



IMX Resources 09 Jan, 2008

Committing to Cairn Hill

IXR; Buy up to 65 cents

In mid December we outlined that Goldstream Mining had changed its name to IMX Resources to better reflect the company structure and strategic direction, which involved a mixture of core activities comprising investment, mining and exploration. During the past few weeks the company has achieved several significant milestones at its most advanced direct mining opportunity, the Cairn Hill iron ore project.

“IMX Resources has committed to development of the Cairn Hill iron ore project in South Australia, with the company set to make the transition from explorer to miner in late 2008.”

Cairn Hill Update

Earlier today IMX announced that it had formally committed to development of the Cairn Hill iron ore-copper project in South Australia. This follows the establishment of an off-take partner and cornerstone investor in Chinese steel company, Jilin Tonghua Iron & Steel (Group) Mining Ltd – Tonghua Mining. In addition the company has stated that it is close to finalising all project funding arrangements.

Tonghua Mining will purchase 100% of the production of Cairn Hill for a 3 year period, subject to extension, at market related prices for both the magnetite and contained copper. Initial production is proposed at a rate of 1.2 to 1.4mtpa.

The ore will be sold on a FOB basis with the target shipping specification averaging >55% iron and 0.43% copper. The prices will be benchmarked using international traded prices, with adjustments for processing and logistics costs.

Tonghua Mining will construct a processing facility in China to process the ore to produce a high grade magnetite concentrate and a copper/gold concentrate. At the cessation of the sales offtake contract, IMX will have the first right to purchase the processing facility at market price.

As an integral part of the agreement Tonghua Mining will take a placement of 16.34m shares in IMX at 85 cents per share at a cost of almost \$14m (a premium of 20-25% to the prevailing share price). This will give Tonghua Mining a 9.99% investment in IMX on an undiluted basis. Importantly this will largely cover the equity component of capital required to develop Cairn Hill.

Recapping, the Cairn Hill magnetite, copper, gold project is based on shipping unprocessed ROM ore to China for processing into a high grade (+70% Fe) magnetite concentrate and a copper/gold concentrate. The project produces a niche magnetite product that does not require pelletisation and has a significant copper revenue stream.

It is expected to produce 7.3mt of ore averaging 50.9% Fe, 0.43% copper and 0.13g/t gold over an initial 5.5 year life.

The company is close to finalising its preferred development option. Two scenarios are being actively considered, principally revolving around which port to use for shipping – Darwin or Port Pirie. Darwin is currently the preferred port and under this scenario development of Cairn Hill will incur a capital cost of \$41.6m. A significant proportion of this figure should be able to be covered under leasing arrangements with service providers.

Over the current project life of 5.5 years the FOB costs loaded onto a Panamax vessel in Darwin are forecast to be around A\$50/t and the cumulative operating pre-tax cashflow is estimated at \$101m (average \$18.4m pa) based on current benchmark prices and exchange rate (copper US\$6,715/t, iron ore fines US\$80.42/dmtu and exchange rate of A\$1 = US\$0.873).

The plan is to commence trial mining in March to provide a bulk sample for final design work for the processing plant, as well as optimising the pit design, defining material handling parameters and equipment selection. Full scale mining is then planned to commence early in the September quarter 2008, followed by first shipments in the December quarter (subject to receipt of all approvals, and construction of port and logistics infrastructure).

Continental Nickel Update

In mid December we updated Members on the very encouraging nickel results being achieved at its Nachingwea JV tenements in Tanzania. This has resulted in a strong appreciation in the Continental Nickel share price (currently Cdn \$3.20). Management has taken the opportunity to raise additional funds on the back of this positive news flow, raising a further Cdn\$9m at Cdn\$3.00 per share. (Continental floated on the TSX in July 2007, raising Cdn\$16.5m at that time).

IMX Resources elected not to exercise its anti-dilution rights under its shareholder agreement and as a consequence has diluted its investment in Continental down to 47.6% (previously 53.03%).

Capital Structure

Our updated estimate of the capital structure of the IMX following the placement to Tonghua Mining is as follows:

Market Valuation	Issued Shares (m)	Share Price (cents)	Market Cap (A\$m)
Fully paid shares	164.1	\$0.650	\$106.7
Partly paid shares	9.1	\$0.650	\$5.9
Options	4.8	\$0.650	\$3.1
Cash from PP			\$3.7
Cash from Options			\$2.5
Diluted Market Cap			\$109.5
Investments			\$78.0
Cash			\$18.9
Debt			\$0.0
Enterprise Value			\$12.5

Discussion and Recommendation

While the Cairn Hill project doesn't appear to be a 'company maker' at this stage, it will mark the transition of the company from explorer to miner. In addition it will provide useful operational cashflow to support ongoing exploration, development and investment activities.

These opportunities include the Continental Nickel investment, where very encouraging nickel exploration results are being achieved, and the Lonmin joint ventures. (Members are referred to earlier Goldstream reports for background on these assets which have potential 'company making' attributes).

Overall, the company provides low cost exposure to a diverse range of exploration opportunities that could generate considerable value for shareholders. Hence, **Stock Resource recommends IMX Resources as a Buy up to 65 cents for Members without current exposure.**

Share Price Graph



Related Articles

- [IMX Resources 12 Dec 2007](#)

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