

# AON.AU

7 July 2009  
Iron Ore  
Australia (WA,SA)  
Mid Exploration  
Exchanges: ASX:AON

## Apollo Minerals Limited

A\$ 0.23

**AON is targeting a major tonnage of magnetite iron at its flagship Mt Oscar Project in the Pilbara (WA) – drilling July '09, resource expected 2010, possible production 2013. AON is negotiating with potential strategic partners in China.**

### Capital Profile

Share price (A\$)	0.23
52 week range (A\$/share)	0.13 to 0.40
Number of shares (m)	103.2
Number of options (m)	79.0
Loyalty options (m) <sup>#</sup>	47
Number of securities (fully diluted, m)	229.3
Market capitalisation (undiluted, A\$m)	23.7
Debt (A\$m) - Jun 09F	0.0
Enterprise value (A\$m)	21.0
Major shareholders: Tiger Resources PTE (29.4%), Hugo Natural Enterprises Ltd (9.4%), Keleve Corporate Services (7.2%)	
Avg monthly volume (m)	3
Cash (A\$m) - Jun 09F	2.7
Price/Cash (x)	8.8
Price/Book (x)	2.0
Listed company options:	AONO

<sup>#</sup> Loyalty options (31 July 2010, A\$0.40), attached to 31 July 2009 options

### Investment Points

Apollo is 100% focused on iron ore exploration and development.

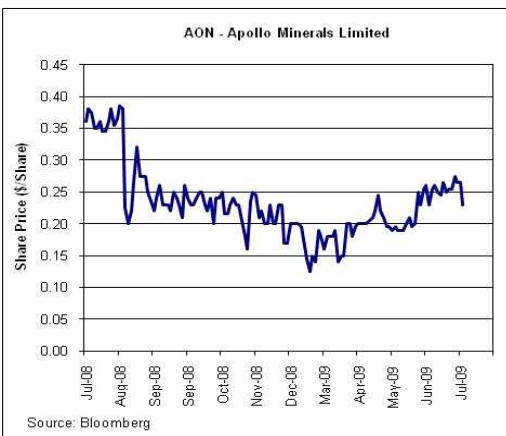
**Mt Oscar (WA): magnetite project close to Cape Lambert (1.6bt ore) and Karratha (40km distant) in area well serviced by infrastructure (road, rail, power, port).**

**Mt Oscar: prospective area 5km x 2km, surface grades 35%-55.8% Fe, exploration target 800mt (+/- 25%) from 0m-250m depth (~40% on AON tenement).**

**Initial Mt Oscar resource expected 2010 after drilling from July 2009, feasibility study 2011, production 2013/14.**

**One of few WA magnetite projects not under Chinese control. Recent transactions indicate US\$0.66-US\$2.20/t Fe, with higher prices for large or advanced projects.**

**Negotiating with potential Chinese investors for JV and potential offtake agreement at Mt Oscar.**



### Production and Financial Forecasts

Year End: June	Mar-09a	Jun-09F	2008a	2009F	2010F
Exploration and evaluation (A\$m)	0.59	0.49	0.75	1.37	1.80
Corporate (A\$m)	0.36	0.23	1	1.39	0.90
Exploration/(Expl.+ Corporate) (%)	62	69	0	50	67
Funding duration at current burn (years)			0	1.0	0.1
Shares on issue (pr end) (m shares)	103.2	103.2	82.2	103.2	103.2
Drilling - RAB (m)	0	0	3,500	3,500	0
Drilling - Other/Diamond (m)	2,000	2,000	3,200	9,000	2,000
Land holding ('000 ha)	18	18	18	18	18
Tenement costs (\$/k per year)	-	-	-	-	-
Capital raisings (A\$m)	0.0	0.0	10.5	0.2	0.0
Funding from JV partners (A\$m)	0	0	0	0	0.0
Cash (A\$m)	3.3	2.7	7.5	2.7	0.2
Cash backing (A\$/share)	3.2	2.6	9.1	2.6	0.2
Net asset backing (A\$/share)	11.3	11.2	8.1	11.2	10.6

\* Iron ore prospective properties only. Quarters refer to calendar year.

### Company Comment

**Overview:** Apollo listed on the ASX Oct. '07. It is focused on developing magnetite iron ore projects in the Pilbara region (WA) and the Gawler Craton (SA).

**Mt. Oscar Project:** (WA, Iron Ore, 100% since Jan '09) Located 20km south of the 1.56bt @ 31.2% Fe Cape Lambert magnetite project (MMC, Evraz) and 40km SE of Karratha. The project is mid-stage and targets magnetite banded iron formations (BIF). It straddles tenements of both AON and Fox Resources (ASX:FXR). BIF outcrop covers an area of approx 5km x 2km. The magnetite units are near-surface, up to 100m thick, vertical and open at depth. Surface grades range from 35% to 55.8%. Independent modelling of regional magnetic anomalies (TMI) has provided a global exploration target for Mt Oscar (i.e. AON and FXR tenements) of **~800mt (+/-25%) iron ore from 0-250m depth**. In terms of map area, ~40% of the anomaly is on AON's tenement (E47/1379), which includes the areas of highest-order anomalism. The modelled depth to the top of the BIF varies from surface to ~100m, implying low strip ratios for open-pit mining. There is potential for haematite/goethite overlying the magnetite sequence at depth. AON plans to drill (1,000m, 5 holes) in 3Q09 over the most intense anomaly; a 500m-deep hole is planned. Notably, FXR has a JORC resource of 72.4mt @ 34% Fe (Mar '09) and a resource target, for its own tenement (E47/1217), of 800-1,200mt iron ore. Mt Oscar is close to ports (e.g. 30km to Cape Lambert), sealed roads (15km), power (15km), gas pipeline (20km) and water supply (15km). RIO's Robe River Railway adjoins the project area and a ~10km branch line could be built to Mt Oscar. More advanced magnetite projects in the district have forecast cash costs of US\$37-42/t. **Development schedule:** drilling Jul '09 (1,000m); gravity survey and metallurgical studies 2H09 (ProMet); JORC resource 2010; feasibility study, resource upgrade 2011; construction and production 2013/14.

**Commonwealth Hill Iron ore:** (SA, 100%): The project covers 1,410km<sup>2</sup> in the Gawler Craton. JV partner Western Plains Resources (ASX:WPG), can earn up to 75% of Fe (for A\$1.5m). The **Sequoia** prospect (Commonwealth Hill East) is 5km from the Adelaide - Darwin railway. PIRSA found magnetite BIF averaging 28.4% Fe and defined 22mt mineralisation (non JORC compliant). Metallurgy showed ore to be coarse grained and readily beneficiated to ~70% Fe. Other targets include **Sequoia East, Ibis** (5km-long magnetic anomaly), **Wirrida** (7-8km strike) and **St Andrews** (28m intercept @ 53.4% Fe).

**Investment Comment:** AON's Mt Oscar Project has the fundamental requirements for a successful iron ore project: potential for large tonnages, well-understood metallurgy, good infrastructure and proximity to customers. Mt Oscar is one of the few remaining Pilbara magnetite deposits with no investment by Chinese or foreign interests. Four relevant equity investments or sales (WA magnetite, since 2006) occurred at US\$0.66/t Fe (Cape Lambert, 1.6bt, MMC) to US\$2.20/t Fe (Karara, 1.9bt, AnSteel), with higher values placed on larger and more advanced projects. The two sales (Cape Lambert and Sino Iron/Balmoral) occurred during advanced exploration. This shows the potential to add value by defining an initial Mt Oscar resource (planned for 2010) and moving towards a Feasibility Study (2011). Based on the lower end of this range of transactions, AON's part of the deposit could be worth A\$70m (i.e. ~40% of 800mt of ore grading 35% Fe, at US\$0.5/t contained Fe). This compares favourably to AON's current EV of ~A\$21.0m. The company is discussing JV development of Mt Oscar, possibly including an offtake agreement. A recent roadshow to China resulted in commitments by 11 companies to progress negotiations to MOU status.

### Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)							
Iron (Fe)	Classification	Project Equity	Ore mt	Fe %	Cut Off %	Fe mt	Fe Equity mt
<b>Reserves</b>						0.0	0.0
<b>Resources</b>						0.0	0.0
<b>Mineralised Material (est., non compliant with JORC)</b>							
Commonwealth Hill (Sequoia)	100%		22.0	28.4		6.2	6.2

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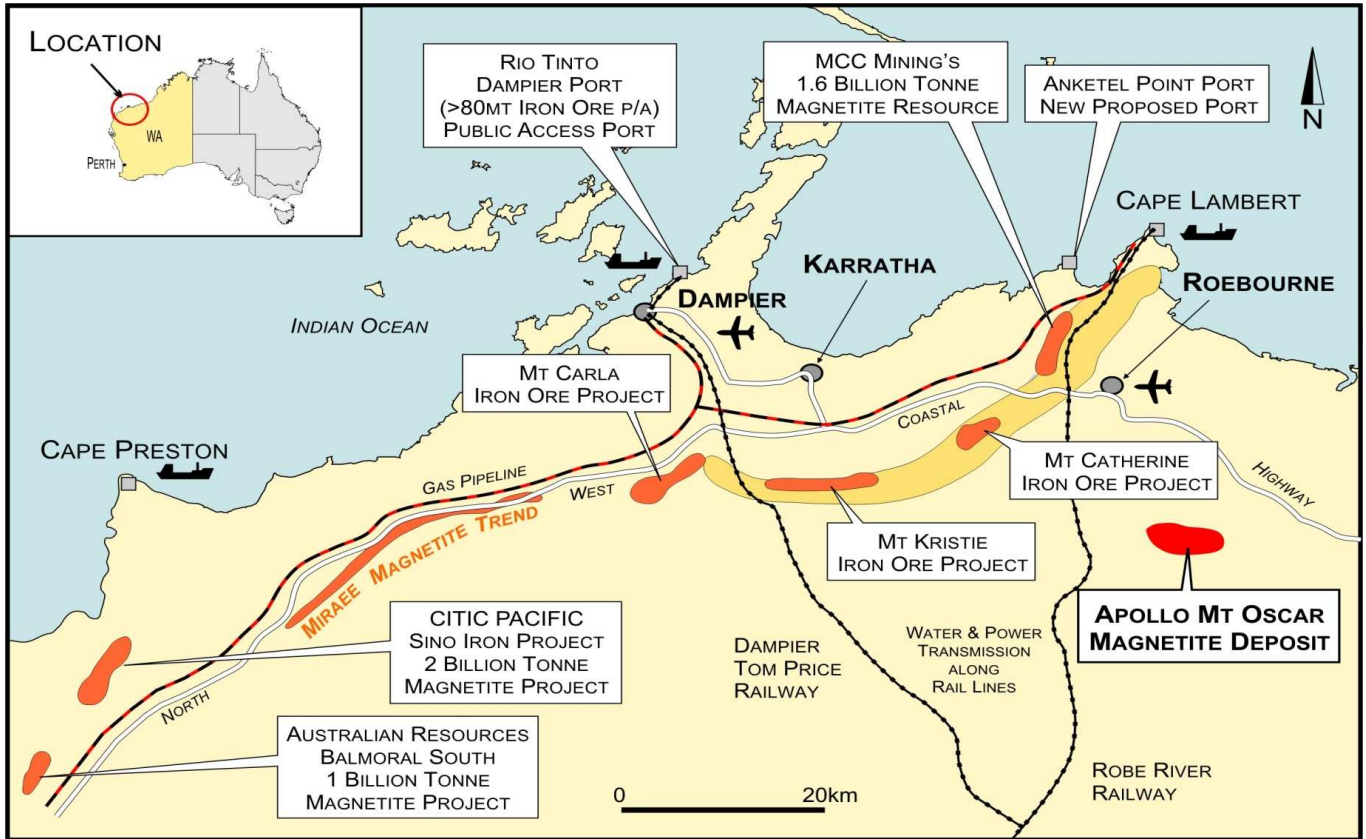
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### Key Projects

Project	Ownership/Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Mt Oscar	100%	Fe	na	BIF (Fe)	Convntl	Mid Expl	Aus (WA)
Commonwealth Hill	100%	Fe	na	BIF (Fe)	Convntl	Mid Expl	Aus (SA)

**Mt Oscar Iron Ore Project (WA):** The deposit is 30km from deep water port at Cape Lambert and adjoins a heavy rail line. Surface grades range from 35% to 55.8% Fe (magnetite). There is a combined AON exploration target (on Apollo and Fox Resources' tenements), of 800mt ore (+/-25%), to 250m depth.



**Chinese investment in WA magnetite: Mt Oscar compares well, in terms of tonnage, stage and infrastructure, to projects that have attracted major financial commitments from steel operators.**

Project	Units	Karara	Sino Iron /Balmoral	Balmoral South (Susan Palmer)	Cape Lambert	Mt Oscar
<b>Company</b>		Gindalbie Metals Ltd	Mineralogy	Australasian Resources Ltd	Cape Lambert Iron Ore Ltd	Apollo Minerals, Fox Resources
<b>Ticker</b>		ASX:GBG	na	ASX:ARH	ASX:CFE	ASX:AON, ASX:FXR
<b>Chinese partner/buyer</b>		AnSteel	Citic Pacific	Shougang	MCC	na
<b>Project final investment or sale value<sup>1</sup> US\$</b>		<b>US\$1440</b>	<b>US\$3685</b>	<b>US\$78.4</b>	<b>US\$320</b>	na
<b>Contained in-ground Fe (magnetite) mt</b>		656	1860 <sup>2</sup>	504	487	210-390
<b>Transaction value, unit of Fe US\$/t</b>		2.20	1.98	na	0.66	na
<b>Magnetite resource/target mt</b>		1853	2000 (rights to 6000)	1605 (1108)	1560	800 +/- 25%
<b>Fe grade %</b>		35.4	31	31.4	31.2	35-39
<b>Infrastructure/location (all WA)</b>		225km E Geraldton, 90km to rail	25km s lurry pipeline to Cape Preston, 450MW power station	80km SW of Karratha	5km from Cape Lambert port	10km-40km to port, rail and Karratha
<b>Date of initial Chinese investment</b>		Apr '06	Mar '06	Mar '07	Mar '08	na
<b>Project stage at initial investment</b>		Pre-Definitive Feasibility Study	Advanced Exploration	Pre-Bankable Feasibility Study	Advanced Exploration	na
<b>Main transaction type</b>		Equity/debt funding	Sale	Equity funding	Sale	na
<b>Main transaction date</b>		Nov '08	Mar '06	Mar '07	Feb '08	na
<b>Stage at main transaction date</b>		Pre-construction	Advanced Exploration	Pre-BFS	Advanced Exploration	na
<b>Current Stage</b>		Construction	Construction	Bankable Feasibility Study	na	Mid exploration
<b>Mkt cap at time of initial investment A\$</b>		\$202.6m @ 52.5c (Mar '06)	na	\$44.1m @ 11.5c (Dec '06)	\$185.0 @ 36.5c (Dec '07)	na
<b>Current mkt cap (undiluted) A\$</b>		\$380.4m @ 74c	na	\$238.9m @ 54c	\$178.1m @ 34c	\$23.7m @ 23c
<b>Notes</b>		Equity A\$534; debt US\$975m; 50:50 JV	Rights to mine 2bt, plus 4bt within 10 years	Shougang earning 50% by paying 100% of ~A\$2.7b capex		<b>Potential in-ground value at US\$0.5/t = US\$105m-US\$195m</b>

1: Sale value, or initial investment+ estimated capex. 2: Assumes 6000mt @ 31% Fe. All currency conversions at US/AU = 0.80

## Disclosure and Disclaimer

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