

Anglo Australian Resources

Await buying opportunity

Pre-feasibility study results awaited

[Fat Mining 65](#), 21 Feb, 2007
[Printer Friendly](#)

SYMBOL DEFINITIONS

 BASE METALS	 HIGH RISK	 MARKET CAP \$31
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We met recently with the two executives of Anglo Australian Resources in our Sydney office, Angus Pilmer and Peter Komyshan. What impresses us about the company is the very achievable growth path that AAR has in place and the fact the company is very modestly valued. We believe the upside is enormous and it should certainly be on the radar screen of those Members wanting base metal exposure.

"AAR has what we consider to be a well thought out growth path."

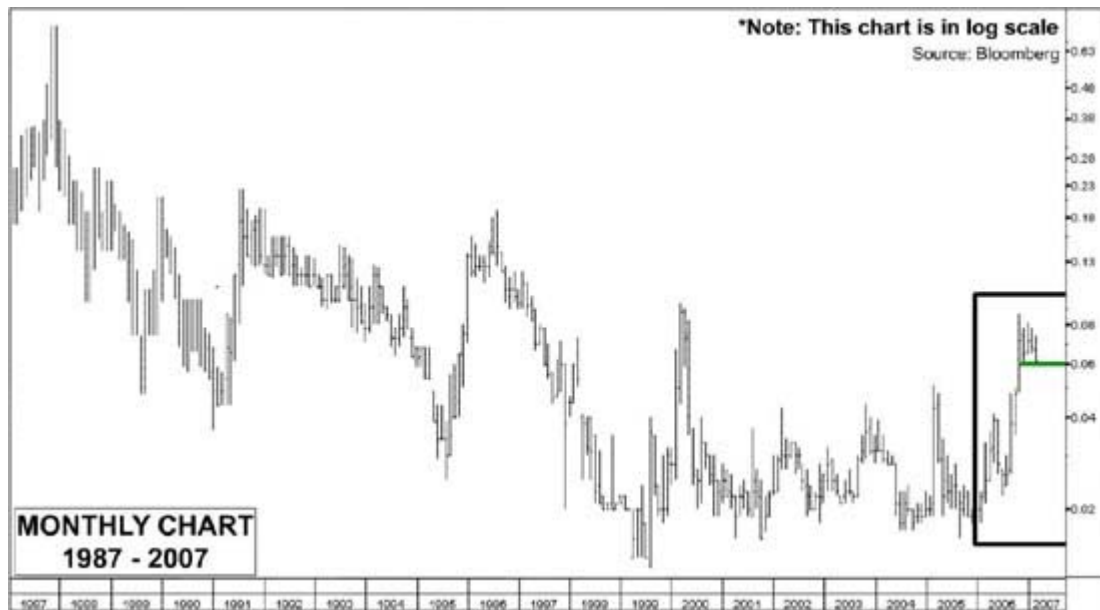
This is our first report on AAR.



Buoyant investor support saw AAR nearly quadruple in price between June and September last year. This followed more than six years of relatively subdued trading at historic lows. Following such rapid price gains, the upward trend of any stock would be at risk of pausing for consolidation. AAR is no exception.

In the near term, we anticipate further consolidation. While volatility threatens initial support at 6 cents, we believe that the revival of longer term upward momentum will serve to limit downside risks.

Given the clear and sustained break above the six year base formation, the long term outlook for AAR is positive. Accordingly, Fat Prophets will monitor AAR for a suitable buying opportunity.



Given our bullish stance on base metals, we are constantly on the lookout for new, undervalued opportunities for our Members. We believe that Anglo Australian Resources represents one such opportunity. We believe upside is enormous and it should certainly be on the radar screen of Members, particularly those wanting additional base metal exposure.

Effectively, two signature projects have propelled Anglo Australian Resources beyond the junior exploration stage to a point where it could realise its sizeable production ambitions.

The first project is the Mandilla Gold Project, situated near Higginsville south of Kalgoorlie, in Western Australia. Although not a company-maker in its own right, Mandilla is set to play a crucial role in AAR's development.

Mandilla is a small, profitable gold mine that will produce a significant cash flow surplus during 2007.

In fact, the first gold production from Mandilla has exceeded all expectations, with the first batch of ore producing 4,755 ounces of gold from the treatment of 8,451 tonnes at an average grade of 17.68g/t Au. This was 51% above forecast.

The key is the very high gold grade, which boosted production above the reserve model forecast of 10,656 tonnes @ 9.17g/t Au.

The company now has 24,400 tonnes of ore available for treatment, with the next campaign commencing in early February.

The West Mandilla palaeochannel deposit is estimated to contain a Probable Ore Reserve of 70,100 tonnes @ 7.52g/t Au for 16,960 ounces of gold within 20 metres of surface.

From our meeting with AAR management, they expect the Mandilla Project to generate \$8 - \$10 million in net cash after all costs this year. AAR management intends to spend these funds wisely.

AAR will apply its earnings towards appraisal work on its second project, its flagship Koongie Park base metal project in Western Australia. While the project has been around a long time, we believe its prospects for development are now better than ever.

When one has a look at the mammoth share price performances of our previously recommended emerging base metals opportunities like Fox Resources, Terramin Australia and Copper Strike, we believe AAR has a lot of potential upside, with no significant downside.

AAR owns 100% of the Koongie Park Project, which comprises an advanced lead-copper-zinc deposit at Halls Creek in the Kimberley region of WA. Having owned the project since 1989, AAR has completed extensive work worth around \$7 million on the project and we await the release of results any day now from a Pre-feasibility Study recently undertaken by AAR.

The project consists of two deposits, Sandiego and Onedin, with both containing a zinc zone, a copper zone and a mixed zone. The surge in base metal prices over recent years has undoubtedly boosted the development economics of the project.

The Sandiego deposit is a steeply plunging tabular mineralised deposit that has been intensively drilled on 40 metre spaced sections over a strike length of 120 metres and to a depth of 500 metres. Importantly, it remains open at depth.

The Onedin deposit meanwhile comprises a mostly rod-shaped mineralised zone, with a high-grade component.

Total Resources at present comprise: Zinc Zone: 2.25 million tonnes @ 7.0% Zn; Copper Zone: 1.8 million tonnes @ 2.6% Cu; and Mixed Zone: 0.6 million tonnes @ 7.7% Zn and 1.6% Cu.

The current Total Resource comprises 4.65 million tonnes @ 5.2% Zn, 1.2% Cu, 0.8% Pb and 29.6g/t Ag.

Our discussion with management revolved around only the project's history and resource potential. We will however know more about Koongie Park's potential to host a robust base metals development once the Pre-feasibility Study is released.

Our back of the envelope calculations however suggest a possible production scenario could generate 30,000 tonnes of zinc metal annually at a cash operating cost of A\$0.80 per pound. This would generate a very healthy operating margin indeed, compared to a current spot zinc price around A\$1.90 a pound.

Accordingly, we keenly await the release of the Pre-feasibility Study.

Anglo Australian Resources held cash reserves of \$2.3 million as at December 31 2006.

The key points for Members in our view are that AAR could receive a substantial re-rating on the back of the development potential of its Koongie Park Project. Furthermore, the cost of a Bankable Feasibility Study to fully assess development would be fully funded from earnings from its Mandilla Gold Project, so shareholders would not suffer any dilution.

We also understand that management has had discussions with a number of Asian metal refiners interested in off take agreements and potentially assisting with project funding. Given the scarcity of zinc concentrates in the world market, we believe there would be a whole host of potential project partners for AAR.

Accordingly, Fat Prophets will monitor Anglo Australian Resources for a clear buying signal.

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