RESEARCH

QUICK NOTE

13th January, 2010

QUICK NOTE # 106

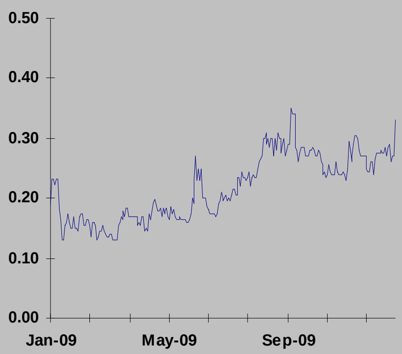
RECOMMENDATION:
Speculative BUY

PRICE TARGET:
$0.63 per share

ASX	CAZ
Share price	$0.33
Mkt cap.[1]	$25.6m
Ordinary shares on issue[1]	94.8m
Options[2]	12.9m
Un-listed Options	9.1m

1 Undiluted *Source: IRESS*
2 Llisted at 20c(Feb 2011)

12 MONTH PERFORMANCE



Source: IRESS

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Cazaly Resources Ltd (CAZ)

Impressive PFS – DFS underway

CAZ have released details of their feasibility Study for the Parker Range Iron Ore Project at Marvel Loch, near Southern Cross, in southern WA. The 100% owned project has been in the CAZ stable of projects for a while and whilst CAZ may have hit the headlines periodically for their attempts to wrestle larger iron ore deposits from RIO, and most recently from the Hancock Prospecting syndicate at Rhodes Ridge, it seems the junior iron ore company has diligently put together a very good looking PFS. On the basis of the numbers presented in the PFS, it is evident that CAZ is undervalued and we place a Speculative BUY recommendation on the stock which has been forgotten about in the currently very hot iron market.

Key Points:

- The expected $NPV_{8\%}$ of the Parker Range project has come in at a very attractive $216m representing an pre-tax IRR of 78% based on independent price forecasts, not on the current very high spot prices.

- CAZ estimate upfront CAPEX costs of around $78m on a contractor operated basis plus a deferred CAPEX payment of A$26m due in Year 3. This expenditure would allow for an operation producing 4Mtpa of ultra-low phosphorous content, DSO haematite ore with a projected operating cost of A$45/t of shipped product over an initial mine life of 5.5 years. FOOS (First Ore On Ship) is scheduled for 3Q2011 and payback for this option is estimated at 0.9 years based on long term iron ore fines prices of US 82c/dmtu, which we view as quite conservative. We estimate a fines price at this years benchmark negotiations of around US 116c/dmtu - a premium of 41% on the long term price assumed by CAZ.

- A key to the success of this project lies in the infrastructure solution. The iron business is all about logistics, as has been ably demonstrated lately with the machinations occurring in industry and Government circles concerning third party rail access. The CAZ operation is at the other end of the State but has access to water, grid power within 14kms, a rail head 20kms away, an existing road through the project and, most importantly, existing port operating facility at Kwinana, with alternative facilities at Esperance and others at Kwinana and the Southern Mid-West Port, north of Perth.

- The infrastructure solution means that CAZ can be masters of their own destiny and are not beholden to the outcome of third party access talks as some players in the Pilbara are, or having to outlay large CAPEX or give away half the project in order to do a deal to get access to port and rail handling facilities. This is a major advantage to a small company and means that even modest resources can be commercialised in a reasonable time frame, with more certainty on the outcome.

- The metallurgy suggests that a lump product would not withstand the ore handling and would disaggregate. CAZ have therefore priced everything on producing a fines product only. Mine schedules generated total ore production of 22.0Mt at 56.6% Fe (62.2% CaFe) once beneficiation was undertaken from Year 3 onwards (hence the deferred CAPEX).

- CAZ currently have 94.8m FPO shares on issue and 12.98m listed options, exercisable at 20c on or before 28 February, 2011. CAZ has no debt and cash of approximately $3.5m a placement to raise $2.24m via the issue of 4m shares at $0.28. The current market capitalisation of $28.9m (at 30.5cps) represents an EV / resource tonne of just $0.63 – very much at the lower end of the range for junior iron ore companies.

Figure 1. Parker Range (Mt Caudon) Project Location Map Source: CAZ

	Total								
	Tonnes Mt	Fe %	CaFe %	Al_2O_3 %	P %	SiO_2 %	LOI %	Mn %	S %
Target Product	22.0	56.6	62.2	2.47	0.02	6.1	9.0	1.7	0.06

OPTION	Capex (A$m)	Sales (mt)	Cost (A$/t)	NPV_8 (A$m)	IRR (%)	Payback (Years)
Case – 4.0mtpa Contract Develop	78 (+26*)	22.0	45**	216	78	0.9
Case – 4.0mtpa Owner Process	148 (+26*)	22.0	43**	178	42	1.7

* Additional capital requirement for year 3. Capex accuracy at -15%+30%, Opex accuracy ±25%.

**Costs exclude state royalties.

Table 1 and 2. Target Product and Contractor vs Owner Operator Options – Financials Source: CAZ

- CAZ are actively looking for Joint Venture partners to assist in funding of the project are the results of the PFS should be able to facilitate this outcome.

- Upside potential remains, as most of the BIF units that host the DSO mineralisation have not yet been adequately drill tested. Several additional targets have been identified with CAZ stating an exploration target in excess of 100Mt, providing good potential to discover additional resources to bring into the mine plan and extend mine life.

- In our view, CAZ is under-valued relative to its peers and has been a forgotten iron ore junior, out of the spectre of the race for resources in the Pilbara, apart from its attempts to wrestle large deposits from the major companies, which in retrospect has been a distraction for the company. We believe the real value for CAZ, ironically, lies at the other end of the State near Southern Cross. It is this location that allows CAZ to have total control over the development of their asset, unhindered by events further north.

- **On a peer comparison basis alone, CAZ should be trading at an indicative $0.63 per share – a 96% premium to the current price. This does not take into account any of the other projects that CAZ has in its portfolio. Even though an NPV of $216m implies a much higher value, we are as yet unsure as to what role a JV partner will play and how any potential deal would be structured. However, we are confident in placing a price target of $0.63 per share in the interim and place a Speculative BUY recommendation on CAZ.**

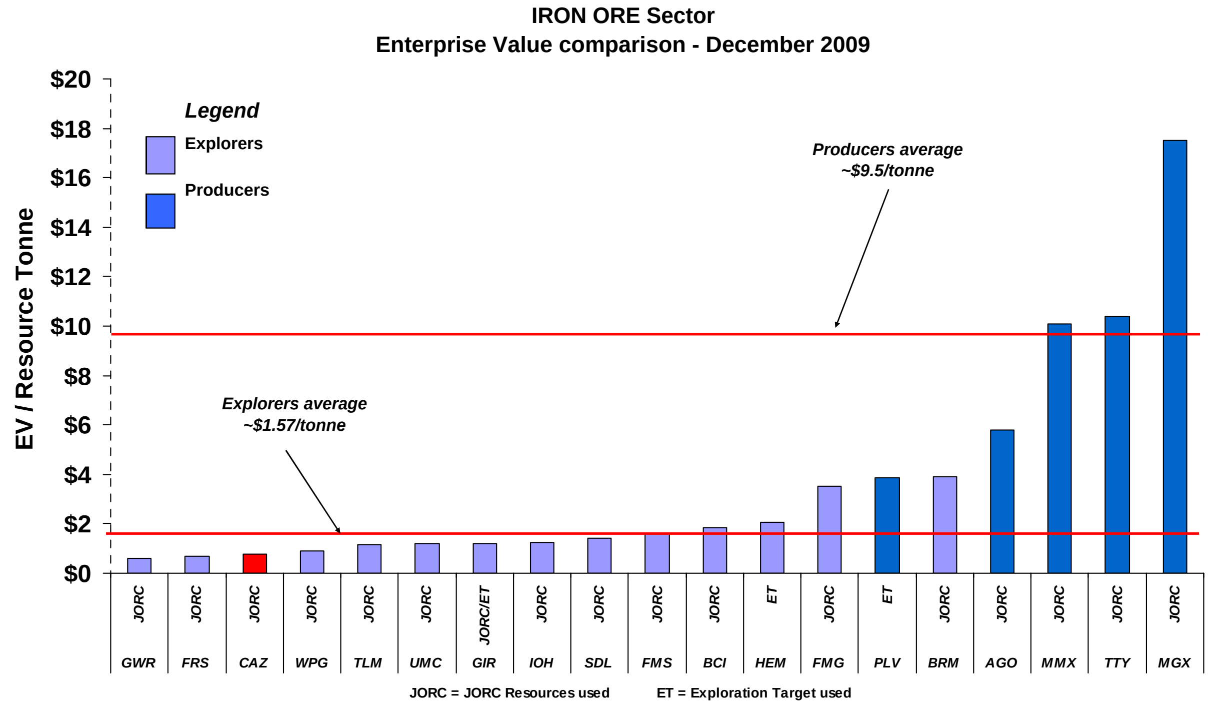

Figure 2. Iron Ore Company Comparison data – December 2009 resource data *Source: DJC*

Disclosure Disclaimer **RCAN0853**

This Research report, accurately expresses the personal view of the Author.

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The Author of this report made contact with the **Cazaly 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 **Cazaly 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
ACCUMUATE – 10% or more out-performance, buy on share price weakness
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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