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Jindalee Resources 11 Jul, 2007

Exploration Encouragement

JRL; Buy up to \$2.00

Jindalee Resources remains leveraged to its strategic investment in uranium explorer Energy Metals. However, there is also significant option value in the other exploration assets of the company, which was highlighted last week with the release of encouraging gold results from its Yilgangi project.

“Jindalee is achieving encouraging gold results at the Yilgangi project, but its market value continues to be dominated by its controlling shareholding in uranium junior Energy Metals.”

Restructuring Appears Inevitable

Jindalee undertook a successful spin out of Energy Metals in September 2005 during the early phases of the current uranium boom. Since that time the Jindalee share price has predominantly been driven by the market value of its remaining shareholding in the company.

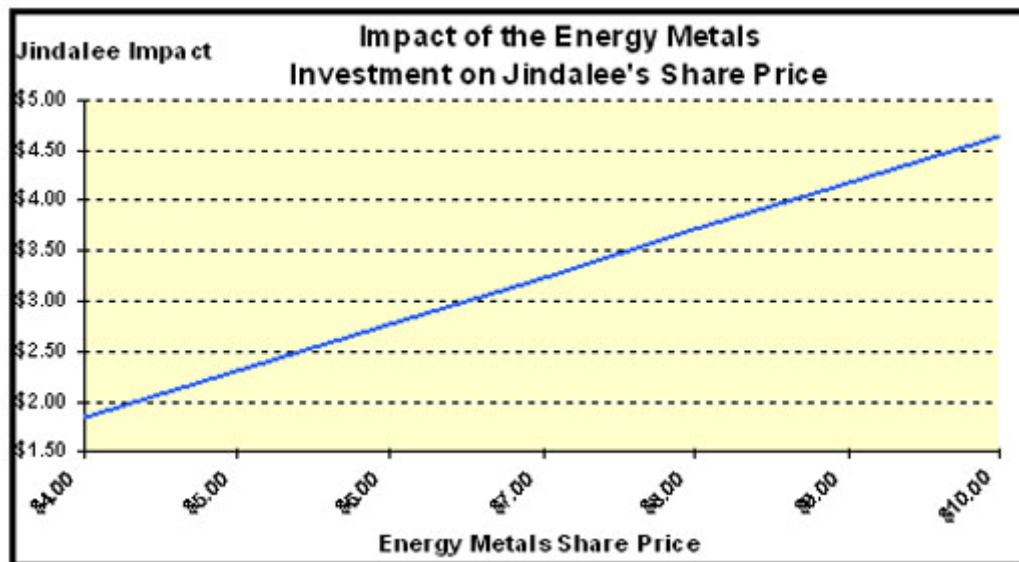
However, the market has invariably applied an excessive discount to the value of the Energy Metals shareholding, as well as assigning negligible value to the other assets and investments of the company. This is apparent in the following estimate of the capital structure of the company, which shows the company currently has an enterprise value of around negative \$25m:

| Market Valuation | Issued Shares (m) | Share Price | Market Cap (A\$m) |
|---------------------------|-------------------|-------------|-------------------|
| Fully paid shares | 31.9 | \$2.000 | \$63.9 |
| Options | 3.2 | \$2.000 | \$6.3 |
| Cash from options | | | \$1.0 |
| Diluted Market Cap | | | \$69.1 |
| Investments | | | \$89.0 |
| Cash | | | \$4.7 |
| Debt | | | \$0.0 |
| Enterprise value | | | -\$24.5 |

Jindalee’s management clearly believes this situation needs to be remedied, having noted in its March quarterly report “...that the Company is trading at an unacceptable discount to its net tangible assets and is looking at a number of options to ensure Jindalee’s share price better reflects the value of these assets. To this end the Company has held preliminary discussions regarding the sale of its holdings in Energy Metals.”

Recapping, Jindalee holds 10m shares and 5m options in Energy Metals which represents a 38.3% holding on a fully diluted basis. However, when interests associated with Jindalee's directors and management are included this figure increases to well over 60%. This leaves the company with the ability to deliver majority control of Energy Metals – providing the potential for a quick, clean friendly takeover if that path is selected by management.

The theoretical relationship between the Energy Metals investment and the Jindalee share price is illustrated in the following chart:



Source: SR

We note that Jindalee's Energy Metal's shares come out of escrow in September 2007.

Jindalee is also assessing the potential for listing Energy Metals on the TSX as an alternative strategy for gaining greater value recognition by the market. This would also create greater liquidity for Energy Metals shares and provide Jindalee with the options of selling down its interest or undertaking a distribution in specie to its shareholders.

We recently provided an update on Energy Metals on the 27th June and Members are referred to that report for additional background information on its current exploration activities.

Exploration Encouragement at Yilgangi

Jindalee has received further encouraging gold results from the latest round of aircore drilling completed at the Hobbes prospect, which forms part of the Yilgangi project. Yilgangi is located in the Eastern Goldfields of WA, some 120km NE of Kalgoorlie and 130km SE of Leonora.

Previous RAB and aircore drilling at the project successfully defined a 3km x 1km gold anomaly located beneath transported cover at the Hobbes prospect. The latest

drilling has been designed to gain further detail on the shallow distribution of gold ahead of deeper follow-up RC drilling.

The better results from the latest drilling at Hobbes include:

- 17m at 1.25 g/t gold
- 19m at 1.27 g/t gold
- 20m at 1.24 g/t gold

These results are from 4×1 metre composite sampling and accordingly are preliminary in nature. Follow-up assaying of individual 1 metre samples from the gold anomalous intervals is being undertaken and assays are awaited.

Most of the recent holes were only between 50m and 60m depth, with a number of them finishing in mineralisation. However, testing to date has been limited to the oxide/supergene zones. The real test for the project will be the tenor of gold mineralisation in the deeper primary zone. RC drilling has commenced and results should be available in about a month.

The Yilgangi project is being operated by joint venture partner Newcrest Mining, which has now earned a 70% participating interest in the project by funding \$0.75m of exploration activity. Under the joint venture terms Jindalee has a number of options and is likely to reduce to a 20% project carried interest.

Other Jindalee Activity

As noted in earlier reports Jindalee follows a strategy of generating projects and advancing them up the value curve to the point where a decision can be made to:

- continue exploration on a 100% basis,
- introduce partners to fund the higher risk/cost stages of exploration, or
- fund further exploration via a dedicated company in which Jindalee retains a significant interest

Currently the company has shareholdings in:

- Energy Metals
- Uran
- Anchor Resources
- Great Western Exploration

We note company comments that it is considering vending further properties for equity in exploration companies proposing to list on the ASX and believe its Murchison gold assets fall into this category.

At the same it is advancing its other exploration properties including the Joyner's Find project west of Wiluna (funded by joint venture partner Golden West) and the Bow River nickel project, located in the East Kimberley region. Jindalee has recently acquired historical data for Bow River, where a number of interesting nickel intersections have been recorded in past drilling, and will consider its options for advancing the property once it has fully assessed the data.

Discussion and Recommendation

Jindalee's greatest leverage remains its investment in Energy Metals, where an active field program at the Bigrlyi project is achieving positive results. Despite this the Energy Metals share price has fallen in recent months, in line with a broad contraction in the market rating of uranium stocks (both in Australia and North America). This is helping deflate some of the bubble aspects of the uranium sector, although further downside risk exists.

The current Enterprise Value of Jindalee of negative \$25m is a substantial discount to the current market value of its investments before ascribing any value to its other exploration assets which are being positively advanced. Management is actively seeking to remedy this situation and hence, **Stock Resource recommends Jindalee as a Buy up to \$2.00 for Members with no current exposure.**

Share Price Graph



Disclosure: the author holds shares in Jindalee and Energy Metals

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