

High rewards but high risks for iron ore venture



Float Watch

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Name: Eastern Iron Ltd
Recommendation: None
Proposed ASX code: EFE
Capital to be raised: \$5 million
Shares on offer: 20 million
Listing Price: 20c per share
Proposed listing date: April 30

CONCERNS that turmoil in credit markets will have an effect on commodity demand are yet to show themselves in the prices of most commodities.

Instead, commodity markets for raw materials have shown remarkable resilience this year as the developing world's appetite for raw materials has continued unabated.

Eastern Iron is looking to capitalise on these high prices for iron ore through the exploration of a high-risk, high-reward prospect in Cobar, central NSW. The size of the resource is yet to be determined, and project economics unproven for the company's tenements. But all is not lost.

Simon Guzowski, senior equities analyst at wise-owl.com says: "Tenements are in close proximity to major roads, and rail lines that could connect the project to Newcastle or Port Kembla."

These rail lines are already being used to transport zinc, lead and copper concentrates for export through the Port of Newcastle. Transport links also mean that several operating and planned steel mills are within economic distance from tenements. If the project is shown to be economic, this will make it easier to establish operations.

The main risks and upside potential of this IPO come from the nature of the deposit and exploration upside. "The material in Cobar is low grade, yet is exposed to the surface and potentially large tonnage. Early aerial magnetic surveys of tenements have indicated paleochannels, some of which are 10km

long, 400m wide and 10m deep," Guzowski says.

On tenements held by the company, there is an estimated 1100sq km of paleochannels within 3800sq km of tenements. Exploration on the company's sites is at an early stage and a resource yet to be defined.

"Early drilling, however, has delivered grades in the order of 15 per cent iron, which is quite low," Guzowski says.

"However, with the help of some simple magnetic beneficiation, bench top concentrates of 50 per cent iron have been produced. This is not far from the minimum requirement of marketable ore, which requires grades of 55-60 per cent iron.

"Not only will EFE need to be focused on proving up a resource, it will also be looking to prove up a low-cost beneficiation process to get the product up to marketable concentrations."

The projects on offer from EFE are high-risk. Yet when you consider their proximity to transport, and the potential size of operations should an economic deposit be proven, the potential upside is there.

