

HAZELWOOD RESOURCES LTD

Favourable Operating Studies for Big Hill

Hazelwood Resources Ltd ("Hazelwood", "HAZ", "Company") is progressing its prefeasibility study ("PFS") into the development of its Big Hill Tungsten Project, located in the East Pilbara region of WA. Studies to date have indicated that based on a number of different scenarios, the project should be cashflow positive, even at the relatively low tungsten prices seen in the early part of 2009.

The Company has released details on likely operating costs and processing methods as part of the prefeasibility study. The results have indicated operating costs of US\$122 – 125/mtu, producing an average of either 200kmtu or 238kmtu per annum, and a mine life of either 4 or 8 years, depending on the scenario.

In addition, HAZ is investigating the potential to add downstream processing to the project to create an ammonium paratungstate ("APT") product which should yield higher margins. With the addition of the APT studies, the Company has extended the PFS and we now expect it to be completed mid-late in the December 2009 quarter.

Good Potential for Mine Life Extensions

The Big Hill mineralisation has been identified over 1km of strike via either drilling or trenching. However, the resource currently extends for only ~300m of strike, indicating significant potential for additions to mine life, beyond the 4 or 8 years, depending on the scenario. The deposit is also still open at depth.

The current resource outcrops at surface. Likewise the identified extensions to the mineralisation also come close to surface, if not outcropping. As well as potentially adding to mine life, any increase in the reserves will have a beneficial effect on costs in the early years of the project, as mining will be able to target the shallower ore for a longer period of time. We understand the Company plans to commence drilling these extensions in the near future.

Two Processing Scenarios Give Options

As detailed previously, the Company has investigated two processing options: a conventional processing path using gravity separation; and an alternative option incorporating x-ray ore sorting at the front end of the milling process. The conventional process yields a processing cost of cost of \$A9.44/t, whereas the ore sorting process has a processing cost of A\$8.92/t. As well as being cheaper, the ore sorting process has a number of other advantages including a reduction in the size of the mill and beneficiation circuit, lower power usage and water consumption, and a reduction in the wet tailings requirements. However, these advantages are countered by an expected increase in capital costs.

9 Oct 2009

Share Price (last): \$0.23

Brief Business Description

Tungsten Developer and Explorer

Hartleys Brief Investment Conclusion

Developing the mid scale, high quality Big Hill Tungsten project

Issued Capital	128.9m
- fully diluted	147.4m
Market Cap	\$29.0m
- fully diluted	\$33.2m
Cash (Est.)	\$1.4m
EV	\$27.6m

Main Projects

Big Hill (WA)	Tungsten
Cookes Creek (WA)	Ni, Iron Ore
Arthur River	U, Rare metals

Board & Management

Mark McAuliffe (Exec Chairman)

Terry Butler-Blaxell (Tech Dir)

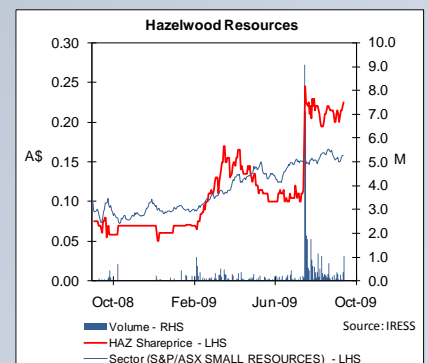
Ian Richer (Non-Exec Dir)

John Chegwidan (Non-Exec Dir/Co Sec)

Top Shareholders

Valentino Nominees	15.51%
Creekwood Nominees	7.64%
Apache Investments	5.35%

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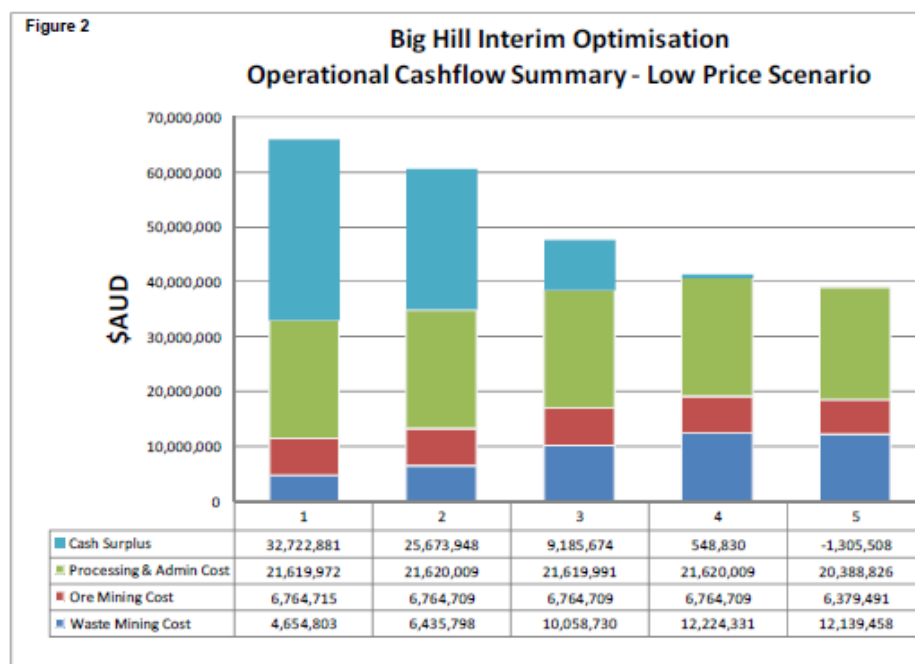
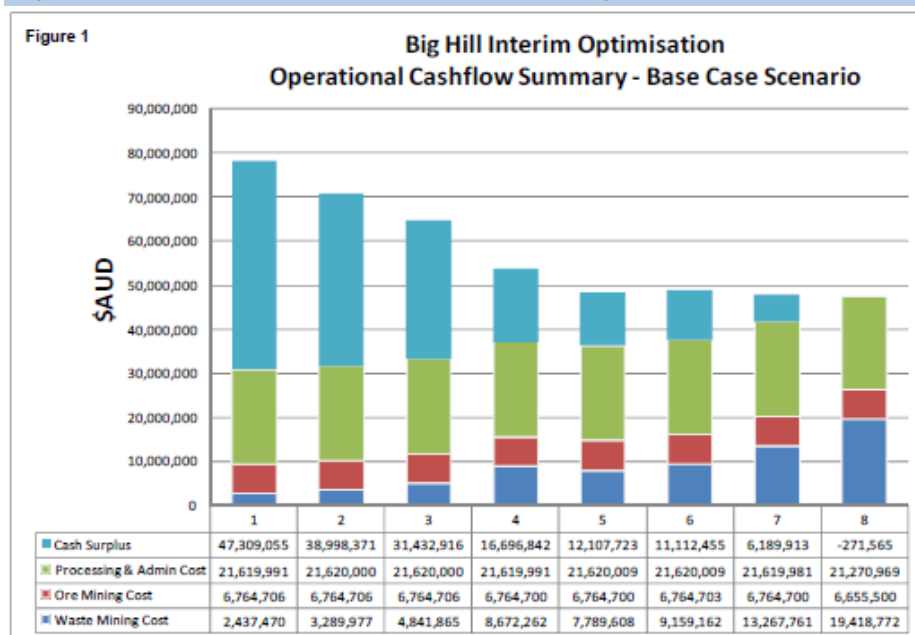
Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Hazelwood Resources Limited. See back page for full disclosure.

The Company is still completing the capital cost estimates, which will be released at the time of the finalised PFS. However, we expect capital costs will be in the range of A\$50 – 70m, though this will depend on the chosen processing route, as well as the potential incorporation of an APT processing facility.

Two Pricing Scenarios Indicate Solid Margins

The Company also undertook a preliminary open pit optimisation using two price scenarios - a Base Case, with a product price of \$US229/mtu, and a Low Price scenario using US\$170/mtu. The Base Case scenario yielded average annual production of 200kmtu's per annum over a +8 year life, with operating cash costs of US\$122/mtu. This scenario implies an average annual operating cashflow of ~A\$27m.

Fig. 1: Cashflow Summaries for the Pricing Scenarios



Source: Hazelwood Resources Limited

The Low Price scenario used a higher cut off grade, had higher annual average production of 237.8kmtu, but a much shorter mine life of just over 4 years. Cash operating costs were only marginally higher at US\$125/mtu. This scenario implies average annual operating cashflow of ~A\$13m. Note that both scenarios assumed an AUDUSD exchange rate of 0.80. If the current exchange rate of 0.90 were used, these cash flows drop to ~A\$24m for the Base Case and ~A\$12m for the Low Price case.

Examining APT Potential

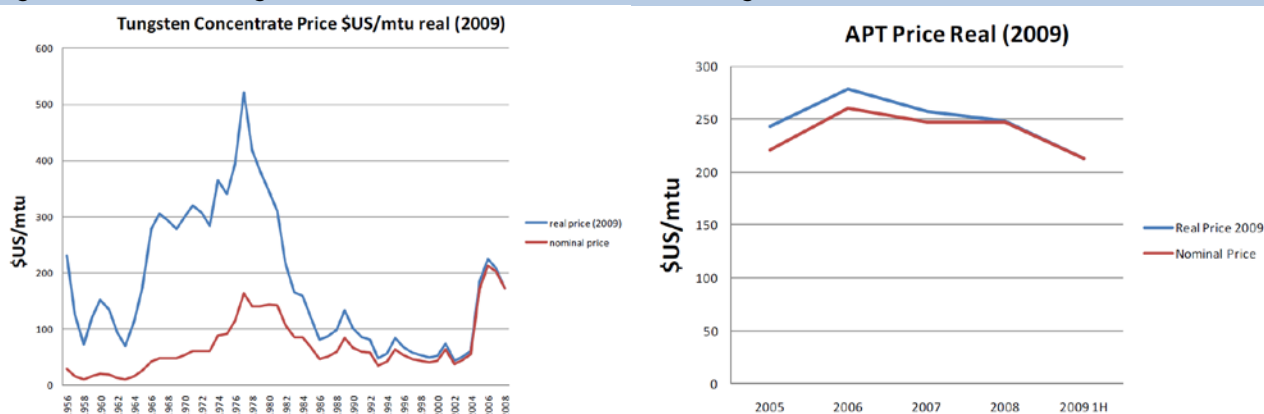
Hazelwood is looking at the potential to value-add by producing an APT product instead of just the low impurity tungsten concentrate. APT is currently trading at a 25 – 30% premium to the tungsten concentrate price (concentrate: ~US\$155/mtu vs APT: US\$190 – 200/mtu).

We understand that the price differential between tungsten concentrate and APT is typically US\$30 – 50/mtu. This is close to the processing costs required to convert concentrate to APT. This implies that there is little margin in converting the concentrate to APT given that the higher revenue is approximately equivalent to the higher costs involved. However, we understand that due to the purity and lack of contaminants in the Big Hill concentrate, Hazelwood may be able to convert its concentrate to APT for less than \$30/mtu, enabling some margin for the process.

Another key advantage of having an APT product is that the APT market is much larger and deeper than for concentrates. This will be critical if there is a downturn in the tungsten market.

Hazelwood has a number of options regarding the upgrading of the concentrate to APT. These include toll treatment through a third party, or building and operating its own plant. As part of the feasibility, the Company is examining both options. Key considerations will be the additional capital expenditure required for the upgrade, as well as the difference in operating costs.

Fig. 2: Recent Tungsten Concentrate and APT Pricing



Source: Hazelwood Resources Limited

Summary & Comment

The robust cash flows from both pricing scenarios bodes well for the development of Big Hill, though the Company is still working on the final capital requirements for the project. The two processing routes being considered will be a trade-off between the higher operating but cheaper capital costs for the conventional treatment process, versus the reverse for the x-ray sorting. However, the additional benefits of the x-ray sorting will also play a part in which development path to follow.

We see the study into the upgrading of the Big Hill concentrate as a logical development, which may enhance the economics of the project. Whilst the prefeasibility study may be delayed slightly by the inclusion of this work, we see it as having the potential for significant long term benefits.

With the robust margins, good potential for mine life extensions, and the ability to develop two saleable products, Big Hill is shaping up nicely. The capital cost estimates are the last piece of the puzzle and should be released in November-December this year.

Key catalysts going forward will be the release of the PFS, results from the extensional drilling, future upgrades in resources and reserves, and the completion of a definitive feasibility study in mid 2010. We continue to rate Hazelwood as a Speculative Buy.

HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage					Hartleys Research	
Name	Ticker	Last Price*	M. CAP (\$m)	EV (\$m)	Recommendation	Industry
Oil & Gas						
1. Woodside Petroleum Ltd	WPL	50.57	35,326	38,223	Buy	Major
2. Eastern Star Gas Ltd	ESG	0.905	739	660	Buy	Producer / Explorer
3. Carnarvon Petroleum Ltd	CVN	0.550	375	341	Buy	Producer / Explorer
4. Nexus Energy Ltd	NXS	0.320	301	457	Speculative Buy	Developer / Explorer
5. Tap Oil Ltd	TAP	1.10	172	118	Buy	Producer / Explorer
6. Red Fork Energy Ltd	RFE	1.19	162	134	Buy	Explorer / Producer
7. Cooper Energy Ltd	COE	0.435	127	31	Buy	Producer / Explorer
8. Strike Oil Ltd	STX	0.260	85	79	Buy	Explorer / Producer
9. Amadeus Energy Ltd	AMU	0.255	76	121	Buy	Producer / Explorer
10. Oilex Ltd	OEX	0.270	47	37	Speculative Buy	Explorer / Producer
11. European Gas Ltd	EPG	0.170	34	98	Speculative Buy	Producer / Explorer
12. First Australian Resources Ltd	FAR	0.045	29	9	Speculative Buy	Explorer / Producer
13. Sun Resources NL	SUR	0.079	27	17	Speculative Buy	Explorer / Producer
14. Adelphi Energy Ltd	ADI	0.140	21	14	Speculative Buy	Junior
Sub-Total			37,522	40,341		
Resources						
1. Riversdale Mining Limited	RIV	5.80	1,093	767	Speculative Buy	Coal
2. Western Areas NL	WSA	4.830	813	1,049	Buy	Nickel
3. Atlas Iron Limited	AGO	1.72	687	637	Buy	Iron Ore
4. Medusa Mining Limited	MML	3.450	582	549	No Rating	Gold
5. Dominion Mining Limited	DOM	4.100	422	470	Speculative Buy	Gold
6. Gold One International Limited	GDO	0.310	223	144	Buy	Gold
7. Jabiru Metals Limited	JML	0.400	218	199	Buy	Zinc-Copper
8. Intrepid Mines Limited	IAU	0.360	154	107	Speculative Buy	Gold
9. Silver Lake Resources	SLR	0.970	149	128	Speculative Buy	Gold
10. Magma Metals Limited	MMB	0.700	114	94	Speculative Buy	PGM-Cu-Ni
11. Peninsula Minerals Ltd	PEN	0.053	72	58	Speculative Buy	Uranium Developer / Explorer
12. Emmerson Resources Limited	ERM	0.315	64	52	Speculative Buy	Junior Explorer
13. Orion Gold NL	ORN	0.052	39	35	Speculative Buy	Gold
14. Ausquest Limited	AQD	0.170	39	12	Speculative Buy	Junior Explorer
15. YTC Resources Limited	YTC	0.225	35	22	Buy	Junior Explorer
16. Shaw River Resources Limited	SRR	0.175	23	20	Speculative Buy	Junior Explorer
17. Hazelwood Resources Ltd	HAZ	0.225	23	21	Speculative Buy	Junior Explorer
18. Impact Minerals Limited	IPT	0.195	18	14	Speculative Buy	Junior Explorer
19. Southern Gold Limited	SAU	0.115	14	12	Speculative Buy	Junior Explorer
Sub-Total			4,726	4,344		
Industrials						
1. West Australia News Hdgs Ltd	WAN	7.61	1,640	1,943	Buy	Media
2. Monadelphous Group Limited	MND	13.660	1,159	1,030	Neutral	Mining Services
3. Clough Limited	CLO	0.875	584	630	No Rating	Oil & Gas Services
4. Mermaid Marine Australia Ltd	MRM	2.850	520	572	Buy	Oil & Gas Services
5. Austal Limited	ASB	2.70	508	414	Speculative Buy	Capital Goods
6. Macmahon Holdings Limited	MAH	0.660	484	486	Speculative Buy	Mining & Civil Construction
7. NRW Holdings Ltd	NWH	1.74	436	476	Buy	Mining & Civil Construction
8. Fleetwood Corporation	FWD	8.34	431	442	Buy	Consumer & Mining Services
9. Neptune Marine Ltd	NMS	0.790	351	326	Buy	Marine Services
10. Ausdrill Limited	ASL	1.84	321	490	Buy	Onshore Drilling & Mining
11. Cash Converters Limited	CCV	0.565	206	157	Buy	Retail & Consumer Finance
12. Southern Cross Electrical	SXE	1.56	187	164	Buy	Mining & Civil Construction
13. RCR Tomlinson Ltd	RCR	1.25	163	211	Buy	Mining & Industrial Services
14. Decmil Group Limited	DCG	1.33	156	138	Buy	Mining & Civil Construction
15. Index Ltd	IMD	0.735	142	165	Buy	Oil & Gas / Mining Services
16. Nomad Building Solutions Ltd	NOD	1.015	137	163	Speculative Buy	Residential & Mining Services
17. GRD Limited	GRD	0.540	104	138	Buy	Mining & Civil Services
18. Lycopodium Limited	LYL	2.72	103	100	Neutral	Mining & Industrial Services
19. Swick Mining Services Ltd	SWK	0.570	87	141	Buy	Mining Services
20. VDM Group Limited	VMG	0.615	76	149	Speculative Buy	Mining & Civil Construction
Sub-Total			7,795	8,332		
GRAND TOTAL			50,042	53,017		

Source: IRESS, Hartleys Research. * 9 Oct 2009

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Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

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