

Strike while the iron ore's hot

This Perth-based junior has remodelled itself and is now one of the foremost in the crop of emerging iron ore players. By **Chris Cann**

Investors who put their money into the Strike Resources float back in early 2006 may not recognise the company today.

At that stage, Strike was made up of the late-stage Kalimantan coal exploration project in Indonesia, promising uranium ground in the Northern Territory and Western Australia including the exciting Bigryli project, and a small iron ore project also in WA. The strategy at IPO was simple; bring the coal asset into production in the near-term to generate the funds needed to tackle the company's long-term vision of uranium development in Australia.

But a few months down the track things started to change for Strike. Last year the company seized an opportunity to purchase an interest in two iron ore projects in Peru— Apurimac and Cuzco — which had large but non-JORC-compliant resources. By May this year, Strike had become an iron ore-focused entity, having spun out its uranium assets (now including the Pampacolca project in Peru) into Alara

Uranium and placed Kalimantan on the back burner for the time being.

The new structure has been a huge hit with the market with the share price moving from 33c in mid-May 2006 to 97c a month later. Continued news from the Peruvian magnetite assets pushed the price as high as \$2.74 per share in February this year.

Investors have settled since and the share price has cooled — shares were trading steadily around the \$2.20 mark at time of writing. It is likely they are waiting for that initial resource from Apurimac and Cuzco to confirm what the company has estimated to be deposits upwards of 730 million tonnes and 500Mt respectively.

That process of resource definition is ongoing and Strike hoped to have a JORC-compliant resource for Apurimac within months, managing director Shanker Madan told *RESOURCESTOCKS*.

“Our initial focus is to define a resource capable of delivering 20Mt per annum for 20 years [400Mt resource] from the

Apurimac region and then repeat the same at Cuzco. We are drilling to minimise the resource risk,” he said.

Madan said there was potential to grow the resource beyond the estimated tonnages with large-scale magnetic anomalies in the holding still untested.

The most recent infill drilling results were received in February from 21 reverse circulation holes drilled in December last year. Those figures “exceeded the company's expectations”, indicating extensions of the mineralisation at depth and returning excellent grades.

The results were described as “substantial” and significant” and outlined three deep zones of highly enriched iron mineralisation from near surface including 108m at 62.7% iron, 114m grading 63.1% iron, 84m at 63.1% iron, 82m at 63.4% iron, 154m grading 62.8% iron and 90m at 62.9% iron. Three holes also ended in mineralisation to suggest more ore at depth, while mineralisation was open to the north and the west at the Opaban 1 concession where the drilling was targeted. Opaban 1 is one of 19 concessions in the Apurimac region.

Madan said the high-grade magnetite, which is also low in phosphorus, meant beneficiation of the ore would produce a high-quality end product superior to high-grade hematite projects in WA.

“We are using a cut-off grade of plus 55% ore to define the boundaries of our deposits,” he said.

“Although not as uniformly high as 66% iron throughout, we are using the same cut-off grade that the rich iron ore mines of Rio Tinto and BHP Billiton use in the Pilbara.

“Additionally, since our iron is approximately 80% high-grade magnetite, and the remaining 20% is hematite ore, our ore can be upgraded easily by magnetic separation to a high-grade product — a richer product than the hematite mines of the Pilbara produce. It is low in phosphorus and we are hoping to match the product



Strike managing director Shanker Madan (left) and director Malcolm Richmond (right) inspect outcropping iron-ore at the company's Apurimac project in Peru.



Strike exploration manager Jerko Zuvela (right) inspects outcropping iron-ore at the Apurimac project in Peru.

grades of the rich Brazilian ores.”

Once an economic deposit is proven at Apurimac, Strike plans to be producing an iron-rich slurry by 2011 that could be piped using simple “off-the-shelf technology”. Though still in the pre-feasibility stage, Strike has set very rough capital costs of \$US1.2 billion for a 20Mtpa operation.

Madan said there was plenty of water near the project and both hydroelectric and gas power were being considered. A gas pipeline passes within 80 kilometres of the project.

Ore would be shipped primarily to the expanding Chinese construction industry and possibly to Japanese multinational commodity traders that have expressed an interest in the project.

Strike has recently upgraded its stake in the Apurimac and Cuzco projects from a possible 51% to 68.2%, for a total staged payment of \$61 million, with Madan saying the opportunity to increase its share in what he described as potentially a “large, world-class mine” was too good to turn away.

It has not decided how the full acquisition and the project’s development will be funded but it is likely to be a combination of debt and equity. Madan said he would only begin looking into long-term financing options once it was clear the company was sitting on a commercially and technically viable project.

The magnitude and promise of Apurimac and Cuzco has won market favour and captured the eye of the professional investment community. Australian brokerage Bell Potter Securities started following the stock back in November last year and has been glowing in its assessment of the company’s progress.

In its latest research note from June, Bell Potter analyst Stephen Thomas rated

Strike a Buy 2 and slapped a target price on the stock of \$A3.31.

“We regard Strike as a promising emerging iron ore company with the potential for substantial resource growth. At this early stage we consider comparative value by reviewing the market values of Strike’s peer group of emerging iron ore companies,” he said.

“A standout feature with substantial strategic value is the unusually high grade of the Apurimac and Cuzco magnetite mineralisation, which compares favourably with the significantly lower iron grades of many of the emerging Australian magnetite ore producers with grades between 30% and 35% iron.

“Subject to a successful drill-out of the Apurimac and Cuzco resources, on a comparative basis the implied market value of Strike is \$3.31 and we set a 12-month target of \$3.31.”

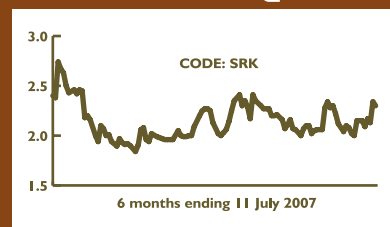
Strike’s other and much more modest iron ore asset is the Paulsens East project in northwest WA, where the most recent results from drilling have indicated a small mining operation could be possible. High-grade hits in one hole averaged 65.15% iron over 2m from 13m and 63.4% over 4m from 17m.

As far as the Indonesian coal assets were concerned, Madan said that Strike had recently done a deal with Orion Equities to free-carry Strike 30% to a decision to mine at its Berau coal project, and it is considering divesting its Indonesian Banten copper-gold project, which it considers non-core. Strike also retains a 35.71% stake in Alara and Strike shareholders received one Alara share for every four Strike shares sold in the 25c listing. Alara shares were last trading at 23c.

For now though, Madan and his team

have got their eyes firmly set on Peru, where Strike has an opportunity to move from junior explorer to an iron ore producer of some significance if it is successful in bringing Apurimac and Cuzco into production. **RS**

strike resources at a glance



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Market Capitalisation

\$174.82 million (at press time)

Major Shareholders

HSBC Custody Nominees
ANZ Nominees
Database Systems