

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

#### **AIM Resources (AIM) - \$0.027**

- The company's main asset is a 90% interest in 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.
- In mid-July, the company announced that it had decided to suspend development activities at Perkoa and place the project on a care and maintenance basis. The company cited the weak zinc price and the downturn in both debt and equity markets (which have reduced the company's financing opportunities) for the decision.
- The decision does not come as any surprise. For some time, Lonsec has had serious reservations regarding the company's ability to finance and develop the project. The company has also commenced proceedings in the Supreme Court of NSW against Marc Flory, the former Managing Director and other parties in respect of alleged breaches of duties.
- The company intends to use cash reserves of \$57.7m (30 June 2008) for the care and maintenance plan (~US\$15m), to evaluate other development alternatives at Perkoa and to continue exploration activities in Burkino Faso, Zambia and South Africa.
- Lonsec has had a sell on the company since January when the price was \$0.12 per share. In view of the company's decision to suspend development of Perkoa and other ongoing issues, Lonsec will cease coverage of the stock.

**Recommendation: Sell**

#### **Alkane Resources (ALK) - \$0.295**

- A Definitive Feasibility Study on the Tomingley Gold Project near Parkes, NSW is currently in progress. The completion date for the DFS has been pushed out to March/April 2009 (previously before the end of 2008). The timetable is dependent on finalisation of the Caloma deposit drilling, mine planning and scheduling, which was expanded to cover extensions of the Caloma deposit. Drilling at Caloma continues to intersect high grade gold mineralisation.
- The Dubbo Zirconia Project Demonstration Plant, at the facilities of ANSTO Minerals at Lucas Heights, is now operational. The plant was initially operated for several short campaigns of a few days duration, but has been operating around the clock since the beginning of August 2008.
- Process and plant components have found to be robust and 50kg of zirconium product and 10kg of niobium product had been produced by the end of June. The intention is to provide several tonnes of the various products for distribution to potential end users. The plant is scheduled to operate for at least 6 months, although this could be extended.
- Diamond core drilling has recommenced at the McPhillamys Joint Venture in NSW where Newmont is earning a 51% interest. Hole KPD 003, which intersected 262.7m at 1.32g/t gold, has been extended from 396.7m to 588.5m depth; mineralisation similar to that in the gold zone has been logged in the extension. RC drilling is to recommence shortly.
- As at 30 June 2008, the company had a cash balance of \$9.7m.

**Recommendation: Strong Buy**

#### **Alliance Resources (AGS) - \$1.015**

- 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.
- Drilling recently recommenced at Four Mile West. Seven drilling rigs are now operating on Four Mile East and Four Mile West. A resource estimate on Four Mile East is due to be released in the third quarter of 2008.
- Application for a Mining Lease over the Four Mile Project has been lodged. First stage mining is now scheduled to commence in early 2010 (previously late 2009) after granting of the mining lease.
- After falling to a recent low of US\$57/lb, the spot price of uranium has steadily risen to US\$64.50/lb over the past six weeks. The long term price indicator has fallen from a high of US\$95/lb to the current level of US\$80/lb. Lonsec's valuation of \$1.35 per share is based on a price of US\$60/lb.
- At the Maldon Gold project, sixty nine metres of decline development and 50m of cross cut development remain before trial mining of the Alliance South mineralisation. Significant gold mineralisation has been intersected in a recent drill hole.
- Cash reserves at the end of June were \$24.3m.

**Recommendation: Buy**

#### **Aquila Resources Limited (AQA) - \$11.06**

- Aquila is a mid-cap miner and explorer with an interesting portfolio of large scale coal, iron ore and manganese projects, at various stages of development, located in Australia and Southern Africa.
- At the Isaac Plains coal mine (AQA 50%) in the Bowen Basin, coal sales for FY08 exceeded 1Mt. Port restrictions and shipping delays continued to affect sales volumes. Subject to port expansions, Isaac Plains is capable of exporting up to 2.8Mtpa of coal from 2009.
- A pre-feasibility study on the Eagle Downs hard coking coal project (AQA 50%) is almost complete. The coal resource has been increased to 780Mt. The likely production rate is around 7Mtpa.
- A pre-feasibility study on the Belvedere Coal Project (AQA 24.5%) is in progress. The Joint Venture partners have approved a \$25.3m work programme for FY09. Resources have been increased by 1.2Bt to 3.9Bt.
- A pre-feasibility study at the West Pilbara Iron Ore Project (AQA 50%) has confirmed the technical and financial viability of a 25Mtpa operation. Capital expenditure would be around US\$3.9bn and operating costs around US\$15/t, excluding royalties. An \$84m budget has been approved to fund a definitive feasibility study and further exploration.
- In addition to the extensive landholding in the Pilbara, the company has manganese and iron ore exploration projects in South Africa.
- At the end of June, Aquila had approximately \$229m in cash and liquid investments (\$159.4m in cash). The company has announced its intention to demerge its exploration assets into a new listed vehicle.

**Recommendation: Hold**

### **Aurox Resources Limited (AXO) - \$0.68**

- Aurox is developing the Balla Balla iron ore/vanadium deposit located midway between Karratha and Port Hedland in Western Australia.
- The company has signed offtake agreements with two Chinese steel mills for 6Mtpa with potential ramp up to 10Mtpa by 2014. The concentrate is to be sold at Hamersley premium price. The company recently secured a 15-year agreement with the Port Hedland Port Authority for a shipping facility at Utah Point with a capacity of 10Mtpa.
- The company is making good progress on the detailed engineering design. Where appropriate, the majority of the plant is being designed for the upfront installation to enable the production of 10Mtpa, which should result in minimal disruption to production when the mine moves from 10Mt to 14Mt in 2014.
- The company has increased its mineral resource base to 473Mt and expects to achieve its target of +1Bt before the end of calendar 2008. Ore reserves have increased to 155Mt, with a target of +400Mt by year end.
- The company is currently in the process of assessing both project debt and equity funding requirements. Upon successfully raising the ~\$1bn required, which is expected in the second half of 2008, construction would commence, with production expected in late 2010.
- Investors should be aware that despite the development timetable being ahead of some of the other prospective iron ore producers, there is a potential for delays in the current operating environment.
- Whilst the fundamentals remain solid, the shares are unlikely to outperform until concerns over the company's ability to fund the project in the current credit environment are met. As a result, Lonsec recommends a Hold.

**Recommendation: Hold**

### **Aussie Q Resources Limited (AQR) - \$0.081**

- 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 all holes drilled at the Whitewash project have now been reported to the market. All assay results and other recorded data are now with the independent consultants who are producing a database and resource statement.
- Assays from drilling at Gordon's Knob, the northern extension of Whitewash, provided broad, significant, continuous Mo intercepts. A 3,000m/12-hole diamond drilling programme was announced in mid July.
- 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 June was approximately \$5.9m.

**Recommendation: Hold**

### **Avoca Resources Limited (AVO) - \$1.655**

- Construction of the new 1Mtpa CIL Higginsville treatment plant was completed on time and within the \$49m budget. First gold was poured on 8<sup>th</sup> July 2008.
- Annual production levels in the 160,000 oz to 190,000 oz range are being targeted at a life of mine cash cost of around A\$370/oz.
- While the company's financing package did not include mandatory hedging, the company has purchased put options over 438,933 ozs of gold at a strike price of \$830/oz.
- Avoca continues to successfully explore for gold in the Higginsville district. New lodes were discovered at Chalice and Trident (called Artemis). Encouraging results were also obtained from the Two Boys deposit and the Vine JV.
- At the end of June, Avoca had cash reserves of \$1.6m. The undrawn amount on the \$71m debt facility was \$23m.
- Despite the mine being brought on stream on time and below budget and highly encouraging exploration results, the share price has fallen around 35% over the past three months. This is partly due to a weaker gold price but may also reflect some concerns regarding the company's current ore reserve base.
- Avoca nevertheless remains Lonsec's preferred exposure to the mid-tier gold sector.

**Recommendation: Buy**

### **BC Iron Limited (BCI) - \$0.97**

- On 31 March, the company announced a maiden resource estimate at the Outcamp and Coonan Well prospects within its 100%-owned Nullagine Iron Ore Project in WA. The resource comprises 28Mt of high grade Direct Shipping Ore (DSO) grading 57.4% Fe within a global resource totalling 47.2Mt grading 53.6% Fe of mineralised Channel Iron Deposit (CID). The company is targeting a further 15Mt to 25Mt at other Nullagine prospects.
- A positive scoping study was completed on a 3Mtpa DSO operation at the Outcamp and Coongan Well deposits. Initial production is expected in 2010, with a subsequent ramp up to 5Mtpa. The initial capital cost is estimated at \$85m, with forecast cash operating of \$42/t.
- The Board has committed to a feasibility study which is expected to be completed in the first half of 2009. EPA approvals are expected in the second half of 2009 and construction by late 2009. The construction period should be around six months.
- A major in-fill and extension resource drilling programme currently underway at the Warrigal Well, Bonnie East and Dandy Well Prospects is expected to be completed in August.
- The North West Iron ore Alliance, of which BCI is a member, recently secured port facilities when it received confirmation that two new multi-user berths in the Port Hedland inner harbour could be used by the Alliance and other junior producers. Capacity is up to 50Mtpa, sufficient to cater for the initial production of its member companies. This infrastructure may be operational as early as 2012.
- Cash at the end of the June quarter was \$9.1m.

**Recommendation: Speculative Buy**

### Breakaway Resources (BRW) - \$0.28

- Breakaway is a later stage (brownfields) exploration company. Its main focus is on nickel (Scotia/St Andrews/St Patricks, NW of Kalgoorlie and Kambalda West) and copper-gold and lead-zinc-silver (Eloise, Qld). The company has an aggressive exploration budget and is currently spending around \$2.5m per quarter.
- A programme of in-fill drilling and metallurgical test work is in progress at the Horn Nickel Sulphide deposit where the company reported a maiden inferred resource estimate in April. On completion, the company will proceed to a scoping study.
- Drilling has delineated the down plunge extensions below the base of the historical Andrews Mine at West Kambalda. Exploration is continuing, with a target of up to 8,000t of contained nickel below the mine workings.
- Following the interpretation and modelling of recent drilling results at the 1A prospect at West Kambalda, a scoping study will be undertaken during July/August on the potential for a shallow open pit deposit.
- At the Keller Creek prospect in the East Kimberley, six out of seven RC drill holes intersected massive to disseminated sulphides. Assay results are not yet available.
- Breakaway also has a 30% Net Profit Royalty interest in the Eloise copper mine in Queensland. The major capital development initiatives have been completed and production is rapidly returning to the 600,000tpa nameplate capacity. A \$3m plant expansion, to increase throughput to 740,000tpa, has been initiated. There has been a substantial increase in fully developed ore reserves. Resumption of royalty payments is expected within the next nine months.
- As at 30 June 2008, Breakaway had a cash reserve of \$8.7m.

**Recommendation: Speculative Buy**

### Caspian Oil & Gas Limited (CIG) - \$0.044

- 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.
- All five wells drilled in the Mailisu III lease area in the current programme have encountered oil at depths ranging from 600m to 700m, albeit at low production rates.
- Caspian's rig is being upgraded to drill prospective deeper targets in the Southern Fergana Basin for a share of project cash flow.
- Seismic work under the Caspian-Santos farm-in agreement is currently being undertaken over the Sulukta licence area.
- Total cash held at the end of June was \$4.0m.

**Recommendation: Hold**

### CopperCo Limited (CUO) - \$0.39

- On 29 January 2008, CopperCo announced that it was to merge with Mineral Securities Limited (MXX). Under the terms of the offer, MXX shareholders will receive 2.2 CopperCo shares for each ordinary MXX share held. By 1 August, acceptances representing 73.3% of the issued share capital of MXX had been received and the offer was declared unconditional.
- CopperCo's flagship operation, the Lady Annie Copper Project, is now operating at design capacity of 16,000t of copper per annum. Production ramp up to 25,000tpa is scheduled for late December 2008 and to 30,000tpa by mid-2009.
- As previously stated, Lonsec does not view the merger favourably. Too many of the MXX assets are shareholdings in companies, while the direct interests are a minority interest in Lady Loretta, which has been on the drawing boards for years, and Sappes Gold, which has previously encountered permitting issues.
- As a focused copper explorer and producer, CopperCo was one of Lonsec's preferred exposures to copper at the smaller end of the market. Post the merger, the company will have lost that focus, becoming instead a mining investment house.
- Despite the strong performance from the Lady Annie Copper mine, the share price has continued to weaken. Investors should take advantage of any spikes in the copper price or positive news from existing operations to sell into any further strength.

**Recommendation: Sell into strength**

### Globe Metals & Mining Limited (GBE) - \$0.25

- GBE is an Australian based uranium exploration company with principal interests in Malawi and Argentina. In the space of two years since listing in December 2005, the company has announced a substantial resource at a discovery cost of only \$3m.
- Results of the recently completed scoping study on the Kanyika Project in Malawi were very positive. Mill feed rates of between 1.7Mtpa and 3.5Mtpa producing between 3,000t and 4,000t of niobium per annum, were evaluated. The initial capital cost is expected to lie in the US\$156m to US\$177m range, and capital payback is expected to be achieved in less than 2.5 years. Cash flows are expected to be robust for all scenarios.
- The 56.4Mt resource, containing 145,500t of niobium, 4,000t of uranium, (U<sub>3</sub>O<sub>8</sub>), 6,600t of tantalum and 272,400t of zirconium, has considerable potential to be enlarged by further exploration. Contained within the resource is a near-surface, higher grade component of 14.2Mt with niobium and uranium grades more than 40% above the overall grade. Discovery of further high grade material would considerably enhance the project economics.
- Initial drilling at the company's Livingstonia uranium project in Malawi has identified uranium mineralisation over a wide zone. Mineralisation is open in multiple directions. Best intersection was 8.1m at 644ppm U<sub>3</sub>O<sub>8</sub>.
- At the end of June 2008, the company held cash of \$7.7m.

**Recommendation: Buy**

### Gunson Resources Limited (GUN) - \$0.105

- 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. In early August, a fixed price turnkey proposal for the development of the project and the proposed mineral separation plant in China was received. The proposal is currently being reviewed.
- The feasibility study on several near surface resources at the Mount Gunson Project in South Australia has begun. Drilling has been undertaken to provide metallurgical samples.
- Two promising bedrock electromagnetic anomalies in a prospective geological environment on the Fowlers Bay nickel sulphide project have been defined.
- In early May, the company raised approximately \$0.9m through the placement of 6.5m shares at a price of 14 cents per share. Cash reserves at the end of June totalled \$1.0m.

**Recommendation: Hold**

### Independence Group NL (IGO) - \$2.61

- The company reported an estimated/unaudited NPAT of \$5.0m for the June quarter and \$51.9m for FY08. Despite a relatively poor June quarter, nickel production of 9,275t in FY08 was 3% above budget. Cash costs for the year were \$4.12/lb of payable nickel, well below the budget of \$4.55/lb.
- Nickel production guidance for FY09 is between 8,400t and 8,800t. Combined with a significantly lower nickel price, partly offset by a forecast weaker Australian dollar, NPAT is likely to fall below \$30m in FY09.
- Results of the pre-feasibility study on the Tropicana JV have again been delayed and are now only expected in the March 2009 quarter (previously June 08, then August 08). Drilling on a 25m x 25m grid to convert resources into reserves is nearing completion.
- Cash balance at the end of June was \$145.4m, marginally higher than the March balance.
- The share price has suffered a fall of more than 65% over the past three months, largely as a result of the continuing decline in the price of nickel, but also on the lack of progress on the Tropicana JV. On a prospective 2009 PE multiple of ~11x, the stock is not cheap, but this does not take into account the Tropicana interest.

**Recommendation: Accumulate on weakness**

### Malachite Resources NL (MAR) - \$0.19

- 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.
- The company is expected to announce a significant increase to its current resource base of 10.4Mozs of silver equivalent during the September quarter. A further upgrade to the resource is expected in October.
- Metallurgical test work continues to show positive results. Revised economic modelling, using the new resource base

and applying various cut-off grades, mining widths and mining methods will be undertaken by the company's consultants. The main issue will be to achieve an economic grade without compromising the continuity of the ore bodies.

- Evaluation of the Karaula Lead tin deposit at Elsmore, east of Inverell, will be expanded with a systematic air core drilling programme. This will delineate the areal and depth extent of the alluvials and provide an estimate of the tin distribution and grade.
- As at 30 June, the company had cash reserves of \$3.4m. The company has 40m options, exercisable at 20c, which expire at the end of August.

**Recommendation: Speculative Buy**

### Rubicon Resources Limited (RBR) - \$0.095

- The company is engaged in very early stage exploration for gold, copper/gold and base metals, mainly in Western Australia.
- Exploration commenced on the Warburton Joint Venture, recently entered into with a subsidiary of Vale (formerly CVRD). Work included heritage surveys, mapping and rock chip sampling, soil geochemistry, ground magnetics and gravity surveys.
- A major RAB and air core drilling programme has been completed on tenements adjacent to the Salt Creek gold deposit. All results are pending.
- Cash available at the end of June was \$5.6m.

**Recommendation: Hold**

### Tianshan Goldfields Limited (TGF) - \$0.29

- 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.
- The pre-feasibility study is expected to be completed in the September quarter 2008. 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.
- Work has also commenced on the Environmental Impact and Social Assessment. Of the 22 baseline studies required for the Chinese Environmental Impact Assessment, eleven have commenced.
- Recent drilling has confirmed that gold mineralisation extends to the east and southeast of the Jinxi deposit, with several +10m intersections grading in excess of 0.9g/t. Regional mapping and sampling has confirmed extensive mineralisation at three prospects on the Nalensayi tenement and two prospects on the Gold Mountain tenement.
- With a cash balance of \$19m at the end of June, which was boosted by the exercise of options during the June quarter, Tianshan should be able to weather the current investment climate better than most Australian juniors. The company is essentially funded through to potential development stage.

**Recommendation: Buy**

**YTC Resources Limited (YTC) - \$0.60**

- YTC Resources is an Australian listed mineral exploration company focused on tin and copper-gold projects in the New England and Lachlan Fold Belts of NSW.
- The company's main shareholder is the Yunnan Tin Group and its affiliates. Yunnan is the world's largest producer of tin and a major producer of non-ferrous metals. It is a vertically integrated company with expertise in exploration, R&D, mining, processing and marketing. YTC's strategic alliance with Yunnan provides access to the technical, marketing and financial expertise, as well as the support of a major international resource company.
- Results from the first two of six diamond holes at the Tallebung Tin Project have been reported. Grades of between 0.17% and 0.22% tin, 0.21% to 0.30% zinc as well as wolfram and silver were recorded over intersection widths of between 10m and 18m. These grades are consistent with the company's target of a +50Mt deposit with grades of +0.2% tin, +0.05% tungsten and +30g/t silver.
- Another project is the Doradilla tin-copper-indium project where a small lateritic tin resource has already been established. Recent drilling confirmed 'Avebury' style sulphide nickel mineralisation, with intersections of up to 57m at 0.40% nickel. Drilling at the Kadungle Project intersected encouraging but uneconomic gold and copper mineralisation.
- The early announcement that the company was seeking to raise additional equity capital had an immediate negative impact on the share price.
- The company's cash balance at the end of June was \$1.7m. In July, the company announced that it had placed 2.76m shares at \$1.00 per share with a subsidiary of its major shareholder Yunnan Tin Group.

**Recommendation: Speculative Buy**

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