

Archipelago Resources plc - Site Visit - Gaining momentum at Toka Tindung

Buy

Archipelago Resources plc (AIM:AR.) Mkt Cap: £51.2m Price: 38p BUY

Site Visit - Gaining momentum at Toka Tindung

Archipelago announced on 17 January 2007 that the El Tambo gold processing plant, purchased from a Barrick subsidiary in Chile, had arrived at the Toka Tindung Gold Project in Sulawesi in Indonesia and been transported to site. Ambrian was pleased to be on site to see the completion of its unloading at its purpose-built wharf. This represents a significant milestone for the project and removes one of the final risk elements to its development as it heads towards commencing annual production of 140,000–160,000oz of gold equivalent in August this year, which, while aggressive, we now see as doable.

Archipelago owns 85% of Toka Tindung on the Indonesian island of Sulawesi. It has mineable reserves of 7.7Mt @3.7 g/t Au and 9.2 g/t Ag for 960,000oz Au equivalent from a total resource base of 1.75Moz Au equivalent.



Figure 1: Unloading of one of the final containers of processing plant components

We were very pleased with the level of progress and activity on site to date. With significant earthworks and water management systems completed in the last few months and the placement of foundations for the processing plant the project has gained significant momentum. At the time of our visit, delivery and erection of structural steelwork was about to commence to get the plant off the ground.

Contact Details

Research

Michael Armitage
Telecommunications
+44 (0)20 7776 6474
michael.armitage@ambrian.com

Kam Bansil

Technology
+44 (0)20 7776 6475
kam.bansil@ambrian.com

John-Marc Bunce

Alternative Energy
+44 (0)20 7776 6477
johnmarc.bunce@ambrian.com

Richard Chase

Metals & Mining
+44 (0)20 7776 6467
richard.chase@ambrian.com

David Coates

Metals & Mining
+44 (0)20 7776 6477
david.coates@ambrian.com

Richard Lucas

Special Situations
+44 (0)20 7776 6467
richard.lucas@ambrian.com

Alan Marshall

Oil & Gas
+44 (0)20 7776 6476
alan.marshall@ambrian.com

Anthony Nathan

Oil & Gas
+44 (0)20 7776 6463
anthony.nathan@ambrian.com

Sales

Charles Bendon
+44 (0)20 7776 6465
charles.bendon@ambrian.com

Jonathan Beatson-

+44 (0)20 7776 6462
jonathan.beatson@ambrian.com

Guillermo Serrano

steelwork was about to commence to get the plant off the ground.

Plant Construction

Construction of the plant has progressed rapidly, with the installation of a company-owned wharf and access road ensuring smooth delivery of the bulk cargo. Plant components and electrical motors are currently being unpacked, tested and checked for any damage that might have been sustained in transit. Initial indications from the inspection of major parts are that the shipping has been a success. Process control and electrical systems have been shipped separately to Perth where they are also being tested.

Pouring of concrete for plant foundations should be complete by the end of January and structural steel for the plant is due for imminent delivery. Following this, erection of the plant superstructure will commence in February and rapid progress should be possible in order to meet the scheduled completion target of the end of June. Commissioning is then planned for July with first production in August.



Figure 2: SAG mill foundations



Figure 3: SAG mill sections and refurbishment workshop



+44 (0)20 7776 6472
guillermo.serrano@ambrian.com

Trading
Darren Knight
+44 (0)20 7776 6468
darren.knight@ambrian.com

Operations
Mike Dack
+44 (0)20 7776 6464
mike.dack@ambrian.com



Figure 4: Footings for CIL plant leach tanks. Leach tank sections are on site and ready for assembly



Figure 5: Construction of 6,000t capacity live stockpile with tunnel and retaining walls

Environment and Mining

Stream diversion channels and water management structures and dams are in place and functioning following the completion of a US\$3.5m earthworks contract by Leightons, the open-pit mining contractors. As a result, the Koba Stream will be diverted around the planned open pit to flow through a series of settling, treatment and polishing ponds before release back into the environment. A drainage and water management plan for the entire catchment has been implemented. Treatment of affected run-off and mine water is continuous and quality is monitored several times a day to ensure compliance with environmental regulations. These are critical issues at a site with high rainfall and they have been comprehensively addressed with input from recognised consultants.





Figure 6: Sediment pond with diversion channel in far distance



Figure 7: Water treatment dosage point at one of the spillways

Waste pre-stripping is set to commence in April 2007 and this material will be used for the first lift of the tailings dam. Grade control drilling is commencing before the end of January for detailed definition of ore blocks in the start-up mining areas. With the exception of a few haul trucks the mobile mining fleet is on site, primarily comprising 20 x Caterpillar 40t articulated dump trucks, 3 x 85t hydraulic excavators and 3 x Tamrock Pantera 1500s. As pre-stripping progresses stockpiling of ore for plant commissioning should start in June.



Figure 8: Part of the mining fleet on site at Toka Tindung

Permitting

The final piece of the puzzle that needs to fall into place for Archipelago is the Environmental Permit (AMDAL), required to be approved before mining operations can commence at Toka. Following response from the community the tailings disposal strategy was changed from submarine to land-based, resulting in re-submission and a subsequent delay in approval. All measures are being taken to expedite the approval process and the application is progressing through the system. Approval is now expected by the end of January. This does remain the single greatest risk to the project, but even the worst case is most likely to result in a further delay rather than the project coming to a halt.

Comment

It was obvious from our visit that substantial works have been completed on site over the last few months and sceptics should not underestimate the level of activity and scale of achievement at Toka. It is our view that while it has set itself an aggressive schedule, production in August is an achievable target should all continue to go relatively smoothly. Even if this is not the case and there are further obstacles to be overcome, the team on site and Archipelago management are well on their way to proving their doubters wrong. Though the caveat of the AMDAL environmental permit remains, it is our view that there will be a producing mine here by the end of 2007. With this in mind, we have a price target of 106p for the commencement of production at Toka, representing 2.5x the current share price. **BUY.**

All photographs courtesy of the author

- David Coates

Ambrian is engaged as corporate broker to this company.

Recommendation - Buy

www.archipelagoresources.com.au

This document has been approved under section 21(1) of the FMSA 2000 by Ambrian Partners Limited ("Ambrian") for communication only to market counterparties and intermediate customers as those terms are defined by the rules of the Financial Services Authority. Its contents are not directed as private customers as Ambrian does not provide investment advisory services to private customers.

Ambrian regards this document as non-objective research material. It does not constitute a personal recommendation and does not constitute an offer or a solicitation to buy or sell any security. Neither Ambrian nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in its preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services. All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. This document is intended for distribution only in those jurisdictions where Ambrian is permitted to distribute its research. In particular, it is not intended for distribution in and is not directed as persons in the United States.

On the date of this document, Ambrian, Ambrian's holding company, persons connected with it and their respective directors may have a long or short position in any of the investments mentioned in this document.

Ambrian is a member of the London Stock Exchange and is regulated and authorised by the Financial Services Authority. Ambrian is registered in England and Wales no. 4236075. Its registered office is 8 Angel Court, London EC2R 7HP. Ambrian is a wholly owned subsidiary of Ambrian Capital plc.