

Stonehenge Metals Ltd (SHE)

05 November 2010

Stonehenge Metals Ltd (SHE) is a Western Australian based mineral exploration company focussed on the development of a suite of uranium projects in South Korea.

Cygnnet believe SHE is currently **Undervalued** and trading at a discount to peers on a EV/Resource basis.

Key Points

- In January 2010, SHE acquired 100% of Chong Ma Mines Inc (Previously owned by Yellow Sun Mines) which holds the rights to 4 uranium projects; Daejon, Gwesan, Miwon and Pyeonghae projects in South Korea;
- SHE's core project is the Daejon uranium project located 20km south of Daejon City in South Korea;
- In March 2010, SHE announced a Maiden Inferred Resource of 46.8Mt at 344 ppm eU₃O₈ for 34.9 Mlbs of contained eU₃O₈ at a cut off grade of 200ppm eU₃O₈;
- Recent surface sampling completed by SHE at the Gwesan project has returned assay results of up to 5354ppm U₃O₈ and 2017ppm V₂O₅;
- Cygnnet believe there are no apparent 'show stoppers' for the development of SHE's Daejon project; and
- In October 2010, a study completed by CleanTeQ showed that SHE uranium mineralisation should be amenable to conventional acid leaching with estimated U₃O₈ recoveries of 90 – 92%.

Next Steps

In October 2010, SHE announced the following 12 month development goals:

- Completion of the existing metallurgical test work program and evaluation of results;
- Commencement of a Korean community relations plan to ensure the support of the local communities for exploration and future development;
- Establishment of a formal agreement with key Korean investor, joint venture partner and/or end user;
- Completion of the compilation and evaluation of historical geological, metallurgical and drilling information; and
- Commencement of a significant drilling program.

Undervalued

Value (undiluted): \$0.19

Ticker: SHE

Sector: Materials

Current Price: \$0.12

Shares¹: 270m

Options: 48m

Market Cap: \$32m

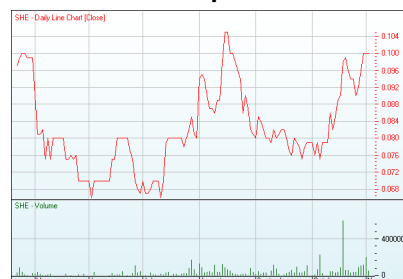
Cash: ~\$5m

EV: \$27m

1. Excludes 60m unlisted performance shares.

As at 05 November 2010
Source: SHE & ASX

Chart 1: 6 month price chart



Source: ASX as 29 October 2010

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Company Snapshot

Background

- SHE was admitted to the ASX in December 2006 following the successful completion of a ~\$6m IPO;
- In January 2010, SHE acquired 100% of Chong Ma Mines Inc (Previously owned by Yellow Sun Mines) which holds the rights to four South Korean uranium projects; Daejon, Gwesan, Miwon and Pyeonghae;
- In total the South Korean uranium projects comprise of 42 granted mining rights and 14 mining right applications;
- Consideration for the Chong Ma Mines acquisition included 10m ordinary fully paid SHE shares and 60m performance shares. In order to secure the project, Chong Ma Mines is required to spend A\$3m on work commitments and purchase payments over 24 months;
- As of 22 July 2010, Chong Ma Mines effectively owned 56% of the South Korean projects. In order to secure 100% SHE must complete cash payments of US\$400,000 before the 17th July 2011; and
- SHE's core focus is on the development of the Daejon uranium project located 20km south of Daejon City, South Korea.

Board of Directors

Richard Henning Managing Director

Mr Henning joined SHE in August 2010. Prior to joining SHE Mr Henning spent four years as the head of business and corporate relations at ASX & TSX listed uranium developer, Extract Resources Ltd.

Simon Fleming Chief Operating Officer / Executive Director

Mr Fleming is a geologist with vast experience in uranium exploration. Prior to joining SHE, Mr Fleming held senior positions at a number of ASX listed companies including Paladin Energy Ltd and Energy and Minerals Australia Ltd.

Warren Staude Non-Executive Director Mr Staude is a geologist with over 40 years experience in the mining industry. In addition to directorships with several ASX listed companies, Mr Staude is also a member of the JORC Committee.

Bob Cleary Non-Executive Director

Mr Cleary is a chemical engineer with 14 years experience in the uranium industry. Mr Cleary has held a number of senior technical and management positions including the position of CEO with Energy Resources Australia.

Bevan Tarratt Non-Executive Director

Mr Tarratt has a background in accounting and financial services and is currently a director of Agri Energy Ltd and ZYL Ltd.

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As at 05 November 2010
Source: SHE & ASX

Cygnnet Team:

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Daejon Project

Project Background

- The Daejon project was acquired by SHE as part of the company's acquisition of Chong Ma Mines Inc in January 2010.
- The Chubu, Yokwang, Seondang and Kolnami uranium deposits of the Daejon Project were discovered and intensively explored during the late 1970's to early 1980's by the Korean Institute of Energy and Resources (KIER).
- In March 2010, SHE announced a maiden JORC compliant Inferred Resource of 46.8Mt at 344 ppm eU₃O₈ for 34.9 Mlbs of contained eU₃O₈ at a cut off grade of 200ppm eU₃O₈.
- In addition to the maiden resource, SHE has recently announced an exploration target of 72-108 Mlbs of U₃O₈ at a grade of 250-350 ppm across the Daejon project.
- In addition to the 16 granted mining rights the company has recently applied for 15 new tenement blocks at the Daejon Project.

Project Snapshot

Location:	Daejon, South Korea
Interest:	56% (earning)
Phase:	Pre-scoping
Products:	Uranium Vanadium
Resource:	
Inferred	34.9 Mlbs
Source: SHE	

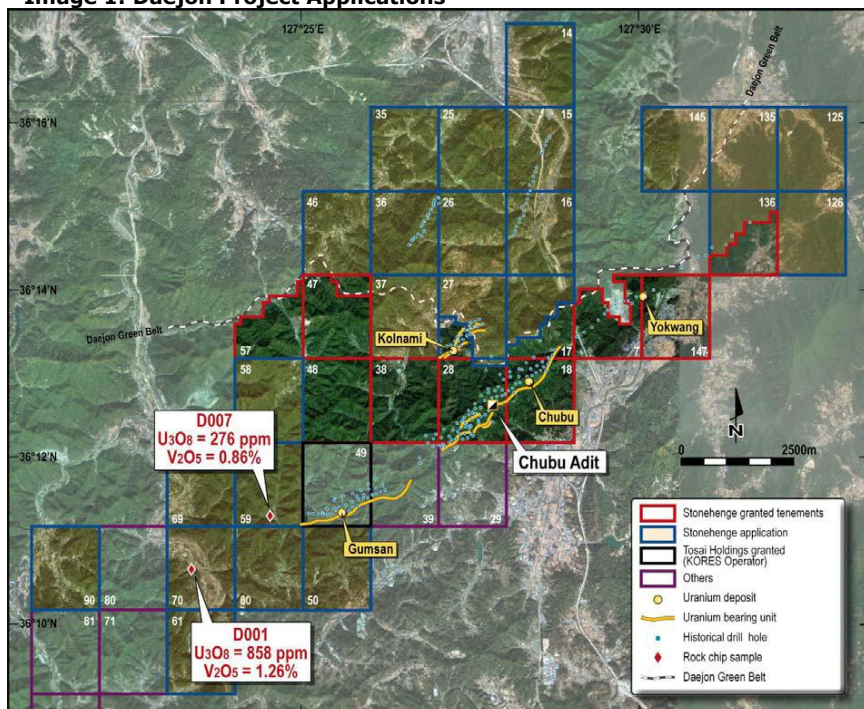
Current Resource

Table 1: Resource Summary

Deposit	Tonnes	Grade (eU ₃ O ₈ ppm)	Contained U3O8 (lbs)
Daejon Uranium Project	46,800,000	340	34,900,000

Source: SHE

Image 1: Daejon Project Applications



Source: SHE

Image 2: SHE Project Overview



Source: SHE

Daejon Project

Geology & Metallurgy

- The mineralisation of the Daejon project extends from surface and the deposits should be amenable to open pit mining methods;
- The main Chubu, Yokwang, Seondang uranium deposits are contained in a mineralised graphitic black slate sedimentary horizon which can be traced from outcrops and drilling over a strike length of at least 7km;
- Uranium mineralisation is strata bound, being hosted within the 200km thick Guryongsan Slate which consists of three 40m thick, uranium-bearing coaly graphite slate beds interbedded within a Phyllite;
- The Guryongsan Slate is considered to be a newly recognised example of syngenetic metal-rich black shale mineralisation, analogous to the uranium-bearing Alum Shale of Sweden; and
- In October 2010, CleanTeQ completed a desk top pre-scoping engineering study of the Daejon project. The study drew on historical metallurgical testing completed by the Korea Institute of Geology, Mining and Materials (KIGAM formerly KIER) in the 1980's and showed that SHE uranium mineralisation should be amenable to conventional acid leaching with estimated U_3O_8 recoveries of 90-92%.

Image 3: Daejon Mineralisation



Source: Cygnet

Exploration

- Significant exploration work including drilling, exploration adit, costeaming and geophysical surveys were conducted by KIGAM from 1974 to 1985 including the completion of 36,293 metres of diamond core drilling;
- In March 2010, SHE obtained an extensive data base of diamond core data which primarily covers the Chubu and Kolnami deposits; and
- Recent surface sampling completed by SHE at Daejon has returned assay results of up to 858ppm U_3O_8 and 1.26% V_2O_5 .

Current Project Work

- SHE has been progressively translating and evaluating historical Korean Government work completed on the SHE tenements to gain a better understanding of the deposits and metallurgy;
- Following completion of the pre-scoping engineering study, CleanTeQ has been employed to complete a more detailed review of the metallurgy of the uranium mineralisation at Daejon; and
- In addition to analysing historical test work and drilling at Daejon, SHE is set to commence a diamond drilling campaign across its Gwesan property.

Comparative Valuation

Cygnets believe SHE is currently undervalued when compared to competing early development uranium focussed stocks.

EV / Resource

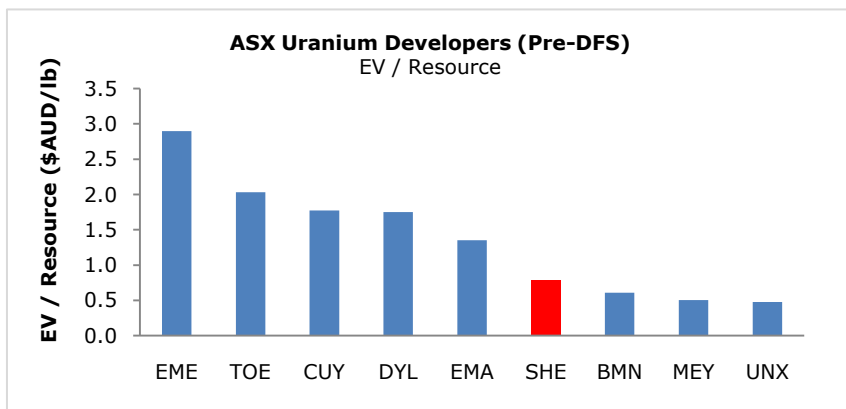
- SHE is currently trading at an EV/Resource of A\$0.80/lb. This represents a discount of ~40% to the A\$1.30/lb average for early development ASX listed uranium stocks. At an EV/Resource of A\$1.30/lb we value SHE, undiluted, at \$0.19 per share;
- Cygnets believe SHE is currently subject to a market discount as a result of an over-inflated perception of risk. It also appears the market is assigning little value for exploration upside.

Ticker:	SHE
Current Price:	\$0.12
Shares¹:	270m
Options:	48m
Market Cap:	\$32m
Cash:	~\$5m
EV:	\$27m

Maiden Resource:
Inferred 34.9m (lbs)

1. Excludes 60m unlisted performance shares.
 Source: SHE & ASX
 As at 05 November 2010

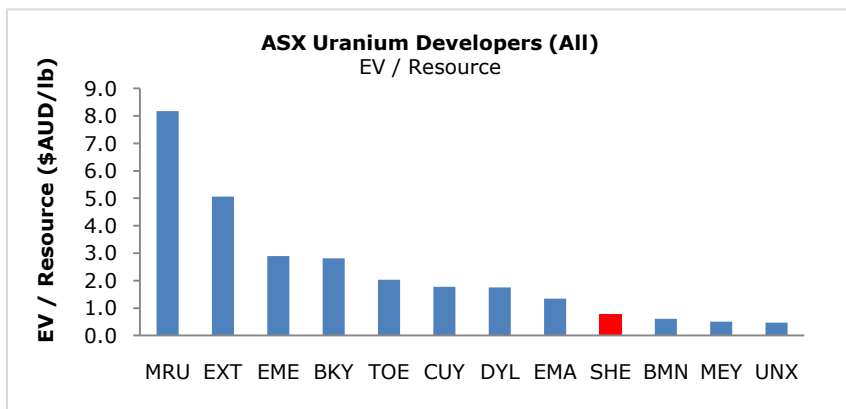
Chart 2: EV/Resource: ASX Uranium Developers (Pre-DFS)



Source: Cygnets Research as at 05 November 2010

- SHE's valuation represents a discount of ~65% to the A\$2.35/lb average for all ASX listed uranium developers. This includes MRU, BKY and EXT who are at an advanced stage of development.

Chart 3: EV/Resource: ASX Uranium Developers (All)



Source: Cygnets Research as at 05 November 2010

Valuation risks

Cygnets believe there are no 'show stoppers' to the development of SHE's Daejon project. The key risk areas are explored in more detail below.

Mining in South Korea

- During a recent site visit, Cygnets noted that there is currently a mine in operation on a neighbouring block to SHE's Daejon tenements (Image 5). The mine is currently operating as a construction aggregate quarry;
- Cygnets also believe that there is little risk associated with sourcing equipment and expertise with an abundant supply of earth moving equipment and drill rigs currently being utilised in substantial domestic infrastructure project; and
- SHE has assembled a local project development team including several native South Korean staff. In particular the company recently appointed Mr Kim Wan Joong who has over 15 years experience in exploration and mining in South Korea.

Image 4: Adjacent Quarry (Aerial)



Source: Google

Infrastructure

- Access to reliable infrastructure and workforce is deemed to be only a minor risk to the development of SHE's South Korean projects.
 - Power: All of SHE's tenements at Daejon, Gwesan and Miwon are located within km's of high voltage 'first world' power lines which run adjacent to major regional freeways in South Korea. Gaining access to the grid is not perceived to be an issue;
 - Transport: SHE's Daejon project is located alongside a major regional freeway which runs from Daejon city approximately 20km from site (Image 6);
 - Shipping: South Korea is a net importer of uranium and it is understood that the majority of SHE uranium will be sold domestically. According to the World Nuclear Association (WNA), currently ~35% of South Korea's power requirements are provided by nuclear energy; and
 - Facilities: SHE has recently acquired an office, warehouse and core cutting facility located within 2kms of the Chubu deposit at the Daejon project (Image 7).

Image 5: SHE Warehouse in Chubu



Source: Cygnets

Land access

- Land Access: Cygnets notes that there are currently several small farms located on SHE's tenements which will require relocation prior to commencing mining. The company already have formal agreements in place with a number of key landowners and Cygnets believes the risk of delay due to land access issues is minimal.

Uranium Market Themes

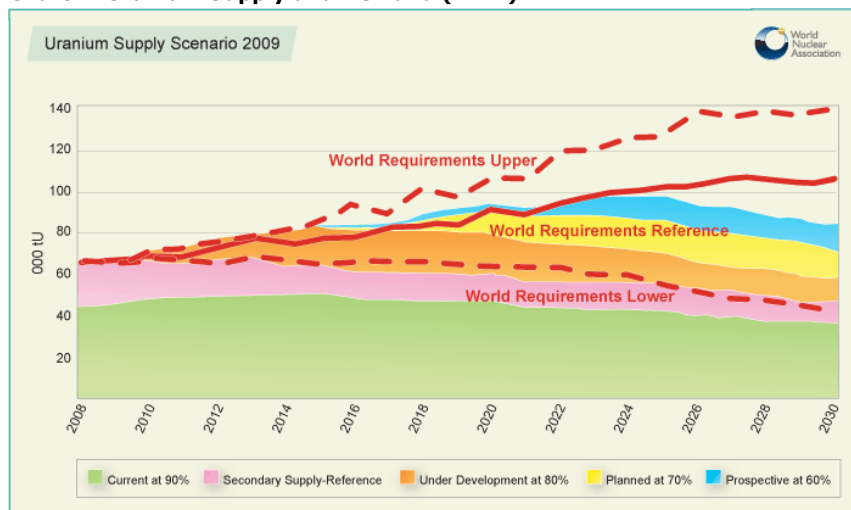
Demand

- **Energy production:** The energy production industry is the key driver of global uranium demand.
- **Climate change:** As a zero emission alternative to fossil fuel power generation, nuclear power is enjoying increased demand as countries increase the commitment toward reducing greenhouse gas emissions.
- **Depletion of secondary sources:** The WNA has recently stated that in 2009 uranium mines supplied ~60,000 tonnes of uranium oxide, about 78% of power utilities' annual requirements. The balance is made up from secondary sources including stockpiled uranium held by utilities, but the WNA predicts that "those civil stockpiles are now largely depleted".
- **Increased nuclear reactor construction:** The growing demand for nuclear power is resulting in a growing rate of new reactors being commissioned. The WNA has recently estimated that there are 59 new reactors under construction globally. This represents >13% of current capacity. Six reactors are currently under construction in South Korea.

Supply

- **Supply constraints:** As illustrated in Chart 4 below, potential uranium supply constraints are forecast from 2015 (WNA);
- **Consolidation vs. expansion:** Since the early 1990's the uranium production industry has largely been in consolidated with takeovers, mergers and closures. Although exploration expenditure spiked during the mining boom of 2005 – 2007 very few new mines have come into production due to capital expenditure shortages; and
- The extent of consolidation is highlighted by the fact that only ten companies accounted for ~90% of the 60,000 tonnes U₃O₈ to be produced in 2009 (WNA).

Chart 4: Uranium Supply and Demand (WNA)



Source: World Nuclear Organisation

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