



52-wk Range: ----

Market Cap (M): --

12 month target --

Mining

Progress in Greenland

Summary

Angus and Ross is Greenland focused company, aiming to reopen the Black Angel lead/zinc mine. It has also signed a non legally-binding agreement to acquire the Nalunaq Gold mine in Greenland.

Event

Angus & Ross have begun preparation work to restart gold mining operations at Nalunaq in Greenland, following the announcement that they had purchased the mine for a total consideration of \$1M on the 1st of July.

Comment

Angus & Ross have completed its submission to the Bureau of Minerals and Petroleum in Greenland (BMP) for permission to restart the Nalunaq gold mine. The joint Committee will meet for the first time in mid August and at three monthly intervals thereafter. Due to the fact that Angus & Ross intend to change the mining method and process the ore on site, new mining licences are required. It is anticipated that the new mining licence will be granted fairly quickly, but the licence to allow the use of cyanide may take longer. For that reason we have assumed that production will commence by gravity methods only. We have assumed that the licence to use cyanide will not be granted until mid February and we therefore anticipate gold production early in the June quarter of 2010.

Key Metrics

Recommendation

This is the first time the Nalunaq gold mine has been included in our valuation. Valued using the Fox-Davies gold price forecasts, published in the Daily Monitor on the 6 July, we value the mine at £16.8M using a 10% discount rate. This raises the valuation of Angus and Ross to £31.3M. The Buy recommendation is maintained but the target price is increased to £0.11/share.

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The revised plan

The initial plan called for the mine to commence somewhat earlier than is now anticipated. This plan was thrown into disarray by the calling of the snap election in Greenland. The result of this was that Angus and Ross were unable to get their plans approved as fast as originally thought. It was also proposed to commence the mine using a gravity circuit only. This would have given an estimated recovery of around 50%. The balance of the gold would have been recovered later when the stockpiled tailings from the gravity plant were processed through the carbon in pulp plant.

We view this as a positive step, since despite the high grade of the ore; the 50% recovery would only have placed the mine in a break-even position.

There are several important differences between this plan and the plan the previous owners operated under. Firstly, Angus and Ross plan to screen the ore after crushing and only mill the fine portion. Since the host rock is hard granite and the gold occurs in quartz, which is quite friable, 95% of the gold is recovered into about 50% of the feed to the crushing circuit. Secondly, the original owners transported the ore to Newfoundland for processing, whereas Angus and Ross will be processing the ore on site through to dore. Further Angus and Ross will be using local labour which will be much cheaper than using Canadian contract miners.

The plan is to install a grinding plant and a Falcon gravity concentrator, underground and commence feeding ore into the mill as soon as possible. Detailed engineering to support this installation is well advanced, including mine ventilation, water management, underground storage of tailings, the EIS etc. Due to being installed underground on hard rock, the only part of the concentrator that will require foundations is the grinding circuit. This lowers the capex significantly. We currently envisage cyanide use commencing in early 2010 at which point an Inco detoxification plant will be installed to ensure that any liquids leaving the operation do not contain cyanide.

To achieve this, 6 miners and a mine manager have been recruited to commence work as soon as approvals are received from the Government. Perhaps more importantly, Angus and Ross have recruited Kurt Christianson as the geologist. He is ex Crew and worked at the Nalunaq gold mine. Prior to that he worked for Cominco at the Black Angel mine.

We have conservatively modelled the Nalunaq mine. Despite high head grades being forecast, we have only assumed recoveries of 90% whereas we would expect up to 95%. There is further potential to use optical sorting to further upgrade the ore before it enters the milling circuit. Due to the quartz being white and the granite being black, a very good separation should be achieved if this option is chosen. We have not included any sales of crushed granite in the model. The oversize from the screening plant could be sold as a sized product. Not only would this generate a small cashflow, more importantly it would avoid having a large waste pile on site that Angus and Ross would have to rehabilitate at the end of the mine life.

Research Disclosures

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Research disclosure as of 03 November 2009

Company Name	Disclosure
Angus & Ross plc (AGU)	1, 2, 7, 8, 9

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BPC	-	-	9/04/08	36p	-
Cadogan Petroleum	-	-	16/05/08		-
Enegi Oil	ENEG.LN	-	28/04/08	xxxx	186p
JKX	JKX.LN	HOLD	8/04/08	420p	502p
Range Resources	RRL.LN	BUY	28/04/08	50p	14.5p
Regal Petroleum	RPT.LN	BUY	8/04/08	200p	158p

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