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Jindalee Resources 04 Apr, 2007

Takeover Speculation

JRL; Buy up to \$2.10

Investor interest in Jindalee Resources is increasing, largely on the back of speculation that it is prepared to deal on its strategic holding in uranium explorer Energy Metals. In turn, Energy Metals' share price continues to appreciate due to a combination of positive exploration activity and speculation that several parties are interested in a takeover.

“The underlying value of Jindalee’s strategic investments is increasingly being recognised by investors, although there is still considerable share price upside if a successful takeover for Energy Metals emerges.”

Energy Metals in Play?

During the past 18 months the Jindalee share price has predominantly been driven by the value of its strategic holding in Energy Metals, albeit with the market appearing to apply an excessive discount to the market value of the holding.

Members may recall that Energy Metals was spun out of Jindalee in September 2005 as a dedicated uranium explorer, with its principal asset being a 53.3% operating interest in the Bigrlyi project in the Northern Territory. Jindalee retained 10m Energy Metals shares and 5m 30 cent options in the spin out process, which currently represents 38.3% of the company on a fully diluted basis.

Energy Metals is also in the Stock Resource portfolio and Members are referred to past reports on that company for background on its activities. In particular, we provided an update on the 7th March highlighting a 20% increase in resources at the Bigrlyi joint venture.

Drilling at Bigrlyi is poised to resume later this month, once reliable field access is re-established following the wet season. A major program is planned, with the majority of drilling targeting down dip and along strike extensions of the known uranium resources. It is likely that the Bigrlyi resource will be significantly enhanced during this campaign.

During the past week there has been speculation in the financial press that Energy Metals is now in play. Initially reports suggested that Paladin Resources (a 41.7% joint venture partner in Bigrlyi) is interested in the company.

In response to the press articles Jindalee noted that “Energy Metals has been approached by a number of major uranium companies interested in the Company’s advanced uranium assets. Discussions are at a preliminary stage only and at this point no firm proposals have been received.”

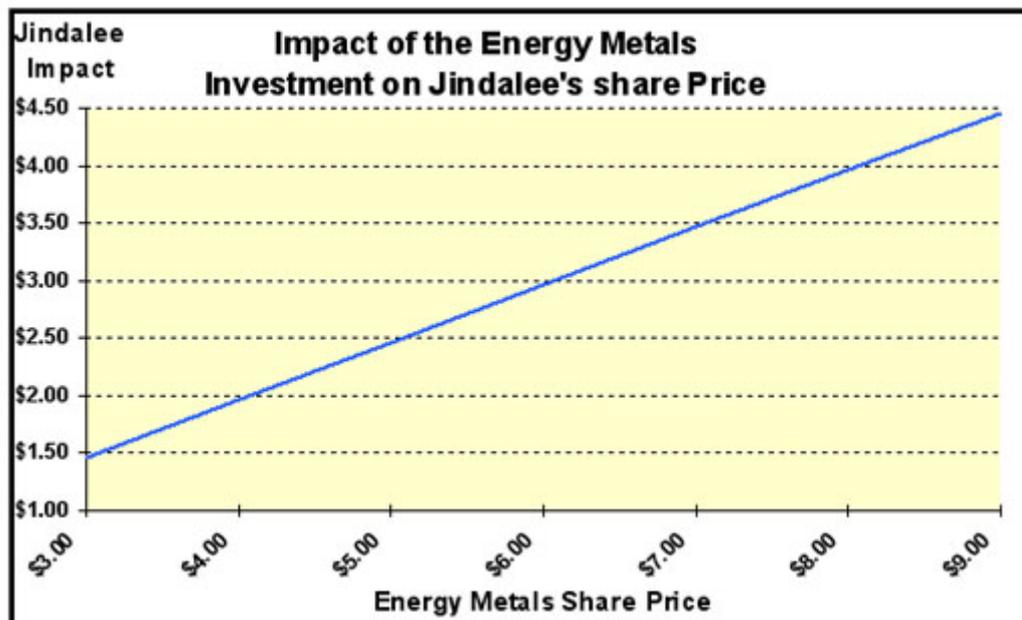
While Paladin has been mentioned as a possible suitor it is unlikely to be in a position to make an offer for Energy Metals until its current heated takeover battle for Summit Resources reaches a conclusion. In the meantime Canadian uranium producer Denison Mines is also likely to be considering its options given that it already holds 3m Energy Metals shares representing 11.2% of the ordinary shares or 7.7% on a fully diluted basis.

While Denison has also been involved in another takeover play, this is likely to be resolved in the very near term.

There is considerable rationalisation occurring in the uranium sector at present and the Jindalee management commentary suggests it is prepared to participate. Significantly, Jindalee is well placed to deliver control of Energy Metals, with interests associated with Jindalee and its directors probably totalling in excess of 60% of Energy Metals' register on a fully diluted basis. This provides the opportunity for a 'clean' friendly takeover.

Jindalee's willingness to test the market interest in Energy Metals largely stems from dissatisfaction in its own share price, which has consistently traded at a significant discount to the market value of its investments and exploration assets. Earlier this week the company noted that "Management is looking at a number of options to ensure Jindalee's share price better reflects the value of these investments, including the possible sale of Jindalee's holdings in Energy Metals."

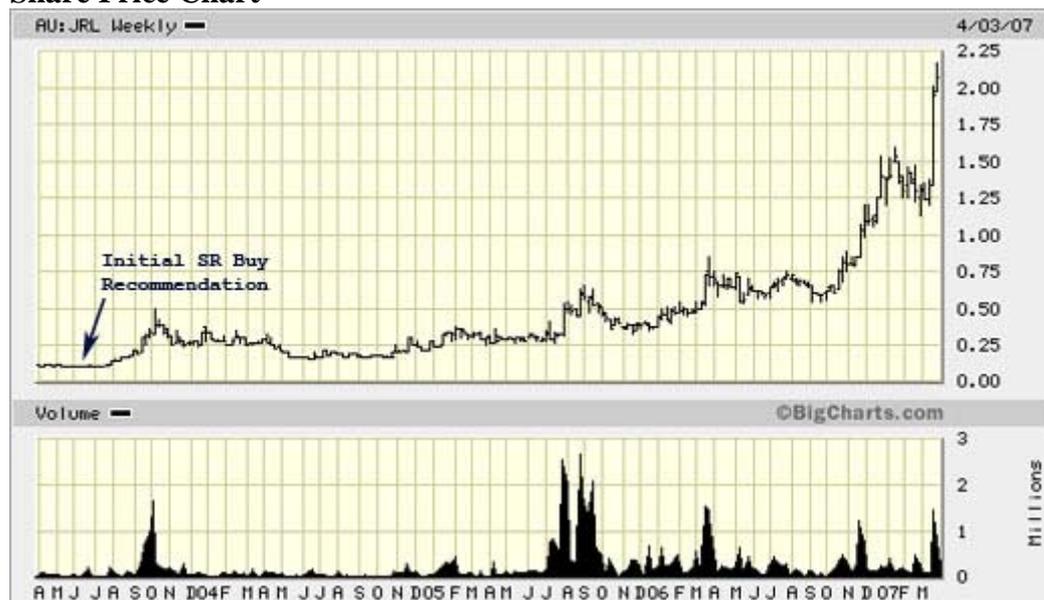
The following chart illustrates the theoretical relationship between the Energy Metals and Jindalee share prices:



Source: SR

Whilst there has been significant appreciation of the Jindalee share price following the recent press reports it still represents a discount of 25% to 30% to the share holding in Energy Metals before ascribing any value to Jindalee's other assets, cash and investments.

Share Price Chart



Capital Structure

Our current estimate of the capital structure of Jindalee is as follows:

Market Valuation	Issued Shares (m)	Share Price	Market Cap (A\$m)
Fully paid shares	29.9	\$2.080	\$62.1
Options	5.2	\$2.080	\$10.9
Cash from options			\$1.8
Diluted Market Cap			\$71.2
Investments			\$88.4
Cash			\$4.2
Debt			\$0.0
Enterprise value			-\$21.4

Other Jindalee Activity

Jindalee has reduced its holdings in uranium explorer Uran Ltd from 4m shares to 2m. The time frame involved suggests it would have achieved prices of between \$1.00 and \$1.50, indicating it would have received cash of around \$2m.

Newcrest has reported some success from shallow RAB and aircore drilling at Jindalee's Yilgangi project located some 120km northeast of Kalgoorlie, including 6m at 2.1g/t gold and 5m at 1.0g/t gold. The drilling was testing the continuity of an extensive gold anomaly located beneath transported cover.

Follow-up RC drilling is proposed for the June quarter to test the potential for deeper primary gold mineralisation.

Newcrest is earning a 70% interest in the Yilgangi project by spending \$0.75m on exploration by March 2008. Once Newcrest has earned its interest Jindalee has several options, including contributing pro-rata or diluting to either loan carried, or free carried positions.

At the Bow River prospect some 60km north along strike from the Sally Malay nickel mine in the Kimberly region Jindalee is preparing for the impending field season. Historical drilling at Bow River intersected massive sulphides including 3.12m at 1.45% nickel and 0.47% copper in a differentiated mafic-ultramafic intrusion, similar to the host rock at the Sally Malay mine. However, no recent exploration has been undertaken, in part due to access issues. Ground proofing of historical mapping and exploration activity will be undertaken before deciding how to further advance this prospect.

Jindalee has submitted an application covering a significant lignite resource some 60km north of Esperance. Wesfarmers formerly held licences in the area, but appear to have failed to renew them due to an administrative error. Blackham Resources submitted an application at the same time and will go in a ballot with Jindalee if legal objections from Wesfarmers can be overcome.

Discussion and Recommendation

The key issue currently driving the Jindalee share price is the likelihood of a takeover offer for Energy Metals. We believe the probability is high based on the recent commentary from management, Jindalee's ability to deliver a majority stake, the quality of the Bigrlyi project and the attractiveness of Energy Metals to several well credentialed suitors.

Despite the recent strong rise in Jindalee's share price it is still trading at an enterprise value of negative \$21m. This discount is excessive, even before ascribing any value to its other assets. Hence, **Stock Resource recommends Jindalee as a Buy up to \$2.10 for Members with no current exposure**

Disclosure: the author holds shares in Jindalee and Energy Metals

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Reference within the Stock Resource Report to the “Stock Resource Portfolio” is a reference to the hypothetical portfolio on the “Past Predictions” page, which includes details on the methodology used to derive the performance figures.