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Copper Strike

Hold CSE

Cheap as chips

Fat Mining 112, 13 Feb, 2008

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SYMBOL DEFINITIONS		
 BASE METALS	 HIGH RISK	 MARKET CAP \$22 million
CLICK FOR ALL SYMBOL DEFINITIONS		

Copper Strike continues to remain one of our best long-term junior copper exposures, with a high level of ongoing exploration activity aimed at bringing its Einasleigh copper project in Queensland into production as soon as possible. Despite all of the project development work undertaken last year, Copper Strike's market value has fallen to just \$22 million, of which nearly half is cash. We will therefore be monitoring the company for a buying opportunity in the near future.

"Copper Strike remains a very cheap, emerging copper play."

Fat Prophets initially recommended buying CSE at 16.5 cents in December 2005 (Fat Mining 6). Our last review of this stock was during May (Fat Mining 76).



From a charting perspective, volatility has been a major feature on the price chart over the past 12 months. Since rallying to a record high of 74.7 cents in June, a deep correction has seen prices return to levels last seen in March 2007.

As evident on the daily chart, the stock is currently testing support at 23 cents. However, given the recent lack

of investor support for this stock, we cannot rule out a deeper correction in the weeks ahead. Such a move would expose longer-term support between 15 and 13 cents.

An update on Copper Strike's exploration and appraisal activity is long overdue, particularly given significant amount of work that is currently going on and the very positive advances the company has made as it progresses with its Feasibility Study.

The negative share price movement is also curious, as the company has made great progress over the past few months, yet its market value has been slashed over the same period. This is a clear case of nervous small-cap investors heading for the exit, despite the sound fundamentals of their company.

This will present a tremendous buying opportunity once the share price settles, in our view.

To begin with, let's remind Members about the company's primary focus, which is development of its Einasleigh project. Copper Strike has 100% ownership of Einasleigh, which lies 70km southeast of Georgetown and 300km northwest of Townsville in northern Queensland.

For the past two years, Copper Strike has been assessing the commerciality of establishing a base metals development at Einasleigh, initially comprising treatment of copper ore from two primary sources - Einasleigh and Kaiser Bill. Einasleigh hosts an old underground copper mine of reasonable grade, while Kaiser Bill hosts a relatively low-grade but open-pittable copper deposit.

Given the company's exploration success over the past 12 months, we believe Copper Strike is now in a position to draw ore from not just two, but five, separate deposits within its regional Einasleigh project.

The regional map below highlights these resource development opportunities.

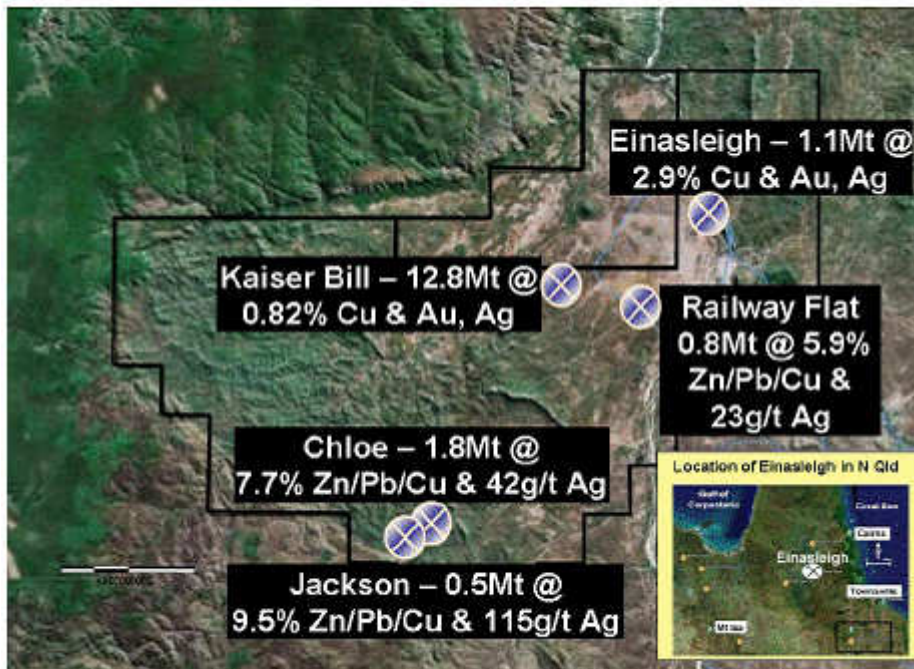


Figure 1: Location of resources within the Einasleigh Project of North Qld

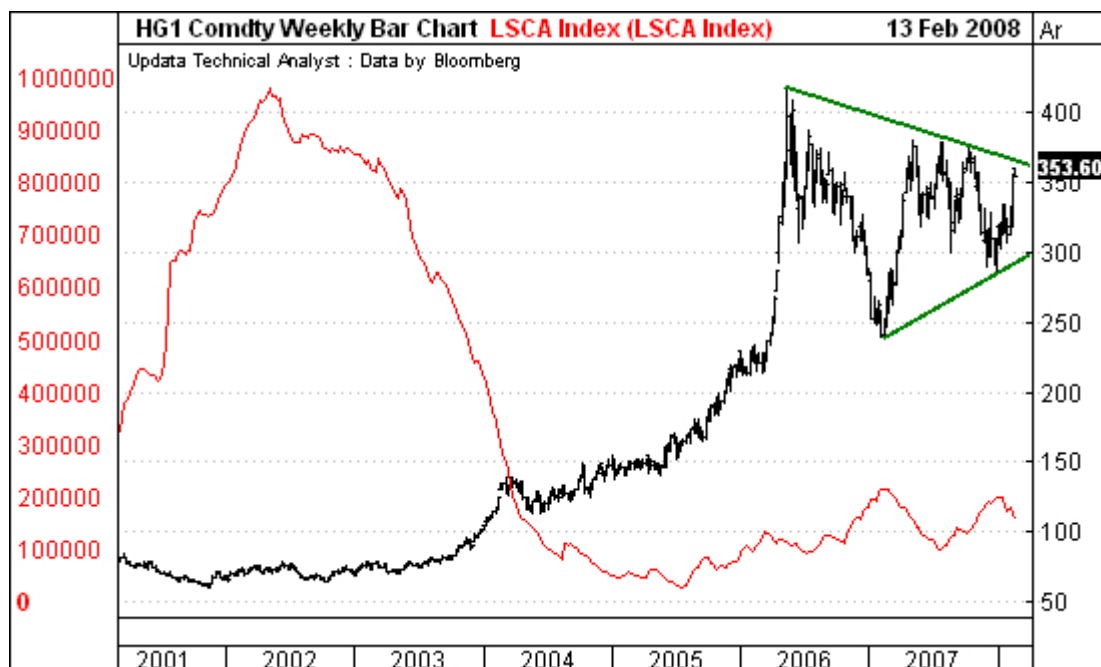
The company's Feasibility Study, which is due for completion by the middle of 2008, therefore has five ore resources to take into account. The company's urgent priorities are the major drill programme to upgrade the resources, along with metallurgical test work on the lead-zinc-silver deposits.

Of the five key areas, probably the most work has recently been focused on Railway Flat. Independent consulting geologists, Hellman & Schofield, recently completed an initial resource estimate for the area based

on the drilling programme conducted late in 2007, as well as earlier work by previous owners.

The initial Inferred Resource comprises 802,000 tonnes @ 0.2% copper, 1.4% lead, 4.3% zinc and 23g/t silver. This deposit is potentially mineable by open-pit and lies just a short trucking distance from the proposed mill site at Kaiser Bill. This should have a positive impact on minimising start-up and ongoing operating costs.

The other important aspect of Railway flat is that the deposit appears to improve significantly with respect to both tonnage and grade at depth and along strike. The best drilling results so far have come from the deepest hole, RF045, which intersected mineralisation comprising firstly: 6 metres @ 7.2% zinc, 2.6% lead, 0.3% copper and 52g/t silver from 128 metres depth; and then 11 metres @ 4.0% zinc, 1.1% lead, 0.1% copper and 18g/t silver from 140 metres depth.



Not surprisingly, Copper Strike plans to undertake further drilling to assess the potential for a large deposit at depth.

The other major area of current exploration interest is at Jackson, which forms the first component of a broad drilling programme aimed at upgrading the existing Inferred Resources bases at three deposits - Jackson, Chloe, and Railway Flat - to Indicated Resource status.

We understand the Jackson drilling programme is now more than 50% complete. The deposit comprises a continuous, moderately-dipping sheet of mineralisation that remains open at a depth of 180 metres, and also along strike. So far the shallow portion of the deposit appears suitable for open-pit mining, with the potential for subsequent underground development.

Encouragingly, there are several other advanced projects awaiting assessment, as seen from the map below.

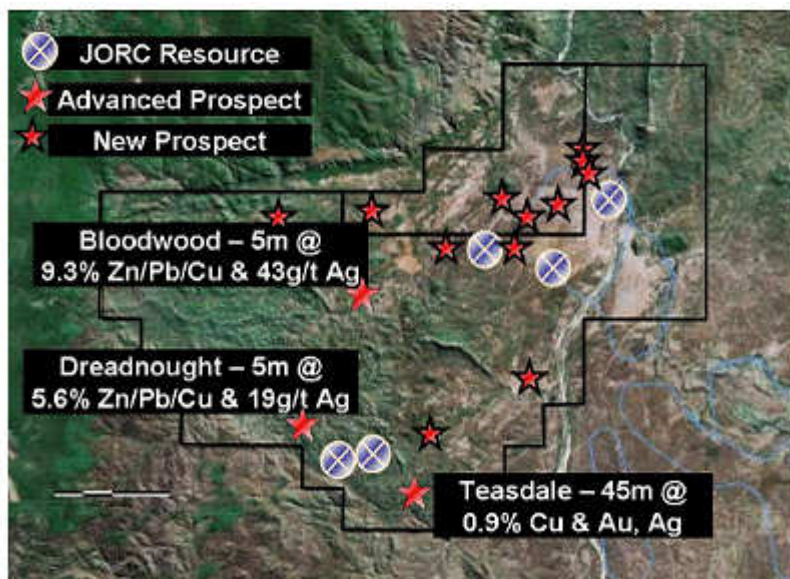


Figure 6: Summary of prospects within the area of the current JORC resources

These include Bloodwood Knoll, Teasdale and Dreadnought. Furthermore, within the area of the currently identified JORC resources there are several new prospects that have been developed that are also awaiting drilling.

The relatively unexplored western portion of the Einasleigh project area has also thrown up several exciting prospects, with extremely high metal values of up to 13.5% copper, 8.9% lead and 1,350g/t silver from rock chip samples taken from gossans (oxidised iron-rich rocks at surface). Apparently, magnetic and electromagnetic surveys conducted by Copper Strike provide evidence that the mineralisation continues at depth, so this western area of Einasleigh will be a high priority for drill testing in our view.

Finally, with respect to the ongoing Feasibility Study, solid progress has been made with respect to negotiations with the indigenous landowners, formulating ballpark mining cash costs, better metallurgical understanding and the commencement of process plant engineering studies.

Of course, all of this exploration and project appraisal activity costs money and Copper Strike is well positioned in this regard following a \$9.85 million capital raising late last year at a price of 46c a share. Copper Strike has \$10.2 million cash on hand as at the end of the December 2007 quarter. The company spent \$1.1 million on exploration activity during the December quarter.

Amazingly, despite all of the project development work undertaken last year, Copper Strike's market value has fallen to just \$22 million, of which nearly half is cash. We will therefore be monitoring the company for a buying opportunity in the near future.

In the meantime, Copper Strike will remain firmly held within the Fat Prophets Mining & Resources portfolio.

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