

21 October 2011

QUICK NOTE # 160

**RECOMMENDATION:**

**Speculative Buy**

**PRICE TARGET:**

**\$0.24**

ASX	SPI
Share price	\$0.135
Mkt cap. <sup>1</sup>	\$21.1m
Ordinary shares on issue <sup>1</sup>	156m
Options <sup>2</sup>	27.4m

<sup>1</sup> Undiluted Source: IRESS  
<sup>2</sup> Various dates & Strike prices

## Spitfire Resources Limited (SPI)

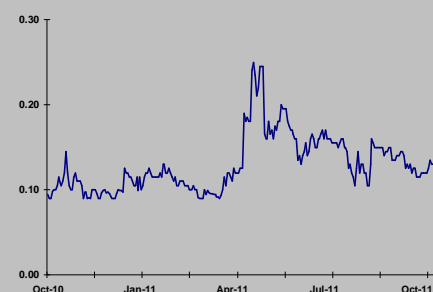
### Hat-trick

SPI are deploying a Gradient Array Induced Polarisation geophysical survey over the tenement areas beyond the Contact and Contact North discoveries. This technique has been used successfully by other manganese focused companies in the region and we believe it could enhance the chances of exploration success. Forthcoming maiden resource announcements, further anomalies generated by the GAIP survey and drill results from the testing of those anomalies are likely catalytic events. We retain our Speculative Buy recommendation and short-term price target of \$0.24.

#### Key Points:

- SPI's recently completed Gradient Array Induced Polarisation (GAIP) survey over the first part of its regional tenement package has already yielded 3 new exploration targets. The first large anomaly was announced to the market on 20 September 2011 and is located south-west of the Contact and Contact North discoveries. The first anomaly is of a similar size to that of the Contact North anomaly.
- A drilling campaign commenced on 9 October and consists of 14,000m of RC drilling with the provision to expand the program on a results driven basis. SPI has an exploration target of 10-15Mt at a grade range of 15% to 25% Mn oxide. We believe that should mineralisation be discovered at the new anomalies from this drilling campaign, SPI have an opportunity to increase its exploration target beyond that already stated to the market.
- We estimate a base-case, project valuation of \$36m assuming SPI delineate a 12.5Mt resource at Contact / Contact North and start having some success with their drilling programs resulting from the successful application of the GAIP geophysical survey. Any exploration target defined beyond Contact / Contact North, would be value accretive to our base case estimate.
- A project valuation of \$36m derived from peer multiples equates to a price of \$0.24 per share. We maintain our short term (3 month) Speculative Buy recommendation on SPI and a price target of \$0.24, given that the next 3 months will likely see the catalysts for a re-rating.

### 12 MONTH PERFORMANCE



Source: IRESS

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**GAIP survey pays early dividends**

SPI's recently completed Gradient Array Induced Polarisation (GAIP) survey over the first part of its regional tenement package has already yielded 3 new exploration targets. The first large anomaly was announced to the market on 20 September 2011 and is located south-west of the Contact and Contact North discoveries. The first anomaly is of a similar size to that of the Contact North anomaly. Two further anomalies have now been identified in the same 2.0km<sup>2</sup> area the first, in a planned 30.01km<sup>2</sup> area covering eight prospective targets in a three Phase program.

The GAIP survey parameters were set using the Contact and Contact North discoveries as calibration which give SPI some confidence in the results of the survey.

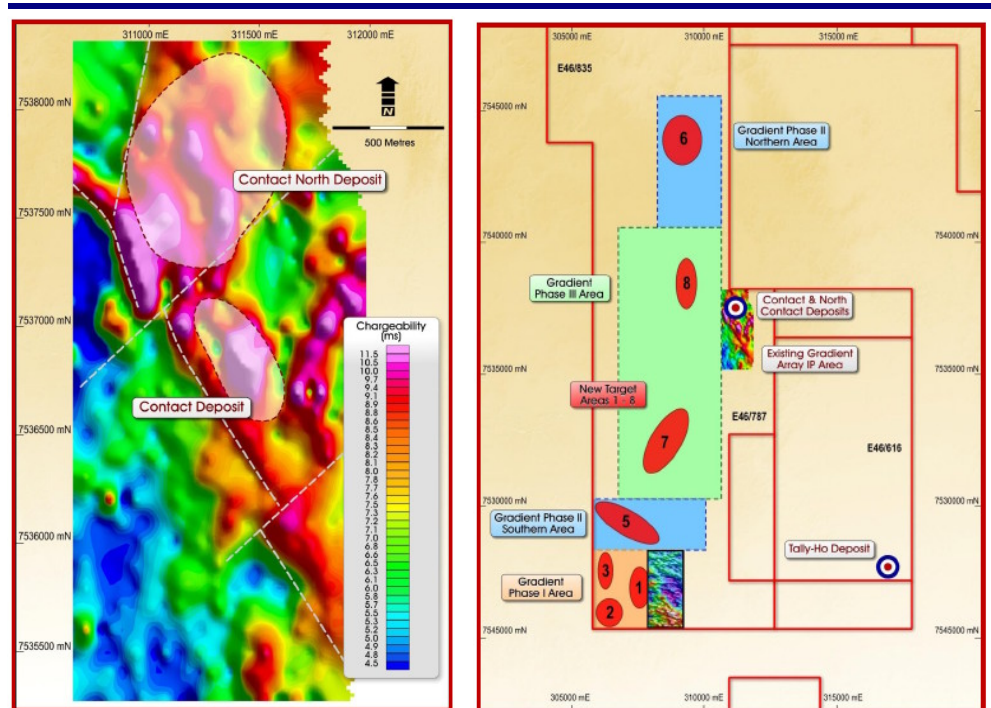


Fig 1. Original GAIP anomalies over Contact discovery and new GAIP targets Source: SPI

The same technique has been used by other manganese operators in the district in the same geological formation. Consolidated Minerals (ConsMin) has used GAIP in its exploration program at its world class Woodie Woodie operations 70km to the north of Contact.

SPI have an expectation that as the GAIP survey is expanded throughout Phase II and Phase III over the coming weeks, other anomalies will be identified that will require drill testing.

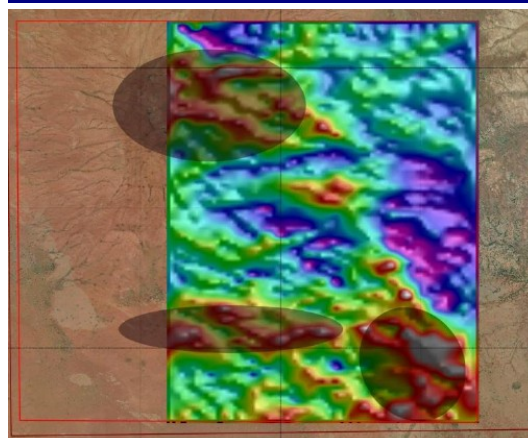


Fig 2. New GAIP anomalies from Phase I survey

Source: SPI

## New Drilling Program underway for new resource estimate

To that end, SPI have initiated a new campaign of RC drilling with the aim to :

- i) Undertake a resource definition program at Contact North, the larger and more prospective of the anomalies so far encountered in the Contact Area, and
- ii) Testing of the multiple new exploration targets identified from the GAIP survey.

The drilling campaign commenced on 9 October and consists of 14,000m of RC drilling with the provision to expand the program on a results driven basis.

SPI has an exploration target of 10-15Mt at a grade range of 15% to 25% Mn oxide. We believe that should mineralisation be discovered at the new anomalies from this drilling campaign, SPI have an opportunity to increase its exploration target beyond that already stated to the market.

The table below compares the mid point of the existing exploration target tonnage and grade with those Australian deposits in the region who are either in production or going through feasibility studies.

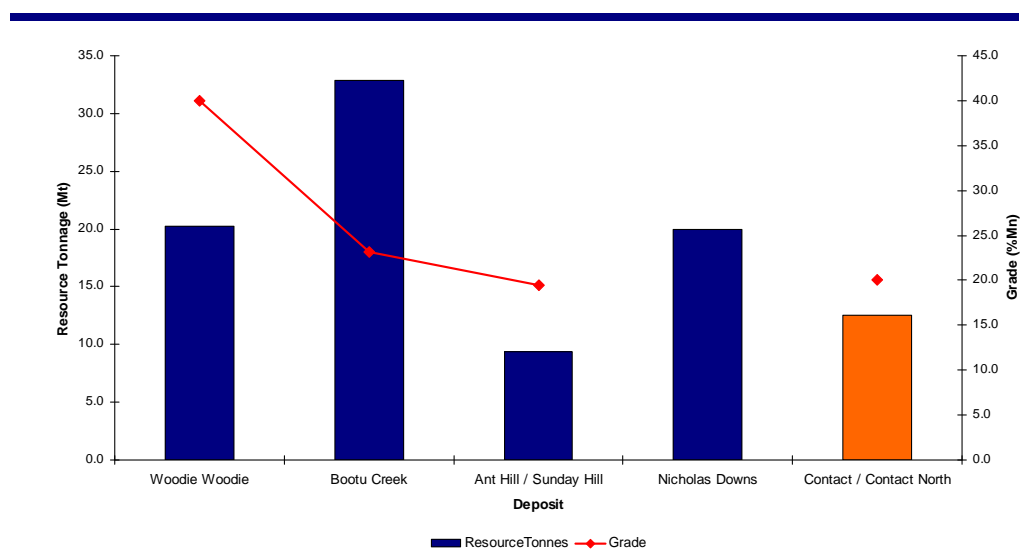


Fig 3. Existing Australian Mn operations Tonnes and Grade, with Exploration Target for SPI (Contact/Contact North) for comparison. *Source: Company reports, DJC*

Any addition, through successful discovery of the new anomalies would put the resulting tonnes and grade in a favourable position with respect to its peers.

### We reiterate our recommendation and price target

- We are of the view that the latest GAIP survey will enhance SPI's exploration success and other anomalies on existing and newly acquired tenements could provide additional mineralisation which would be accessed if an operation was established at Contact / Contact North.
- SPI have cash reserves of approximately \$6.0m, which will be enough to continue the exploration and infill drilling at Contact and Contact North to the provision of a JORC resource on both prospects.
- We believe that the forthcoming resource estimates for Contact and Contact North, scheduled for November and December respectively, will be seen positively and believe they will be with catalytic events which will result in a re-rating of the stock.

- We estimate a base-case, project valuation of \$36m assuming SPI delineate a 12.5Mt resource at Contact / Contact North and start having some success with their drilling programs resulting from the successful application of the GAIP geophysical survey. Any exploration target defined beyond Contact / Contact North, would be value accretive to our base case estimate.
- A project valuation of \$36m derived from peers multiples equates to a price of \$0.24 per share. We maintain our short term (3 month) Speculative Buy recommendation on SPI and a price target of \$0.24, given that the next 3 months will likely see the catalysts for a re-rating.

This Research report, accurately expresses the personal view of the Author. All the information utilised in this report is accurate and current at the date stated on this report.

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The Author of this report made contact with **Spitfire Resources Ltd** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released **Spitfire Resources Ltd**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

#### Recommendation Definitions

SPECULATIVE BUY – 10% out-performance, but high risk  
ACCUMULATE – 10% or more out-performance, buy on share price weakness  
BUY – 10% or more outperformance  
HOLD – 10% underperformance to 10% over performance  
SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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