

AAM.AU

A1 Minerals Limited

A\$ 0.16

18 March 2009
Gold
Australia (WA)
Feasibility Study, Imminent Production
Exchanges: ASX:AAM

With a resource at its Brightstar project near Laverton, WA, recently increased 70% to >1.7moz, AAM shares have surged, but still look undervalued based on AAM's low capex, zero debt approach to becoming a 30kozpa producer in 4Q09, ramping to 50kozpa in 2 years.

Capital Profile

Share price (A\$)	0.16
52 week range (A\$/share)	0.06 to 0.19
Number of shares (m)	108.5
Options and warrants (m)	27.7
Convertible notes (m)	0.0
Fully diluted (m)	136.2
Market capitalisation (undiluted) (A\$m)	16.8
Debt (A\$m) - Mar 09F	0.0
Enterprise value (A\$m)	16.8
Major shareholders: S Wheeler (7.5%), J Williams (5.9%) P Jackson (3.7%), D Williams (3.4%)	
Avg monthly volume (m)	7
Cash (A\$m) - Mar 09F	2.6
Price/Cash (x)	6.6
Price/Book (x)	5.1
ASX listed options	No

Production and Financial Forecasts

YEAR END: June	Dec-08a	Mar-09F	2008a	2009F	2010F
Gold Production (koz)	0.0	0.0	0.0	0.0	23.1
Cash Costs (US\$/oz)	na	na	na	na	400
Exploration and evaluation (A\$m)	0.29	0.55	1.48	2.16	2.00
Corporate (A\$m)	0.21	0.18	0.60	0.79	0.80
Shares on issue (pr end) (m shares)	108.5	108.5	101.0	128.5	148.5
Drilling - RAB (m)	4,000	4,000	10,000	12,000	7,000
Drilling - Other/Diamond (m)	2,000	2,000	8,500	8,000	6,500
Land holding ('000 ha)*	0	0	0	0	0
Tenement costs (\$k per year)	-	-	-	-	-
Capital Raisings/Cash Flow (A\$m)	0.0	0.0	0.0	3.0	3.0
Funding from JV partners (A\$m)	0	0	0	0	0
Cash (A\$m)	3.3	2.6	5.0	1.8	9.7
Cash backing (Ac/share)	3.0	2.4	4.9	1.4	6.6
Net asset backing (Ac/share)	17.0	16.8	18.3	14.1	18.9

*Tenements applied for or granted.

Investment Points

AAM has established a 1.7moz Au, 2.5g/t JORC resource at Brightstar (Laverton, WA) after five years of focused exploration.

>40% of the resource is contained in the recent major Delta discovery.

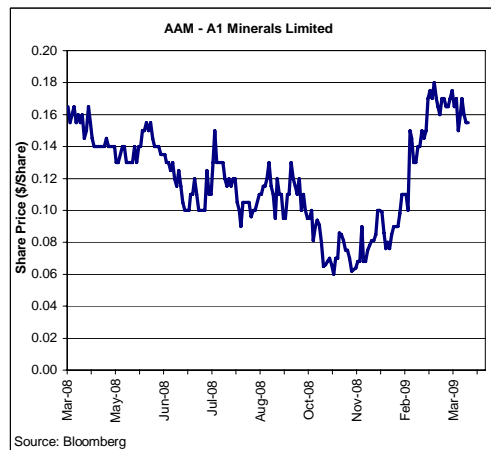
AAM is now 100% focused on becoming a producer with start up operation 30kozpa in 4Q09.

Staged low risk, low capex approach avoids need to go to banks and dilutive major equity financing.

Processing plant (300ktpa) purchased through share issue. Expansion to 500ktpa after 2 years.

Indicative cash costs A\$600/oz (US\$400/oz) implies A\$10mpa net profit (P/E ~2x).

Our 6 month share price target is A\$0.25 based on NPV A\$0.40/share (assumes plant expansion, US\$850 gold).



Company Comment

Overview: A1 Minerals listed on the ASX in Dec 03. The company has focused on gold exploration and (now) near term (4Q09) production from its flagship Brightstar project in the Laverton gold district of WA.

Brightstar Project (Au; WA): ~500km². The Brightstar project comprises 7 satellite deposits in a belt of approximately 150km stretching from ~100km N of Laverton to ~50km SE. The Laverton goldbelt hosts previous major discoveries (Granny Smith, Wallaby, Sunrise Dam) with a 20moz gold endowment.

Brightstar Exploration: AAM's drilling programs since 2003 have delineated a total JORC compliant resource of 21.8mt @ 2.47g/t for 1.74moz. The bulk of the resource ounces (43%) are contained in the recently discovered 3.2km long Delta deposit which has been the focus of exploration drilling during CY08. In early February 2009 AAM announced an impressive JORC resource for Delta of 7.6mt @ 2.99g/t for 0.725moz. Four other satellites (Alpha, Beta, Epsilon and Zeta) comprise 48% of the total resource ounces, with Alpha and Beta indicating attractive higher grades of 3.7g/t and 4.5g/t respectively. The six major deposits are serviced by existing roads.

Brightstar Development: After conducting a feasibility study in 2007, AAM deferred moving into production in 2008 due to rising costs and the need for additional higher grade resources. AAM has recently upgraded its 2007 feasibility study, and with the higher grade Delta gold discovery and recent purchase of a 300ktpa CIP production plant, AAM is now totally production-focused and is re-locating this plant to the Delta tenements. Re-commissioning of the plant is expected in 3Q09 utilising existing cash reserves (current ~A\$3m) and possibly a 'top up' (A\$3-4m) capital raising which could be achieved with a share purchase plan ("SPP"). Initial high grade near surface ore (~4g/t) will be mined for the first two years to generate strong cash flow for on-going Brightstar resource development and future plant expansion to at least 500ktpa (~43kozpa) in 2011. Cash costs are expected to be ~A\$600/oz (US\$400/oz) with initial production at 33kozpa. This approach avoids the need for a BFS and debt funding (challenging and costly in the current environment), and is essentially a staged 'development production' approach. Although initial production is small relative to resource size, this approach achieves more rapid production with significantly lower development cost than a full scale debt-funded project.

Other Exploration projects: Oklo Uranium Ltd (ASX:OKU) has terminated its uranium farm-in at AAM's Narnoo tenements ~150km SE of Laverton. Recent drilling by OKU has indicated 9m and 14m thickness of lignite coal in 2 deep holes, which is potentially of economic interest to AAM.

Investment Comment: AAM's low capex fast track to initial 30kozpa development production by 4Q09 makes sense, with shareholders sharing some production risk but avoiding costly major debt and equity raisings. We expect significant further share price re-rating as the company moves towards producer status. Our preliminary modelling (US\$850/oz gold) gives a project NPV of A\$0.27/share for 300ktpa processing of only 2mt of ore, increasing to A\$0.40/share assuming likely plant expansion to 500ktpa and processing of 4mt of ore. Forecast FY10 net profit is ~A\$10m (8cps) giving a prospective PE ratio of ~2 at current share price. **Based on these parameters, we have a 6 month share price target of A\$0.25.**

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

Gold	Classification	Project Equity	Ore Mt	Au g/t	Cut Off g/t	Au t	Au koz	Au Eqty koz
Reserves								
Resources								
Brightstar (Original)*	Meas., Ind + Inferred	100%	14.20	2.2	1.0	31.2	1,010	1,010
Brightstar - Delta**	Meas., Ind + Inferred	100%	7.56	3.0	1/0.5	22.6	725.5	725.5
Total			21.76	2.47		53.8	1,736	1,736

* Original Brightstar resource from Alpha, Beta, Gamma, Epsilon, Eta and Zeta deposits.

** New Delta resource as per ASX release 5 February 2009.

Mineralised Material (est., non compliant with JORC)	0.0	0.0	0.0
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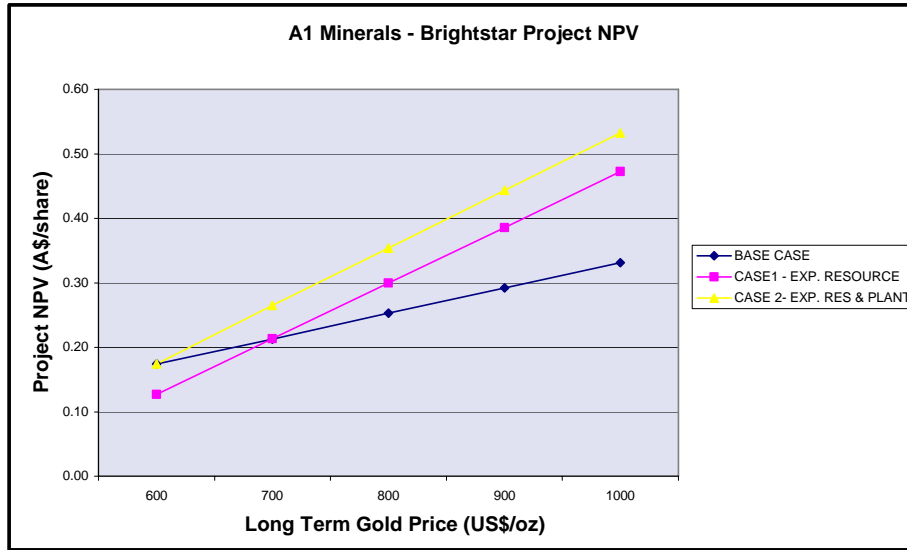
Directors

M Hunt (Non Exec Ch)
J Williams (MD)
R Louthean (Non Exec Dir)

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Key Projects

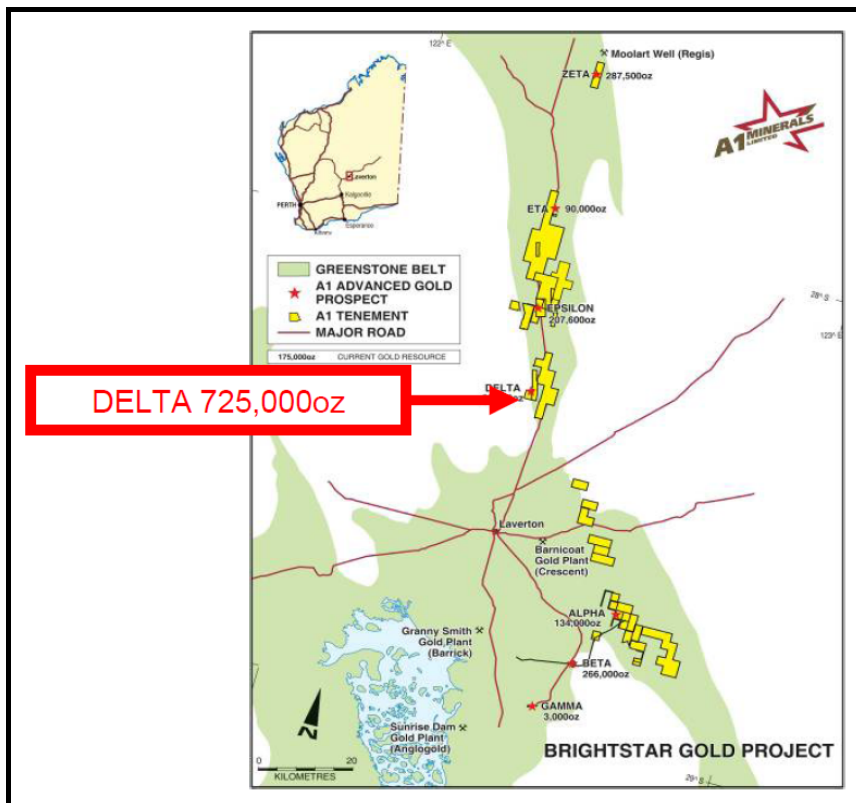
Project	Ownership/Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Brightstar	100%	Au	na		CIP	Adv Expl	Aus (WA)
Narnoo	100%	Ni, U, coal	na	Palaeocean.	na	Early Expl	Aus (WA)



SUMMARY OF NPV ASSUMPTIONS									
	Ore Treated	Ore Grade	Mine Life	Ore Treatment Rate		Capex		Production	
				Initial	After yr 2	Initial	Expansion	yr 1	yr 4
BASE CASE	2mt	3.4g/t	6.5 years	300ktpa	300ktpa	A\$6m	-	34 kozpa	34 kozpa
CASE 1	4mt	3.0g/t	12 years	300ktpa	300ktpa	A\$6m	-	34 kozpa	29 kozpa
CASE 2	4mt	3.0g/t	8.5 years	300ktpa	500ktpa	A\$6m	A\$10m	34 kozpa	43 kozpa

Note: NPV's are based on after-tax cash flow, discount rate 5% nominal, A 30% discount to NPV's has been applied due to pre BFS status.
Fully Paid Shares: Assumes 128.5 million on issue after a theoretical top-up equity capital raising of A\$3m in 2Q09.
Long term exchange rate: A\$/US\$=0.78 assumed.

The 1.7 moz resource Brightstar Gold Project (Laverton, WA) comprises seven satellite ore bodies over a strike of 150km, with 43% of the resource in the recent Delta discovery, where the recently purchased 300ktpa production plant will be centrally located.



Disclosure and Disclaimer

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