

20 Australian Mining Juniors to Watch

18 March 2010

A Simple, Arms-Length Summary of Some Interesting Companies

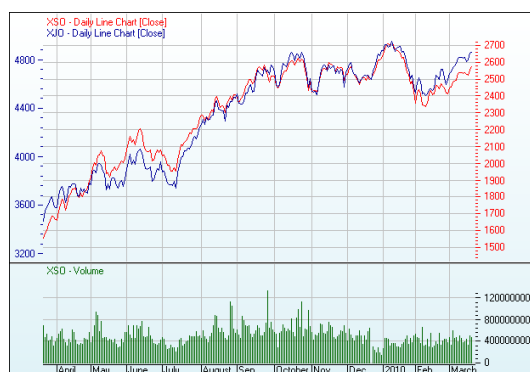
As investment managers with mining stocks in their portfolios know all too well, junior mining is a high risk/high reward game. In our regular reviews of the main junior mining markets in Australia, Canada and London, Hardman & Co comes across companies of every size and shape from small, high grade gold explorers in proven terrains to companies hoping to open whole new mining districts or to develop new technologies and techniques to drive down the total cost of production.

There are over 2,170 resource stocks on the ASX, TSX-V and AIM combined, so it's a thankless task for the uninitiated to sift through them to find the companies that fit their own portfolios and strategies. In this, the first of two papers, we present some of the stocks that we currently regard as having the best potential in the mining sectors of the Australian and Canadian exchanges, with a very brief description and investment rationale.

In this marketplace, junior minors have frequently been poor performers, and in Australia in particular the benchmark S&P/ASX 200 Index has on a twelve month basis outperformed the relative indices for Small Ordinaries (XSO), Mining & Metals (XMM) and Gold stocks (XGD). Every one of the Australian companies we have covered in this study has underperformed the S&P/ASX 200 on a six month basis, and most have been particularly poor performers in the first few weeks of 2010.

Our methodology is simple, qualitative and based on an arm's length analysis of company websites and more general market conditions; we consider the current and upcoming market for the resource, the strength of the management and technical teams involved, the political economics of the resource & location, and the geology of resource itself. We also consider innovation to be of considerable value, whether it be in the development and use of new exploration techniques, the early and continued consideration of social license as a driver of value in the development cycle, the consideration and uptake of low energy extraction and processing technologies or an innovative and forward looking business strategy. Primarily though, we are looking for the next generation of mines to come into production as we expect resource demand to rise in line with world population and urbanisation trends.

We have not included metals recycling here, though it is a sector that we believe will grow in response to price signals and legislation. Nor do we include possible rival technologies for some metals sub-sectors such as organic polymers, advanced ceramics and carbon nano-structures as these ▶



Top: The S&P/ASX Metals & Mining Index vs. the S&P/ASX 200 Index.
 Middle: The S&P/ASX Small Ordinaries Index vs. the S&P/ASX 200 Index.
 Bottom: The S&P/ASX Gold Stocks Index vs. the S&P/ASX 200 Index.

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◀ are manufactured goods rather than mined natural resources. However both recycling and substitution will come into play in coming years where certain metals are concerned and metals mining shouldn't be considered 'safe' from outside innovation by any means.

That said, here are 20 stocks listed on the Australian exchange that we think are worth a closer look. We are not including companies that we have been in recent close contact with such as **Thor Mining (THR:ASX)**, **TNG Ltd (TNG:ASX)** or **Western Desert Resources (WDR:ASX)**, promising though they are, since we would not be considering them on a like-for-like basis. Companies are in alphabetical order.

AUSQUEST Ltd (ASX:AQD)

Share Price: AUS 12.5c
 Resource – iron, manganese, nickel, gold
 Location – Australia
 Website – www.ausquest.com.au

A collection of promising base metals projects and a major investment by iron ore specialist Cliffs Natural Resources Inc make AusQuest an explorer to watch.

This company is an exploration & development specialist, so the link up with a world class producer is significant. Watch out for the options though, Cliffs holds roughly 50 million options (mostly at A\$0.40) with a fully diluted float of 228M.



AUZEX (ASX:AZX)

Share Price: AUS 18c
 Resource – gold, moly, tin, tungsten
 Location – Australia
 Website – www.auzex.com.au

Auzex is a high-tech exploration team using probabilistic modelling. These are geologists who can also do the maths.

The company is using the development of a small brown-field gold mine to fund their other exploration projects and on-going development of cutting-edge statistical geology. The statistical approach is not new in itself, oil explorers use it every day in play fairway analysis, but applying it to finding intrusion-related gold deposits is unusual and interesting. Other teams are working on a similar approach to driving down exploration costs, but they tend to be within the established producer's R&D departments.



AVANCO RESOURCES (ASX:AVB)

Share price: AUS 2.5c
 Resource – copper
 Location – Brazil
 Website – www.avancoresources.com

An interesting departure for copper; a project focussed on shallow copper oxide. In the same way that nickel laterites have become de rigueur since European Nickel demonstrated their low cost heap leach processing technique, so it seems that there may be an opportunity to bring a class of smaller copper deposits on stream using heap leaching.



The economics aren't proven by any means, but a look at the price graph for copper, Brazil's development trajectory, the upcoming energy infrastructure planned around the world, and this particular deposit's exceptionally high grade core (210kt @ 11.6% copper) and we can see opportunities for smaller producers of copper that don't require the multi-billion CAPEX needed for a decent sized porphyry these days.

CUDECO (ASX:CDU)

Share Price: AUS\$4.68
 Resource – copper
 Location – Australia
 Website – www.cudeco.com.au

CUDECO's advanced exploration project is just 100km from Mt Isa. The resource is currently a combined 25Mt @ 2% copper, but this can reasonably be expected to rise given both the exploration upside both along trend and down trend.



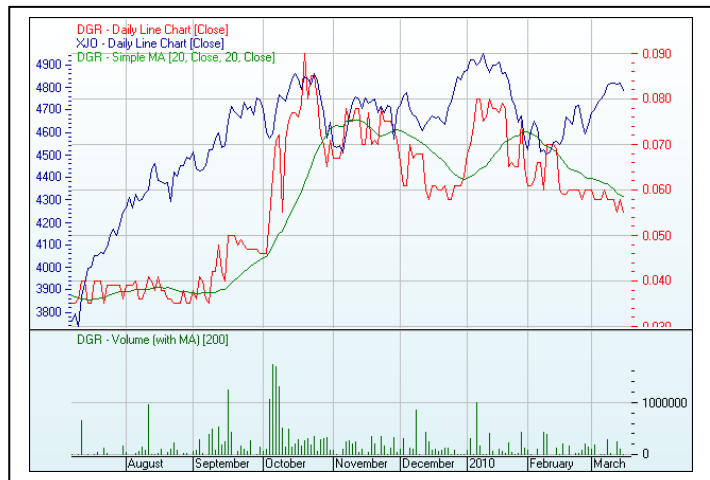
We consider this a prime Australian mid-tier project in the making and, with substantial cash reserves, the company should be in a position to bring the resource through Bankable Feasibility unless it continues to find more copper. There is also growing potential for a substantial underlying IOCG-type deposit. It's not news to anyone, but this looks like a quality project that should make it to production.

D'AGUILAR GOLD (ASX:DGR)

Share Price: AUS 55c
 Resource – metals
 Location – Australia
 Website – www.daguilar.com.au

Very slick, professional explorers who are obviously happy with their corporate strategy, and justifiably.

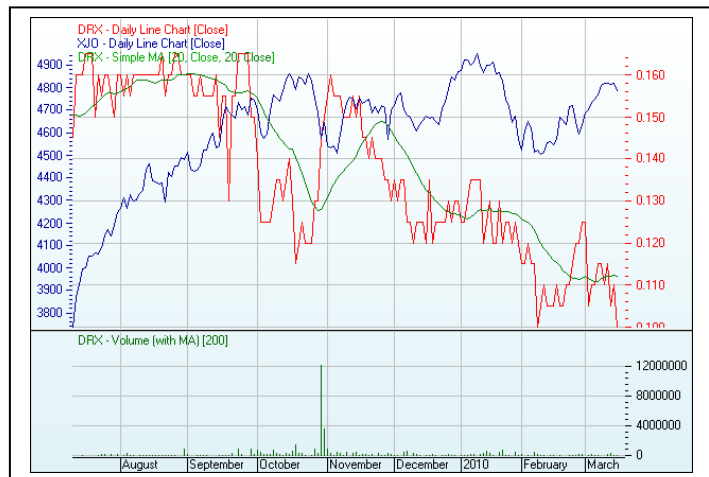
Continued deal-flow and subsidiary spin-outs on the back of early stage drilling success is a winning combination and D'Aguilar shows no sign of switching strategy. This stock appears under-loved at present though.



DIATREME RESOURCES (ASX:DRX)

Share Price: AUS 10c
 Resource – Heavy Mineral Sands
 Location – Australia
 Website – www.diatreme.com.au

Not diamonds as the company name would suggest, but Heavy Mineral Sands. HMS are mainly constituted of zirconia, rutile and illmenite. Zirconium is a constituent of nuclear fuel rods in its metallic form and ceramics in its compounds. Rutile & illmenite are mostly used in pigments, though they can also be sources of titanium metal.

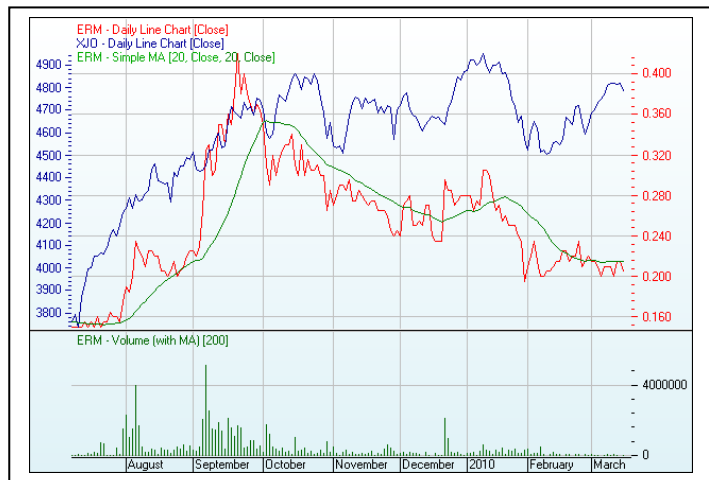


With a JORC-compliant resource of just under 100Mt @ around 3% HMS, and a third of the HMS being high value zircon, Diatreme is a steady junior operating in Australia's Eucla Basin.

**EMMERSON RESOURCES Ltd
(ASX:ERM)**

Share Price: AUS 20.5c
 Resource – copper, gold
 Location – Australia
 Website – www.emmersonresources.com.au

Emmerson arrived with a Friedlandian fanfare and a start-up treasury to match. This young company will be working over the historic Tennant Creek gold district with all the new ideas and technology they can get their hands on.



To be serious though, there are reasons why Ivanhoe was successful, and having that sort of knowledge as backup can't hurt Emmerson's chances. Ambition is sometimes not a bad thing in mining and you can be sure that news will flow from this company. However, with an over 50% institutional holding it is not flying under the radar.

EMPIRE RESOURCES (ASX:ERL)

Share Price : AUS 7c
 Resource – copper, gold
 Location – Australia
 Website – www.resourceempire.com.au

Primarily operating on the Yilgarn craton, Empire has a small resource book at present and is firmly in the micro-cap bracket, but we like the shallow geology and the grades.

The Yuinmery project looks interesting as an early-stage VMS deposit but, as with any VMS system, drilling is the only real way to tell the potential value. Empire is going to need some supportive shareholders as it works up the resource.



EMU NICKEL (ASX:EMU)

Share Price: AUS 14c
 Resource – nickel
 Location – Australia
 Website – www.emunickel.com.au

Primarily a nickel sulphide exploration company that operates on the Yilgarn craton, home to the very successful nickel sulphide miner Western Areas, amongst others.

High grade nickel sulphides are difficult to find and prove up, but when found they can be very profitable. Emu has a good set of properties and with Xstrata currently earning in on a JV project showing nickel grades of up to 5%, the drill is showing the ground’s potential. The MD, George Sakalidis, is no stranger to Australian mining and Emu was spun out of Image Resources, the HMS specialist (see below) of which he is also MD.

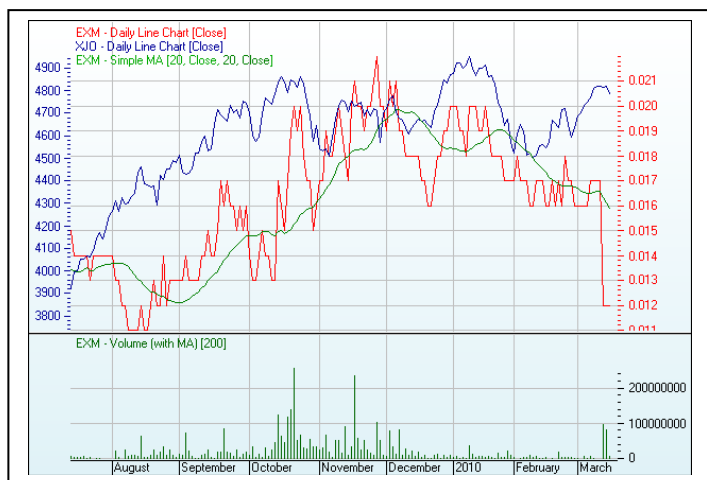


EXCALIBUR MINING CORP (ASX:EXM)

Share Price: UAS 12c
 Resource – copper, gold
 Location – Australia
 Website – www.excaliburmining.com.au

‘High grade gold in the Tennant Creek District of Western Australia’ is a phrase that usually peaks the interest in mining circles.

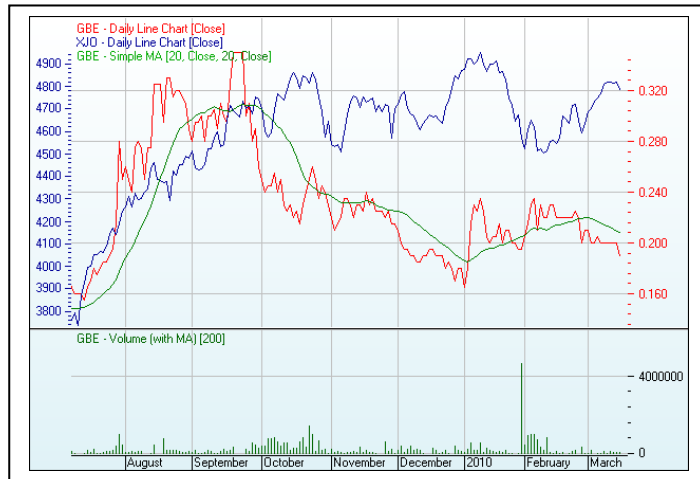
Excalibur is re-working some of the ground around mines that closed due to the millennium gold price low and is finding some very respectable grades, with its consolidated resource sheet averaging >10g/t. With much of the underground development already done at one of the old mines there may be an opportunity for quick production at relatively low cost, but the company wants to ‘get it all’ with a new open pit, and it may well be right. We don’t have access to the numbers or the structural engineering reports. Another mine in the area suffered a crown pillar failure before it closed.



GLOBE METALS AND MINING (ASX:GBE)

Share Price: AUS 19c
 Resource – tantalum, niobium, flurospar, REE
 Location – Malawi
 Website – www.globemetalsandmining.com.au

With a Bankable Feasibility Study underway that is 85% funded by a partner (to earn of the project), a 20-year plus life and upside potential in REEs and flurospar, it appears that the Australians are discounting Africa. We're struggling to see too many drawbacks with Globe's portfolio when viewed at arm's length.



25% mine

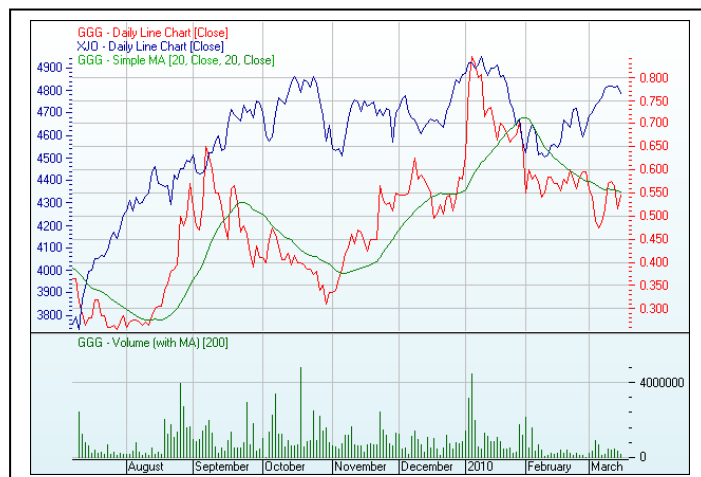
The suite of minerals shown on Globe's properties and JVs should have potential partners like JOGMEC queuing up as China continues to try and corner the market in speciality and energy metals as well as REEs.

GREENLAND MINERALS AND ENERGY (ASX:GGG)

Share Price: AUS 54.5c
 Resource – REE, uranium
 Location – Greenland
 Website – www.ggg.gl

With a world class REE resource on tidewater access outside China, GGG has recently been doing the rounds in London and attracting significant attention.

The drawback here has been the uranium by-product, which is currently illegal to mine. However the Greenland government has recently taken control of its own natural resources policy, it having previously been administered by Denmark, and in January passed the Greenland Mineral Resources Act which is likely to see the uranium obstacle removed.



However, it is still a very large and complex project and will take a substantial amount of work and capital to get into production. Meanwhile it seems that China is taking stakes in every late development or near-production REE project that we know of.

IMAGE RESOURCES (ASX:IMA)

Share Price: AUS 78.5c
 Resource – HMS
 Location – Australia
 Website – www.imageres.com.au

Image has an impressive portfolio of HMS resources and, judging by its last investor presentation, appears to positioning itself for a takeover.

The question then becomes is the price right for any of the current players in that market, such as Iluka or BEMAX (both have infrastructure within trucking distance), or will a third party come in, possibly a Chinese entity.



Glamorous they are not, but HMS are a major source for some of those metals needed for the energy revolution and as such ought to receive some of the attention that Rare Earth Elements are currently getting. A new titanium processing technology, invented in the UK by Metalysis Ltd, has the potential to dramatically increase titanium consumption by dropping the processing costs. Effectively this would transform what is currently an aerospace metal into one that is available in volume for wider industrial use. Titanium has a strength to weight ratio 45% better than that of steel.

IRONBARK Zinc (ASX:IBG)

Share Price: AUS 15c
 Resource – zinc, lead
 Location – Greenland
 Website – www.ironbarkgold.com.au

Greenland’s new resource legislation may come into play for the onward development of Ironbark’s giant Citronen zinc project in Northern Greenland.

It will be very tough to get this monster into production. Its potential tonnage actually works against it being developed in a normal manner. Its location means that everything of any size has to be flown in and out by chartered C130 transport aircraft or floated in during the Summer breaks in the ice pack, so operating multiple drill rigs becomes a significant issue. However, with a current resource of over 100Mt @ nearly 5% zinc and 2% lead already defined, this SEDEX deposit is world class.



**KASBAH RESOURCES
(ASX:IMA)**

Share Price: AUS 78.5c
Resource – tin
Location – Morocco
Website – www.kasbahresources.com

North Africa is an area that is well known for oil & gas and historic mining, but not often visited by modern mining companies. Ongoing problems with Indonesian tin mining, supplies from the DRC, legislation that promotes the use of tin over lead

in solder and some new solar panel technologies in the lab all point towards potential price rises for this metal, even to the extent that two tin-producing mines in England are being re-developed (South Crofty & Hemmerdon Ball).

Kasbah has been working in Morocco for several years in a historic mining district, but there are not many other tin projects that are drilling at present and, putting aside our desire to see English tin production once more, we feel that Kasbah is the best investment opportunity at present.



**MARATHON RESOURCES Ltd
(ASX:MTN)**

Share Price: AUS 38c
Resource – uranium
Location – Australia
Website – www.marathonresources.com.au

A well named uranium developer concentrating on the Mt Gee uranium project, close to the Four Mile and Beverley Uranium Mines.

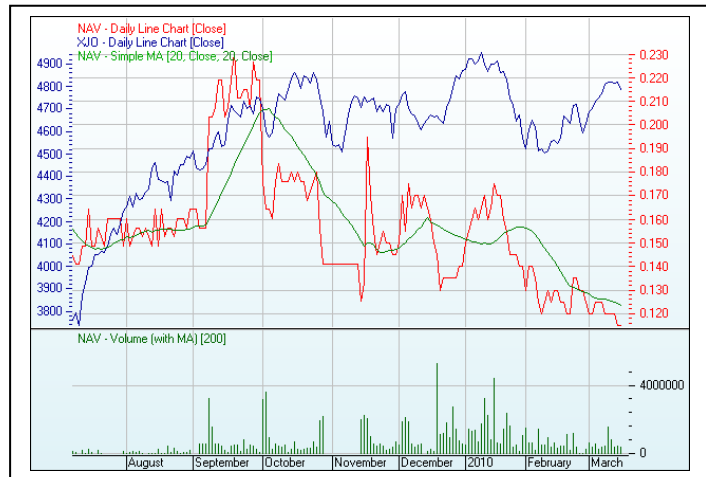
Marathon is currently held up by red tape, as all good uranium projects are. However, it is potentially one of Australia’s largest known deposits, but quite deep for the grade. With a well balanced management team patiently working towards production in a growing nuclear market, this stock looks cheap at the moment. How it performs in the future looks like it will depend on the local politics as much as any other factor.



**NAVIGATOR RESOURCES
(ASX:NAV)**

Share Price: 11.5c
Resource – gold, REE, phosphate
Location – Australia
Website – www.navigatorresources.com.au

Navigator is just about to start trial mining at its Leonora gold project and recommission its Bronzewing Gold project. Barring unforeseen circumstances it should graduate to a gold producer in the next few months.

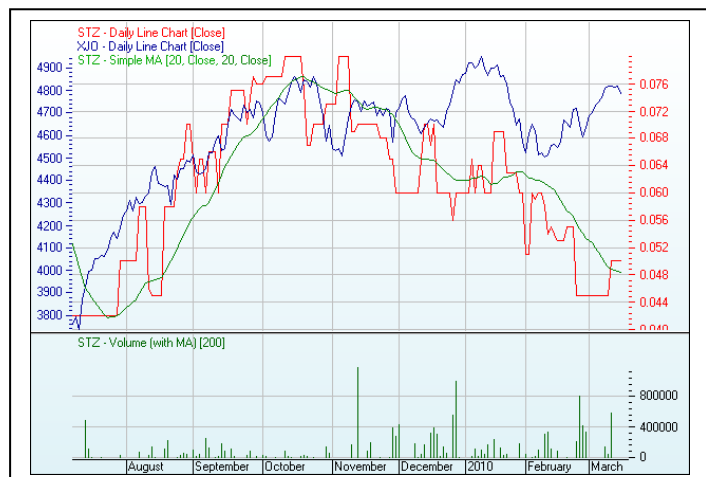


There are times to seriously look at junior mining stocks and immediately pre-production is one of them. The timing is right for Navigator.

**STRZELECKI METALS
(ASX:STZ)**

Share Price: AUS 5c
Resource – copper, moly, tungsten
Location – Poland
Website – www.strzeleckimetals.com.au

This is a long play who's success may ultimately depend on local government support. The deposit is a giant, but quite deep, copper-moly-tungsten body that has been known for some time. However, predicted metal recoveries through processing are quite low when compared with other copper deposit types.



We love the size and location, playing as it does to existing copper expertise in Poland and the up-coming European minerals security narrative, but we feel that it needs some Professors and some mineral processing technologists to spend some time on it to get the most out of the current geological samples. That may best be done in close collaboration with a local university, with the possible side benefit of training the first generation of metallurgists ready for the mine coming into production. At 700Mt this is not a single generation underground mine.

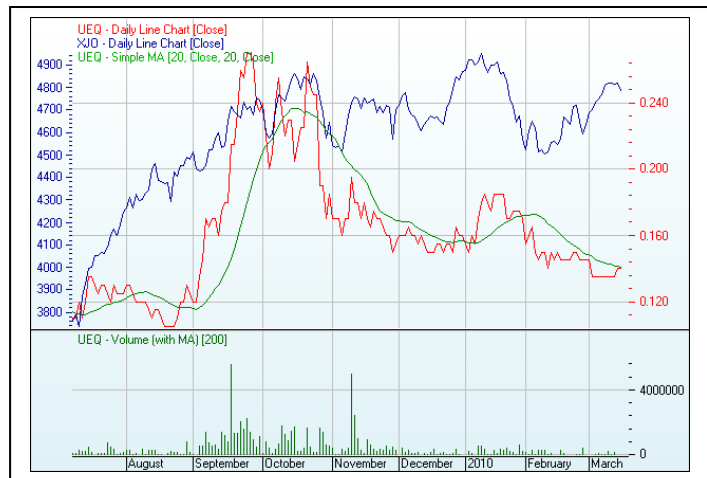
**URANIUM EQUITIES Ltd
(ASX:UEQ)**

Share Price: AUS 14c
Resource – uranium
Location – Australia
Website – www.uel.com.au

UEQ are in the process of commercialising new technology for separating uranium from phosphates that has been developed in conjunction with ANSTO, the Australian Nuclear Science & Technology Organisation. The pre-

commercial, patent pending, technique is said to reduce operational costs associated with this deposit type by about a half, from \$60 to \$30/lb of U3O8. If proven at a commercial scale (currently at pilot plant scale) it has the potential to add substantially to available world uranium resources since uranium associated with phosphates mined for fertilizer production is currently dispersed through the fertilizer and lost to the nuclear fuel industry.

In addition UEQ has a more conventional uranium exploration portfolio, but one that is remarkably well supported by Cameco, the world market leader, who are also funding the trial of the PhosEnergy uranium/phosphate separation technique.

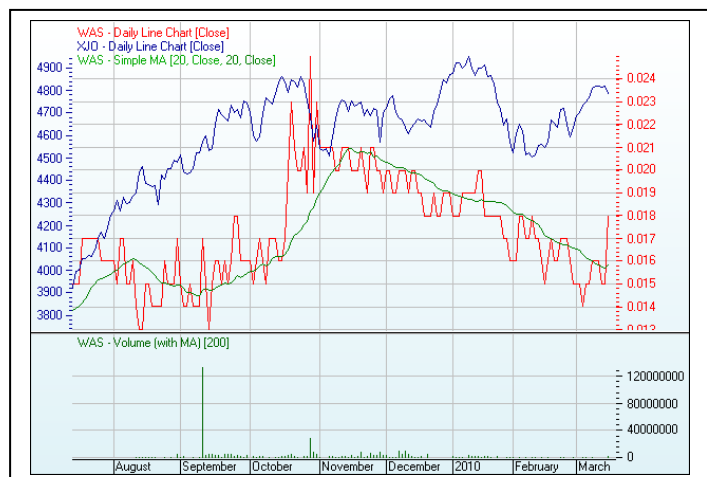


WASABI ENERGY Ltd (ASX:WAS)

Share Price: AUS 18c
Resource – energy
Location – Australia
Website – www.wasabienergy.com

Not so much a single mining company as an energy-focussed investment house with interests in geothermal, biodiesel, coal, uranium and waste heat recovery.

If you believe, as we and most of the world do, that energy is going to be one of the major focuses for investment in the next couple of decades and don't know which stock to back, Wasabi appears to have a finger in almost every pot. That is not necessarily a good thing, but we suspect that it will get to hear about most new developments in the energy sphere, albeit the southern portion of it, and on that basis we like to watch its progress.



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