



## **Jindalee Resources 22 Aug, 2007**

### **Further Encouragement at Yilgangi**

#### **JRL; Buy up to \$1.50**

As noted in our recent reports Jindalee Resources has high leverage to its strategic investment in uranium explorer Energy Metals, and also retains significant option value via its other exploration assets. The value of this option was emphasized earlier this week when the company announced that Newcrest had made a gold discovery at the Hobbes prospect (Yilgangi project) in WA.

*“Newcrest and Jindalee have announced a gold discovery at the Hobbes prospect (Yilangi) and are poised to commence a substantial drilling program aimed at defining the potential scale of the deposit.”*

#### **Yilgangi Success**

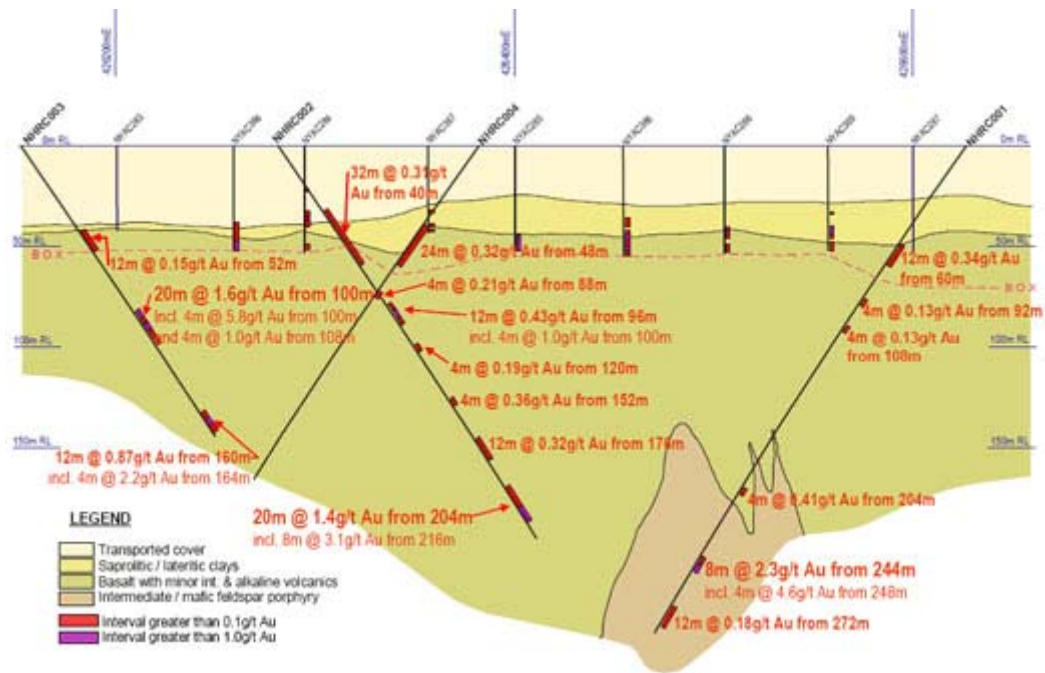
The Yilgangi joint venture partners have announced further positive drilling results at the Yilgangi gold project. Importantly, the latest results include intercepts of ore grade primary gold mineralisation, indicating the mineralisation continues at depth and therefore has significant scale potential.

The latest results are from four deep RC holes at the Hobbes prospect that were designed to follow up the widespread anomalous results recorded in previous programs of broad-spaced, shallow air-core drilling (most recently outlined in our Jindalee report of 11th July).

Better results in the current program are:

- NHRC-001 8m at 2.3g/t gold
- NHRC-002 8m at 3.1g/t gold
- NHRC-003 20m at 1.6g/t gold, including 4m at 5.8g/t gold

The results are illustrated on the following section through the Hobbes prospect:



Source: Company

The joint venture partners are very encouraged by these results, but are yet to establish a good understanding of the controls on the mineralisation. Accordingly, Newcrest (as manager of the JV) is currently formulating a substantial follow-up program, with the next round of drilling likely to commence in late September.

A three pronged approach is envisaged as follows:

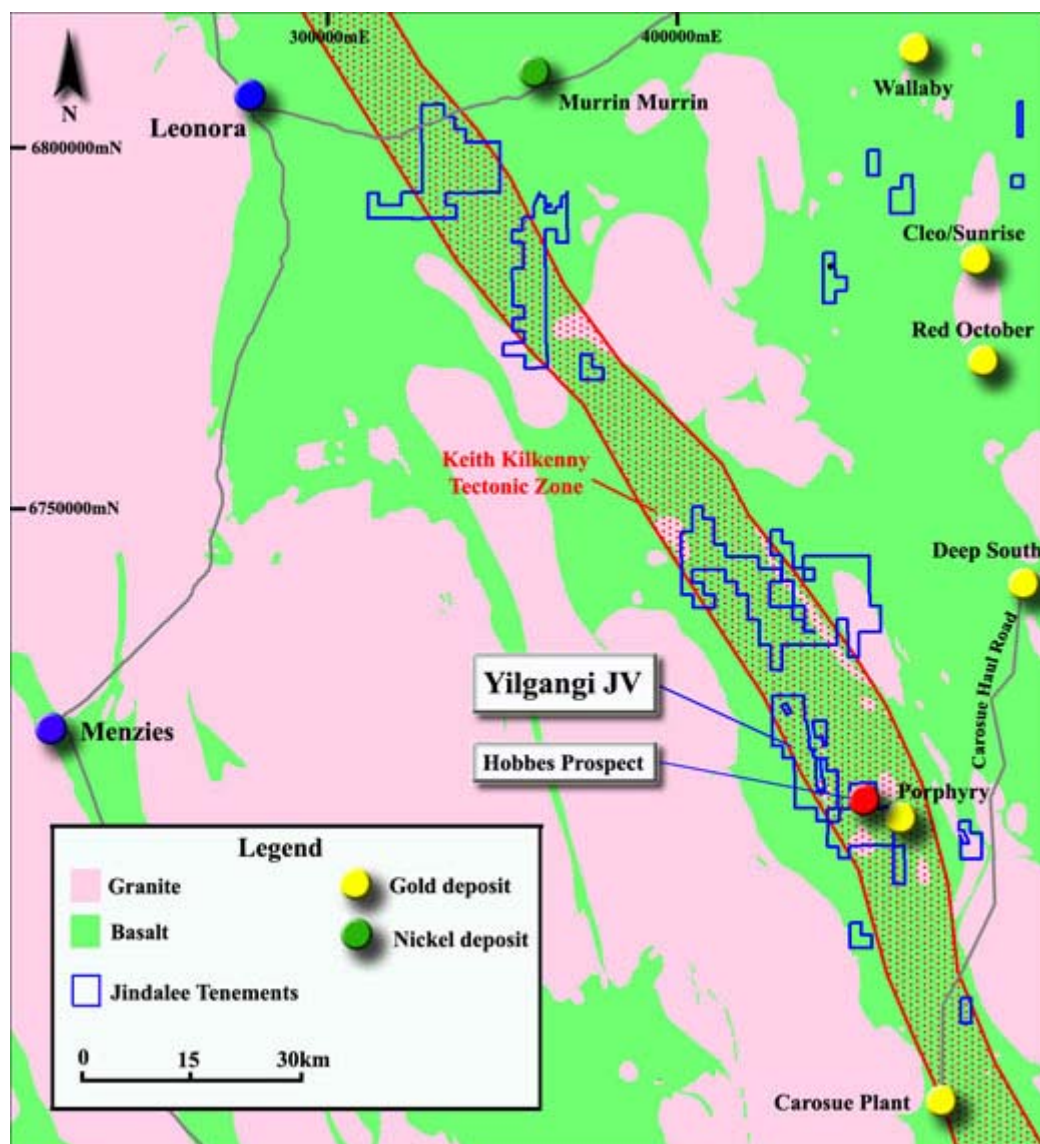
- Diamond drilling to gain a better understanding of the geology and possible controls on mineralisation, as well as to orient the grid for future RC drilling.
- Further shallow air-core drilling to better define parts of the shallow supergene gold anomaly that have only been sparsely tested to date (note the supergene gold anomaly is masked by 30-40m of transported cover and the project is reliant on air-core drilling to define this blind target).
- Follow-up systematic RC drilling to try and establish a resource.

Recapping, the Yilgarn project is located in the Eastern Goldfields, some 120km northeast of Kalgoorlie. Newcrest Mining entered into a joint venture agreement with Jindalee in 2004 and is earning an interest in the property by funding exploration activity.

Jindalee has a number of options for retaining its interest in the project. The most likely outcome is that Newcrest will continue to fund 100% of exploration to earn an 80% interest, with Jindalee reducing to a 20% project carried interest. The costs associated with the 20% interest will need to be repaid (plus interest) if a positive decision to mine is made by the partners.

While a company such as Newcrest needs to find a multi-million ounce deposit to justify a development, any smaller discovery could still be commercially valuable to Jindalee (which has pre-emptive rights over the Newcrest interest if it ever elects to withdraw).

In this regard it is worth noting that Saracen Minerals owns the mothballed 2.4mtpa Carosue Dam processing facility, located some 45km to the south. Indeed a haul road to the mill passes to the east of the Hobbes prospect as outlined in the following plan:



Source: Company

Saracen has been expanding its resource base in the area, through both active exploration efforts and acquisitions, ahead of completing a definitive feasibility study aimed at re-establishing milling operations at Carosue Dam. The study is expected to be completed in late 2007 or early 2008.

### Investments

The Jindalee share price continues to be predominantly driven by the value of its strategic holding in Energy Metals, albeit with the market applying a significant discount to the holding. In addition the company has small holdings in junior exploration companies Uran, Great Western and Anchor Resources.

Jindalee holds 10m shares and 5m options in Energy Metals which represents a 38.3% holding on a fully diluted basis. This figure increases to over 60% when interests

associated with Jindalee's directors and management are included, leaving management with the ability to deliver majority control of Energy Metals in any sale process.

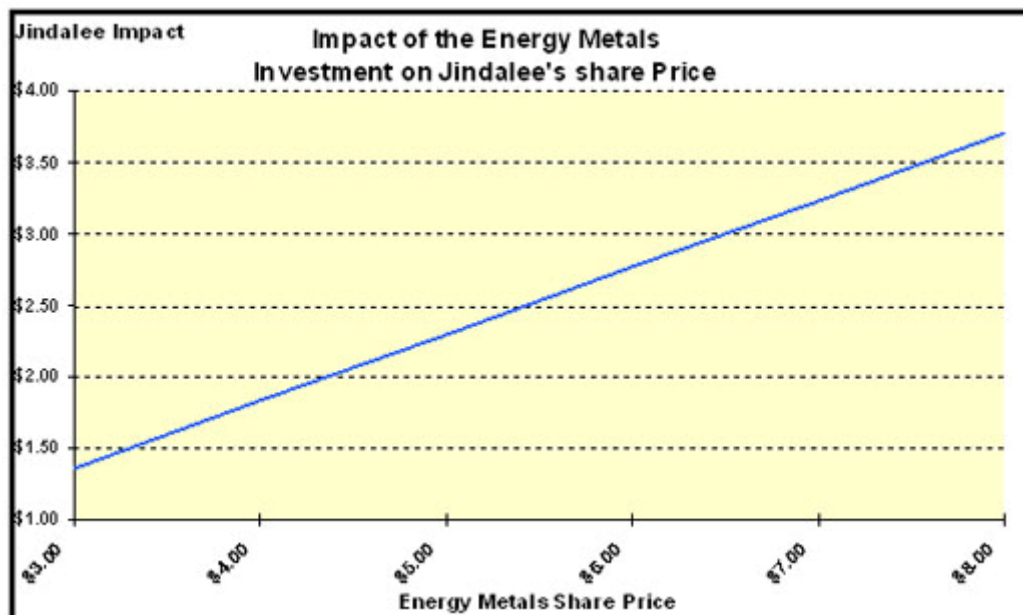
The market value of Jindalee's investments is currently \$59m, which is well in excess of the \$50m fully diluted market capitalisation of the company as outlined in the following table:

### Corporate Structure

Market Valuation	Issued Shares (m)	Share Price	Market Cap (A\$m)
Fully paid shares	31.9	\$1.400	\$44.7
Options	3.2	\$1.400	\$4.4
Cash from options			\$1.0
<b>Diluted Market Cap</b>			<b>\$48.1</b>
Investments			\$59.1
Cash			\$4.9
Debt			\$0.0
<b>Enterprise value</b>			<b>-\$15.9</b>

As noted previously Jindalee's management believes the discount being applied to its Energy Metals investment is excessive and needs to be remedied. Accordingly, the company continues to hold discussions with potential buyers.

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



Source: SR

While we continue to believe that there is a high probability of a sale occurring, the price target has probably fallen somewhat due to a combination of the current financial market turmoil and declines in spot uranium pricing. The spot uranium price

fell again overnight to around US\$90/lb and is now 34% below the peak level of US\$136/lb achieved in June.

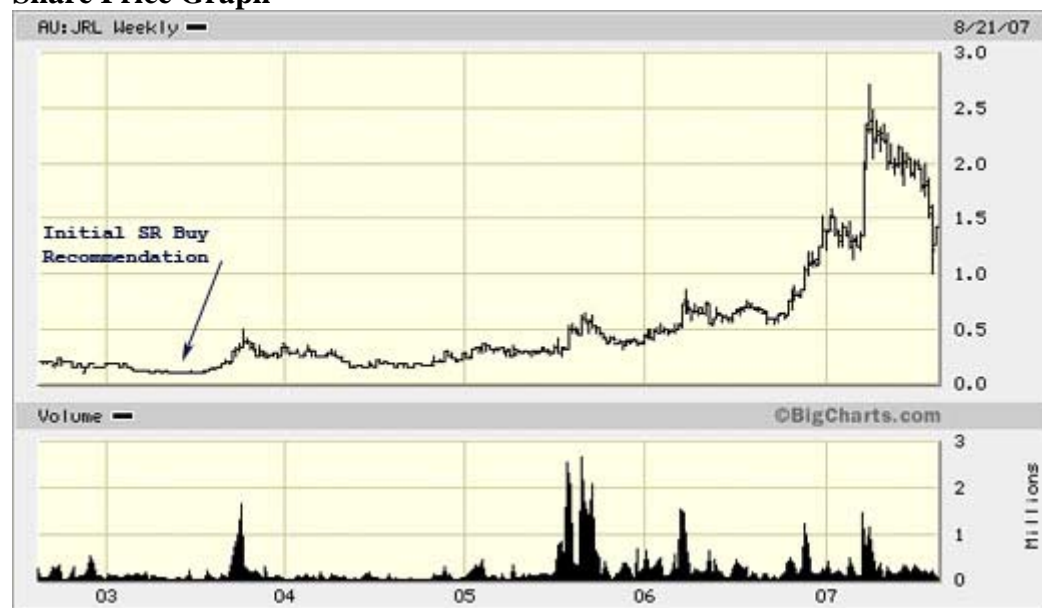
Meanwhile Energy Metals is accelerating its major drilling program at the flagship Bigrlyi project, with a third rig due to arrive on site next week. A steady flow of results is anticipated during the balance of 2007, ahead of the estimation of increased resources in early 2008.

### Discussion and Recommendation

Jindalee's current enterprise value of negative \$16m represents a significant discount to the market value of its investments before ascribing any value to its exploration assets. The Hobbes gold discovery highlights this 'free' option value for shareholders.

The company now has two key value drivers moving forward, both of which will have high levels of news flow during the remainder of 2007. The potential for a strong re-rating of the company's share price is high despite the current financial market turmoil. Hence, **Stock Resource recommends Jindalee Resources as a Buy up to \$1.50 for Members without current exposure.**

### Share Price Graph



Disclosure: the author holds shares in Jindalee and Energy Metals

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