinc at its Altia deposit which is located on Breakaway's 100% Eloise Exploration Project.
- As at 30 September 2007, Breakaway had a cash reserve of $16.3m.

Recommendation: Buy

Caspian Oil & Gas Limited (CIG) - $0.095

- CIG is entitled to operate on the shallow potential down to 1,000m depth on the northern Fergana licences of Charvak, Ashvaz, East Mailisu and West Mailisu in the Kyrgyz Republic and to retain 100% of the oil produced. In addition, CIG has the rights to 70% of the Mailisu III Block in joint venture with KNG (the government oil company), without restriction on depth.
- Santos (approx. 15% shareholder in CIG) is funding exploration below 1,000m depth on CIG's acreage under a three phase farm-in, spending up to US$24 million to earn 80% equity in the blocks. CIG is carried for 20% equity during the farm-in.
- Following a long period of planning and behind-the-scene activity, Caspian spudded the first well in its planned 11 well program in the northern Fergana Basin. The target depth of 730m was reached on 23 October 2007. Oil was recovered from drill core taken from limestone beds and up to 2m of net pay was intersected. Work continues in preparation for the planned perforation and testing of the oil zones in the week beginning 16 December 2007.
- Drilling continues on the second well (COG Mailisu III #2) and the hole had reached a depth of 1,202m by 10 December 2007. The hole is to be drilled to a depth of 1,500m. Following promising oil shows over the same beds encountered in Hole #1, strong gas flows have been encountered in at least three sandstone sections. The well will be drilled to total depth to evaluate the gas potential in the lower reservoir beds before logging.
- Results to date have been encouraging and will shortly be quantified for the first two holes. With a further nine holes still to be drilled, there is further upside potential.

Recommendation: Hold

CopperCo Limited (CUO) - $0.805

- Copper production at the company's Lady Annie Project began in late September and the first shipment of LME "A" grade copper was made in early October. Initial production level is expected to be 19,000t of copper cathode per year.
- Development work to expand annual production to 25,000tpa has commenced. Preliminary environmental submissions are complete and several long lead items have been ordered. Basic feasibility engineering design is complete and this will form the basis of the final capital cost estimate. Increased production is targeted for mid-2008.
- The company recently announced an inaugural mineral resource estimate of 3.9Mt at 1.1% copper containing 43,200t of copper metal at its Anthill–Buckley River Prospect, which forms part of the overall Lady Annie Project.
- This brings the total mineral resource to almost 40Mt at a grade of 0.9% copper containing 358,700t of copper, an increase of 86% compared to one year ago. This resource underpins a potential expansion to achieve a 30,000tpa copper production rate.
- CopperCo has demonstrated its ability to bring a new heap leach/SXEW operation on stream without any operational issues. Lonsec sees little downside in 25,000tpa copper production being achieved in the second half of 2008, with genuine potential to increase this to 30,000tpa in the following year.

Recommendation: Buy

Globe Uranium Limited (GBE) - $0.364

- GBE is a junior uranium explorer with its principal interests in Malawi and Argentina. Analytical results have now been received for 54 holes of the Phase 1 RC drilling programme at the company's flagship Kanyika prospect in central Malawi.
- In November, the company announced that further drilling at Kanyika had extended the strike length from 2.0km to 3.4km. An initial JORC-classified resource estimate for the northern 2km of the project is expected in Q1 2008. The initial exploration target is 25Mt.
- Mineralisation is multi-commodity (uranium, niobium, tantalum and zircon) rather than pure uranium. In situ value of mineralisation is between US$125/t and US$190/t, with niobium accounting for the greatest proportion of this value, followed by uranium, tantalum and zircon.
- The company has recently reported the discovery of roll-front style uranium mineralisation at its Chombe prospect in Malawi which is 90km from Paladin's Kayelekera Project currently under construction.
- At the end of September 2007, the company held cash of $9.2m. The exercise of options in October should have raised an additional $2.8m.
- On 18 January 2008, a total of 25m shares will be released from escrow, which could result in some pressure on the share price in the short term.

Recommendation: Hold

Gunson Resources Limited (GUN) - $0.185

- Gunson is an exploration company with interests in mineral sands, nickel, gold and copper projects in Australia. The company's main focus is the development of the Coburn Mineral Sands Project.
- Gunson has signed two non-binding Memoranda of Understanding with Chinese company CTIEC to develop the Coburn Zircon Project in Western Australia. Subject to agreement on the turnkey capital cost, the Outline Agreement should be concluded in March 2008, with the aim of commencing construction by mid-2008.
- Drilling for basement copper-uranium-gold targets at the Mount Gunson Project is to begin in December 2007. Xstrata is spending $3.5m over the three years ending 15 June 2009 to earn a 51% interest in the project. Gunson is managing the exploration programme.
- Other exploration projects are Tennant Creek (gold and copper), Burkin (nickel) and Fowler's Bay (nickel).
- On 18 December, the company advised that the non-renounceable entitlement issue closed with 22% of the entitlement taken up, raising $478,110. This increases the company's cash reserves to just over $1.1m.

Recommendation: Hold

Independence Group NL (IGO) - $8.56

- The company recorded an estimated/unaudited NPAT of $23.6m for the September quarter, up 12% on the previous quarter. Nickel production exceeded budget due to higher grades and costs were lower, partly as a result of the higher grade but also because of lower mining and royalty costs. Cash balance at the end of September was $146.9m.
- On 3 December 2007, the Tropicana JV partners AngloGold Ashanti (70%) and IGO (30%) announced an initial JORC open pit resource estimate of 62.8Mt at a grade of 2.01g/t containing 4.05Mozs gold for the Tropicana-Havana deposits. The relatively low grade disappointed the market, although this grade may not be indicative of the ultimate head grade of the deposits.
- On 13 December 2007, the company announced significant nickel intersections (up to 5.5% Ni over a true width of 5.0m) up to 140m north of the Long Mine. The new "07 Shoot" is the first significant extension to the Long ore body in the past 15 years. The surface is open to the north, both up and down-dip. A major drilling campaign to delineate the extent of the mineralisation is underway.
- Lonsec maintains its view that while the fundamentals of the company remain strong, the strength in the share price over the past 3-4 months suggests a hold at current levels, accumulating during any price weakness related to general market conditions and nickel price volatility.

Recommendation: Hold

Malachite Resources NL (MAR) - $0.265

- Malachite is a junior explorer that listed in 2002 for exploration on a portfolio of projects that included the silver-rich Conrad poly-metallic deposit located in the Inverell district of northern NSW.
- Recent drilling at Conrad has confirmed that the deposit remains open at depth below and along strike from historic workings and presents a significant brownfields mining opportunity.
- On 5 November 2007, the company announced an indicated and inferred JORC compliant resource of 1.04Mt at 77g/t silver, 0.12% copper, 1.24% lead, 0.19% tin and 0.73% zinc containing 10.4Mozs of silver equivalent.
- MAR has a significant multi-commodity portfolio of exploration properties with several projects at an advanced stage including the copper/gold Volga and Mt Lidster tenements in the Mt Isa district. Drilling and geophysics carried out during 2007 has indicated several highly encouraging targets for follow-up work during 2008.
- In December, the company raised $5.7m through a placement of up to 19m ordinary shares at an issue price of 30 cents. The new capital will be used primarily to fund further resource delineation drilling and economic assessment of the Conrad Project.

Recommendation: Speculative Buy

Resource Pacific Holdings Limited (RSP) - $3.00

- On 26 September 2007, New Hope Corporation Limited (NHC) launched an off-market scrip takeover bid for all the issued capital of RSP. NHC offered 1.04 NHC shares for every 1 fully paid RSP share, valuing the company at $591m or $2.55 per RSP share.
- Shortly afterwards, RSP launched an offer to raise $165m in new equity via a 4-for-9 accelerated fully underwritten renounceable entitlement at $1.60. Around 70% of the proceeds would be used to repay existing debt. The offer was approved by shareholders on 31 October.
- On 5 December 2007, Xstrata Coal announced an unconditional cash offer to acquire all of the issued capital of RSP for $2.85/share, valuing the company at approximately $960m.
- On 4 January 2008, RSP recommended that shareholders reject Xstrata's $2.85 per share bid. This is based on an independent expert report that values the RSP shares in the range $3.56 to $4.09, with a preferred value of $3.82 per share. The company believes that the offer fails to reflect the value of the Newpac mine and infrastructure, the strategic plan to grow the company to its full potential, continuing strong coal prices and synergies related to coal handling and the preparation plant. The independent experts report concludes that the offer is neither fair nor reasonable.
- Xstrata's response was that RSP had repeatedly failed to meet its own forecasts. The production target of 8Mtpa was seen as highly optimistic and the synergies relating to underground and the washing plant exaggerated.
- Despite the company's comments, Lonsec believes that benefits through synergies for other potential bidders would be less beneficial and that there is therefore unlikely to be a rival bid for RSP.

Recommendation: Sell into current market strength

Rubicon Resources Limited (RBR) - $0.145

- The company is engaged in very early stage exploration for gold, copper/gold and base metals, mainly in Western Australia.
- A RC drilling programme at the QE1 prospect at Yindarlgooda, 55km east of Kalgoorlie, has defined a consistent zone of near surface mineralisation. Better results in the 15-hole programme included intersections of between 3m and 4m with grades ranging between 3.6 g/t and 5.1 g/t gold.
- RAB and aircore drilling programmes are progressing as well as significant regional electromagnetic surveys at Yindarlgooda and Desdemona.
- Cash available at 30 September was $7.2 m.

Recommendation: Hold

Tianshan Goldfields Limited (TGF) - $0.48

- Tianshan's main asset is the Gold Mountain Project in China, in which it has a 90% interest.
- As at 31 December 2006, the total resource of the project was 94.8Mt at a grade of 0.9 g/t containing 2.843Mozs gold.
- Pre-feasibility studies have commenced; the company is planning to develop a large tonnage open pit operation, treating the relatively low grade ore by heap leaching. Phase 1 of the project would deliver between 80,000 ozs and 100,000 ozs per annum over a 5-6 year period by treating 5Mt annually.
- The pre-feasibility is expected to be completed by June 2008 with a view to commence production by Q4 2009.
- The ore is freely leachable and non refractory. Metallurgical testwork during 2007 indicated recoveries of between 67% and 77%, with low reagent consumption. Results show no requirement to agglomerate the ore after fine crushing.
- In November 2007, the company issued 28m shares at $0.50 per share for $14m. The proceeds of the issue will be used for the completion of feasibility studies and the 2008 drilling programme for the Gold Mountain Project.

Recommendation: Buy

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