



Request a Free Trial Membership at www.stockresource.com.au

Signature Metals 11 Nov, 2009

West African advanced exploration play

SBL; Buy up to 3.5 cents

Signature is an African focussed company with prospective tenements in the world class Ashanti Gold Belt of Ghana. Its main project is the Konongo Gold Project which has an existing small plant and provides an opportunity for early production.

“Signature Metals represents an attractive low cost entry into the West African gold plays. It is entering a period of high activity which could lead to early production given the presence of an existing mill on-site.”

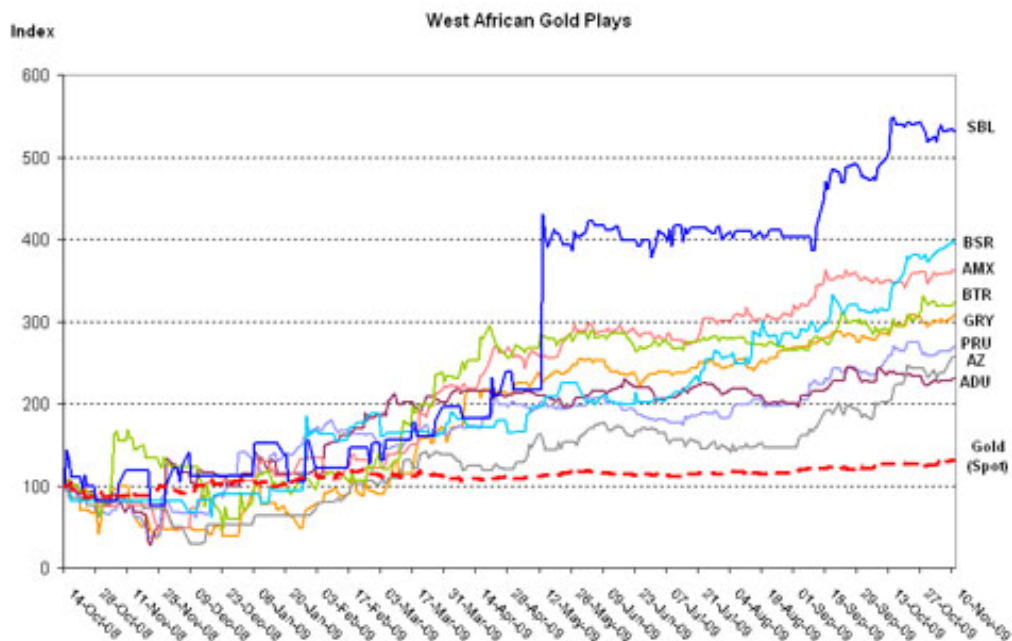
The Signature story is outlined below but it is worthwhile briefly reviewing the other West African plays and their recent performance. Members will recall that Perseus Mining and Mineral Deposits are currently in the Stock Resource portfolio.

The West African gold plays have attracted strong support over the last 12 months, particularly with exploration success leading to 1Moz discoveries, or in the case of Perseus, multi-million ounce discoveries. The following table outlines the enterprise value per resource ounce (where reported) for these companies.

Company	ASX Code	Market Capitalisation (A\$m)	Latest Cash (A\$m)	Latest Debt (A\$m)	Ownership	Latest Resource (Moz)	Enterprise value per resource oz
Gryphon Minerals	GRY	\$98	\$10	\$0	90%	1.10	\$88
Perseus Mining	PRU	\$517	\$84	\$0	90%	5.20	\$93
Adamus Resources	ADU	\$120	\$21	\$61	90%	2.10	\$85
Ampella Mining	AMX	\$76	\$5	\$0	90%	na	na
Azumah Resources	AZM	\$51	\$9	\$0	90%	0.75	\$62
Bassari Resources	BSR	\$51	\$5	\$0	90%	na	na
Signature Metals	SBL	\$28	\$3	\$0	70%	0.98	\$36
Mineral Deposits	MDL	\$574	\$23	\$55	90%	3.51	\$192

Mineral Deposits can be regarded as an approximate benchmark in terms of 'production' value assigned to resources given Sabodala is now in production and suggests a value of A\$192/oz (ignoring the mineral sands value). In contrast 'undeveloped' resources appear to be valued at around A\$85-95/oz based on Perseus, Adamus and Gryphon. On this basis, Signature appears to be the cheapest at around \$36/oz.

The following chart plots the indexed performance of these companies over the last 12 months. All companies are up at least 100% (compared to a relatively flat US\$ gold price) although Signature has been a stunning performer.

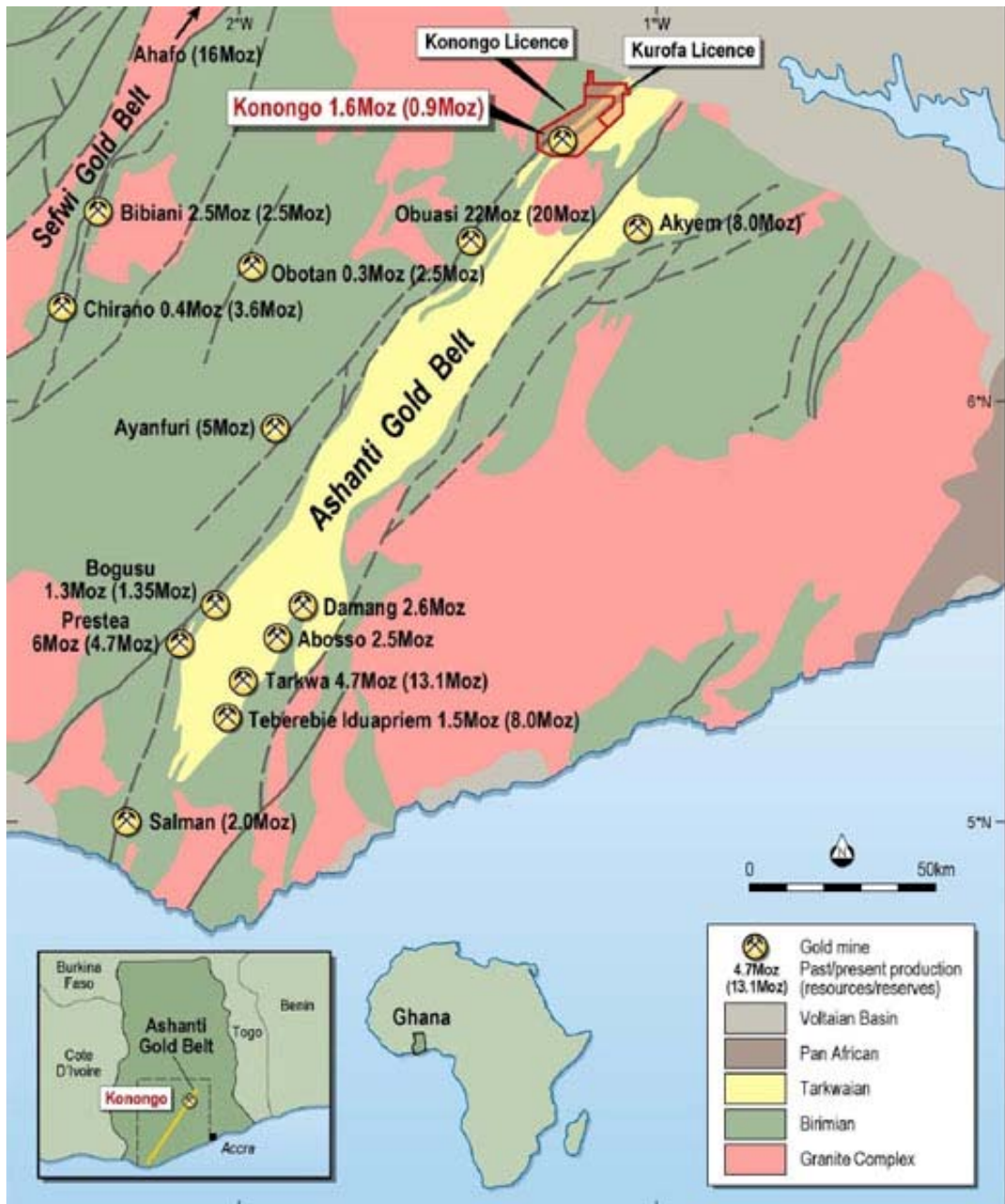


Data sourced from Bloomberg

Despite this performance (particularly given its low price), the table above suggests it still offers good value, particularly if it can commercialise its resources.

Signature Assets

The company's main project is the Konongo Gold Project situated in the Ashanti Gold Belt of Ghana and located 200km NNW of the capital, Accra. It is also 50km from regional centre Kumasi.

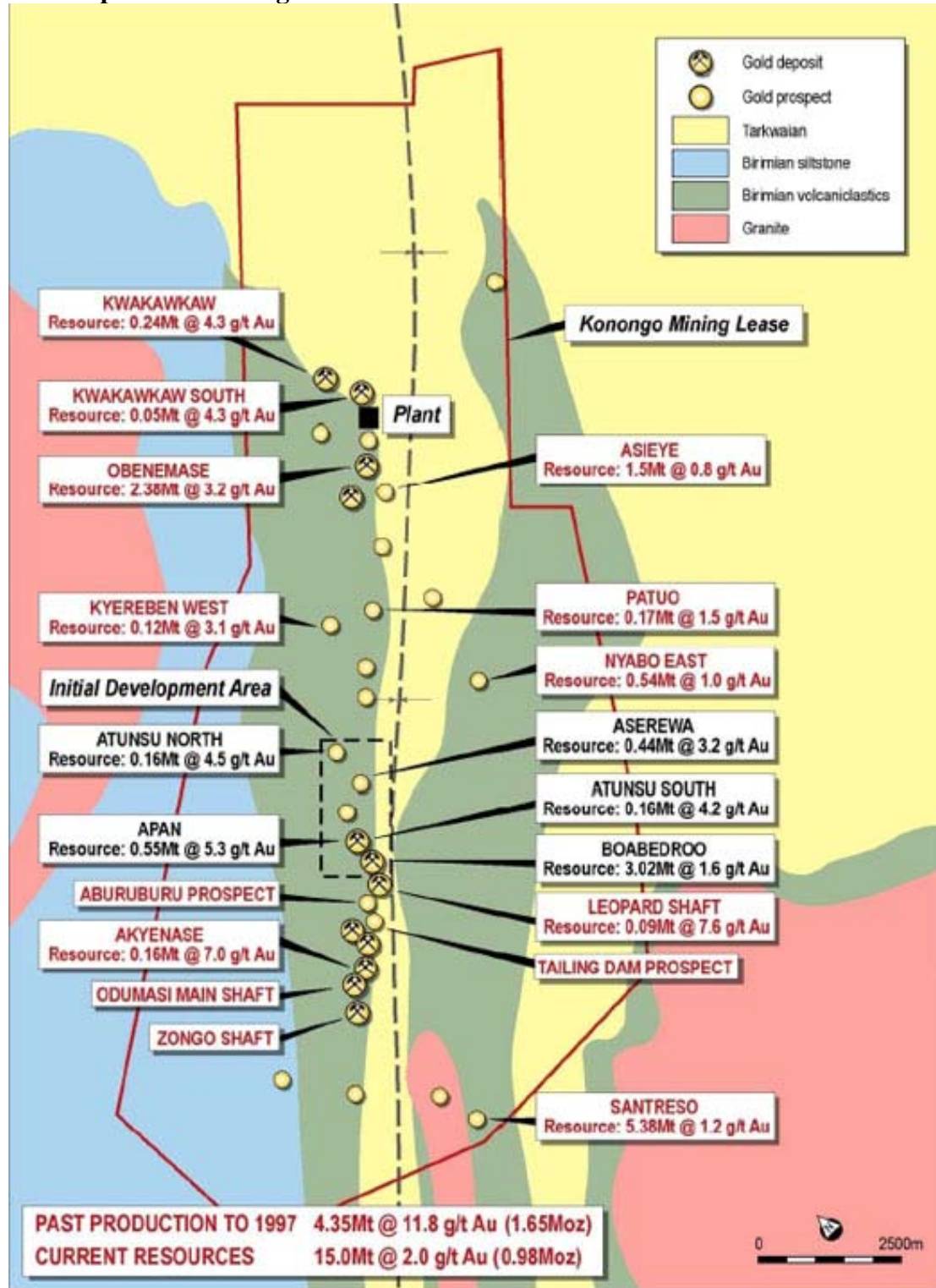


Source: Company

The company has 192km² of granted tenure including the Konongo mining license and the Kurofa prospecting licence. These cover over 12km of mineralised strike along the Ashanti Gold Belt and include 16 known gold deposits within the project area.

The project was acquired from an AIM listed company with an option deal whereby Signature can earn 70% in the project by meeting minimum commitments and conducting a mine study. The option expiry is in May 2010 and to exercise the option, Signature issues 50m shares to the vendor. A further 50m shares are issued later on Signature achieving 1moz in the measured and indicated status and a final \$3m cash (or share equivalents) payment on attaining 100koz pa production. We have factored the additional issue of 100m shares in the enterprise value per resource ounce table earlier.

Gold deposits within Signature tenements



Source: Company

Konogo has recorded historical gold production of 1.6moz at a relatively high head grade of 11.8 g/t gold. The company reports that it has current JORC resources (indicated and inferred) of 15 million tonnes at 2.0g/t Au containing over 975,000 ounces.

These resources are summarised in the following table. However, it is the Obenemase deposit which has the largest resource (243koz at 3.18g/t) and which appears to offer the greatest short term exploration upside. However, in the southern deposits there is known mineralisation in strike extensions of the Atunsu and Boabedro pits which could provide early plant feed in restarting the existing mill.

Current Resources

Deposit	Measured			Indicated			Inferred			Total		
	Tonnes (t)	Grade (g/t Au)	Ounces Au	Tonnes (t)	Grade (g/t Au)	Ounces Au	Tonnes (t)	Grade (g/t Au)	Ounces Au	Tonnes (t)	Grade (g/t Au)	Ounces Au
Obenemase				1,297,000	3.43	143,000	1,081,000	2.88	100,000	2,378,000	3.18	243,000
Asleye							1,500,000	0.80	38,581	1,500,000	0.80	38,581
Kwakawkaw							344,000	4.31	47,673	344,000	4.31	47,673
Nyabo East							540,000	1.03	17,939	540,000	1.03	17,939
Patuo				43,000	1.60	2,212	122,000	1.42	5,565	165,000	1.47	7,777
Kyereben West							124,000	3.10	12,359	124,000	3.10	12,359
Atunsu North							164,000	4.49	26,165	164,000	4.49	26,165
Aserewa				20,000	1.90	1,222	423,000	3.27	44,423	443,000	3.20	45,645
Atunsu				14,000	3.10	1,395	146,000	4.32	20,275	160,000	4.21	21,670
Apan				24,000	2.50	1,929	530,000	5.46	93,121	554,000	5.34	95,050
Leopard Shaft							95,000	7.55	23,071	95,000	7.55	23,071
Boabedro				30,000	2.82	2,720	2985972	1.59	152506	3,015,972	1.60	155,226
Akyenase Central				58,000	4.00	7,459	96,000	8.80	27,161	154,000	6.99	34,620
Santreso West				3,520,000	1.20	135,807	810,000	1.25	32,553	4,330,000	1.21	168,360
Santreso South							340,000	1.16	12,682	340,000	1.16	12,682
Santreso East							700,000	1.27	28,612	700,000	1.27	28,612
Total				5,006,000	1.84	295,744	10,000,972	2.12	682,686	15,006,972	2.02	978,430

Source: Company

Recent drilling by the company at Obenemase has delivered some encouraging intersections from a three hole program as follows:

Drillhole 09KGDR001 below the existing pit:

- 14 metres at 5.44g/t Au from 129m including 5m at 9.39g/t gold from 12m and including 4m of stope material from 134m
- 3m at 10.4g/t Au from 159m

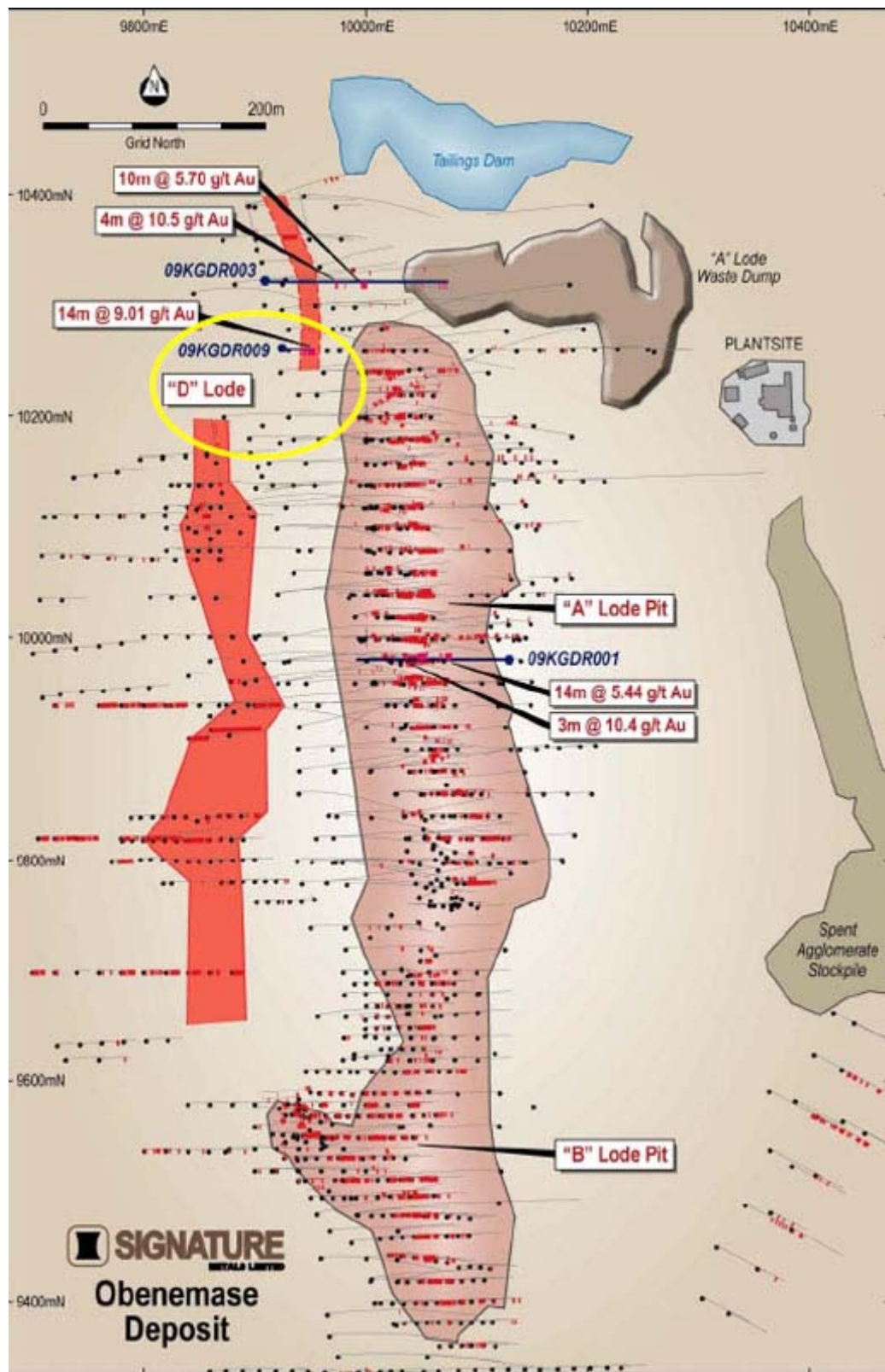
Drillhole 09KGDR003 to the north:

- 10m at 5.70g/t Au from 173m including 4m at 10.4g/t Au from 174m
- 4m at 10.5g/t Au from 127m

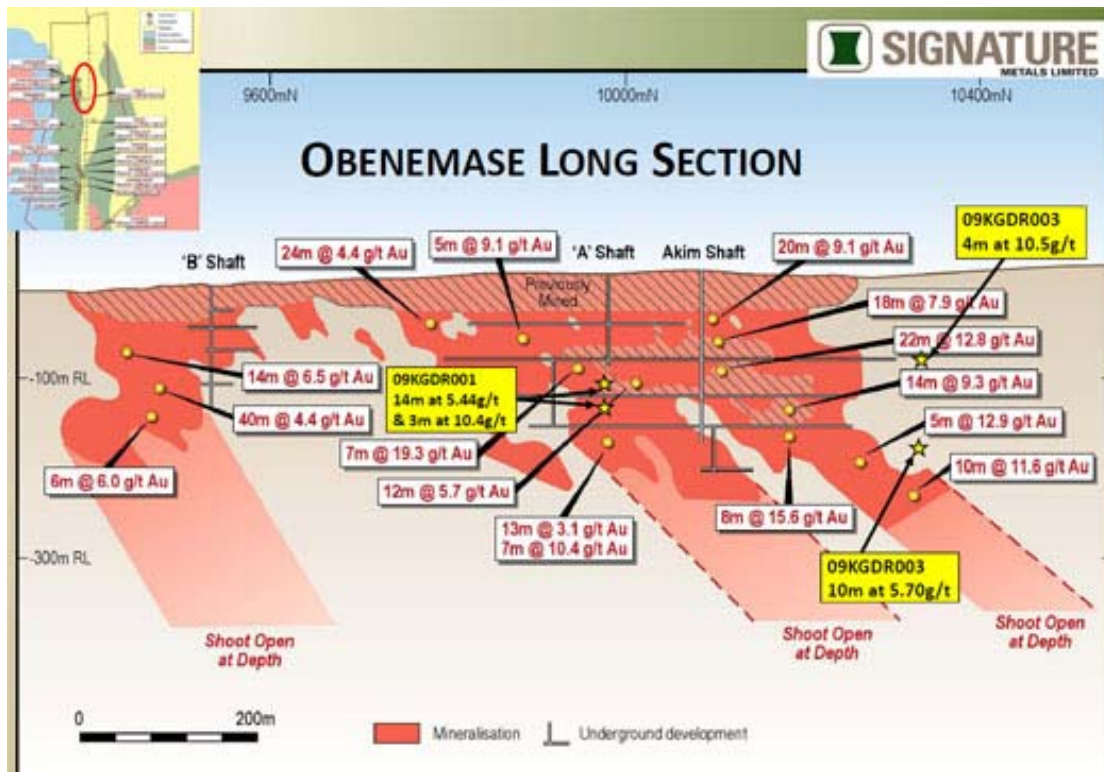
Drillhole 09KGDR009:

- 14m at 9.01g/t Au from 46m

This latter intersection is interpreted to be extension of unmined "D" lode which is parallel to main Obenemase Deposit. This is highly encouraging given it is 40m north of previous drill intersections and is open along strike and at depth.



A long section of these intersections relative to existing workings is presented below.



Fortunately, there is a small plant (350ktpa CIL) on site which has the potential to enable the company to fast track to producer status. This includes the presence of major infrastructure and the company has appointed a Project Manager to complete a detailed assessment and prepare schedule and budget for re-fit. Stock Resource estimates initial ball park refurbishment costs at around \$10m but these need to be finalised with the study.

The company expects a lead time around 6 – 12 months and it is targeting up to 100,000oz pa production level (based on short term high-grading). With past production of 1.6 Million ounces at 11.8g/t gold, there is significant scope for further encouraging drill intersections by drilling extensions to the remaining resources. Further out, the company is keen to expand the plant to sustain or increase production.

Existing plant



Source:

Company

Going forward the company is planning to continue exploration and resource drilling through 2009 into 2010 but with ongoing reporting. In particular, the remainder of 2009 is busy given it expects to announce:

- Resource updates to be released in the remainder of 2009.
- Its mining study to be completed by end 2009.
- Its review of plant refurbishment and infrastructure to be completed by end 2009.

The company's exploration target for the Konongo project is 1.5 – 2.5Moz including a new +1Moz high grade (+10g/t Au) Obenemase – style discovery. It wants an early move to full feasibility study with first production in 2010/2011.

While these are likely to be optimistic targets, it at least indicates that the company is fast tracking its activities which are likely to maintain market interest.

Board

The Board members are listed below along with their areas of expertise:

- Matthew Wood (Chairman): Expertise in project identification, negotiation, acquisition and corporate development
- Bill Oliver (Managing Director): Wide ranging exploration and resource development experience including leading large scale resource definition projects for Rio Tinto Iron Ore and grassroots exploration teams in Europe.
- Tim Flavel (Director): Chartered Accountant and Company Secretary with more than 20 years experience in the mining industry and accounting profession in Australia and overseas.
- Stuart Murray (Director): Chief Executive Officer of Aquarius Platinum Limited. Provides a wealth of African project development and operating experience.

Funding

The company has unfortunately blown its capital structure out with a significant number of shares and options which are in the money. Nevertheless, at around the 3 cent share price, the overall enterprise value is only around \$23m.

Market Valuation	Issued Shares (m)	Share Price (cents)	Market Cap (A\$m)
Fully paid shares	766.1	\$0.032	\$24.5
Options (in the money)	167.8	\$0.032	\$5.4
Cash from options			\$3.6
Diluted Market Cap			\$26.3
Cash			\$3.0
Debt			\$0.0
Enterprise value			\$23.3

Issued options are outlined below.

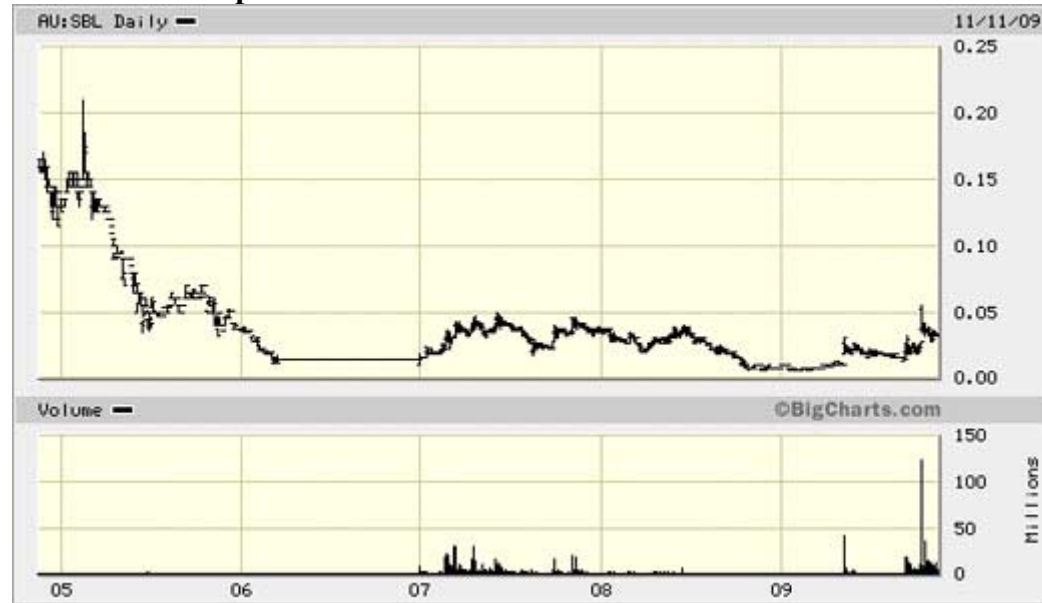
Options	Number	Exercise Price	Amount Raised
31-Dec-09	0.05	0.650	\$ 0.03
14-Apr-11	0.33	0.650	\$ 0.22
14-Apr-12	0.33	0.650	\$ 0.22
14-Apr-13	0.33	0.650	\$ 0.22
31-Dec-09	137.75	0.015	\$ 2.07
28-Sep-12	20.00	0.030	\$ 0.60
14-Nov-12	9.00	0.030	\$ 0.27

Stock Resource Recommendation

Signature offers relatively cheap exposure in the West African gold plays with a credible project and an existing plant. It is in a phase of high activity, which is likely to yield encouraging exploration results and the potential for early production.

Hence, **Stock Resource recommends Signature Metals as a Buy up to 3.5 cent for all Members.**

Share Price Graph



Disclaimer

Breakaway Investment Group Pty Ltd, and its authorised representative Stock Resource, have made every effort to ensure the reliability of the views and recommendations expressed in this report. Our research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication.

This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances. Not all investments will be appropriate for all subscribers.

To the extent permitted by law, Breakaway Investment Group Pty Ltd and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Breakaway Investment Group Pty Ltd hereby limits its liability, to the extent permitted by law, to the re-supply of the said information or the cost of the said re-supply.

As at the date at the top of this page, Directors and/or associates of Breakaway Investment Group Pty Ltd currently hold positions in Admiralty Resources (ADY), Anchor Resources (AHR), CGA Mining (CGX), Cue Energy (CUE), Energy Metals (EME), Icon Resources (III), Jindalee Resources (JRL), KUTh Energy (KEN), National Australia Bank (NAB), Orica Limited (ORI), Perseus (PRU), Rio Tinto (RIO), Sipa Resources (SRI), Western Areas (WSA), Western Desert Resources (WDR), Westpac (WBC) and Zicom Group Limited (ZGL). These may change without notice and should not be taken as recommendations.

Reference within the Stock Resource Report to the "Stock Resource Portfolio" is a reference to the hypothetical portfolio on the "Past Predictions" page, which includes details on the methodology used to derive the performance figures.