



## **ASX ANNOUNCEMENT, 9 JUNE 2011**

### **MARKET UPDATE**

#### **Background**

Phoenix Copper is a minerals exploration company with a focus on exploring for gold and copper in the Kapunda to Burra region, on the Yorke Peninsula (in close proximity to Rex Minerals Limited's Hillside Project) and in the Leigh Creek area (where Phoenix Copper has a fledgling copper mining operation).

Unlike most junior exploration companies:

- Phoenix Copper holds a substantial tenement package with good copper/gold addresses;
- It produces copper at its Mountain of Light Project (acquired in July 2010, an acquisition which included 3 granted mining leases with combined indicated mineral resources, containing 19,500 tonnes of copper - see Table 1 below);
- Pending positive Ministerial action Phoenix Copper may have additional development prospects at Burra.

The exploration activities of Phoenix Copper's neighbours on the Yorke Peninsula seem likely to add to the potential for Phoenix Copper's tenements in that region.

In spite of difficulties experienced with mining operations at Mountain of Light (which have resulted in projections previously made not being achieved and have significantly depleted Phoenix Copper's available funds) Phoenix Copper has valuable assets and the potential for an attractive future. Those assets include the value of copper material in process discussed below.

#### **Mountain of Light update**

Improving the Mountain of Light operations and ramping up production has proved more difficult and more expensive than was projected at the time of acquisition, due to several highly disruptive factors:

- at least three significant rain events causing major operating disruption;

- the mining contractors' basis of pricing proving to be uneconomic;
- mine management issues;
- a lack of reliable historical process data;
- a leach cycle of nearer to 120 days than the previously estimated 90 days (and originally estimated, in material provided at the time of acquisition, 30 to 60 days);
- delays in the receipt of laboratory assays resulting in the material most recently stacked generally proving to be low grade in comparison with the grade estimated from historical drill data and visual ore spotting;
- high acid conditioning of newly stacked material failing to produce sustained increases in the pregnant liquor grade as a result of the low copper grade stacked.

Phoenix Copper is seeking to overcome a poor start, with new Mine Manager James Fox having commenced work at Mountain of Light in late April. James, with his extensive and invaluable experience in heap leach operations, has already brought a thoroughly scientific and professional approach to the role. The Board has a high level of confidence in James' ability to achieve acceptable outcomes from the Mountain of Light operations.

The Mountain of Light project consists of three separate nearby deposits; Rosmann East, Paltridge South and Paltridge North, as well as several more remote deposits and prospects on other mining leases.

The near surface oxide ore at the Rosmann East deposit (partially mined at the time of acquisition) has now been substantially mined out. However there remains significant tonnage of transitional and sulphide copper ore immediately below the current pit floor that may also become a mineable asset.

The Paltridge South deposit (opened up in December 2010) has been mined out to a depth of 10 metres and partially mined to a depth of 20 metres with the remainder of the 10 to 20 metre bench having been drilled and blasted ready for mining.

Mining of the Paltridge North deposit, by far the largest of these three deposits, has not yet been commenced. The test work to verify assumptions, announced in April 2011, is ongoing. It is likely to be several months before this work is completed and a decision regarding mining Paltridge North taken.

Phoenix Copper estimates that, as at 31 May 2011, there were a total of 185 tonnes of recoverable contained copper in process inventory (not including copper still remaining in Paltridge South blasted but not yet mined), with a value, at contracted price, of ~\$1.25million. Based on a 120 day leach cycle this \$1.25 million in gross revenue is expected to be received over the period to end September 2011. Phoenix Copper will proceed as quickly as circumstances will permit to load, haul, crush, screen, stack and

irrigate and fully process all mined or drilled and blasted ore at the lowest operating cost achievable. The mining and processing of the blasted material in the Paltridge South pit is expected to generate a further \$0.5M in gross revenue.

Phoenix Copper will also investigate the possibility of processing approximately 40,000 tonnes of low grade material<sup>1</sup> that has already been mined, crushed and screened. As recoveries from this initiative cannot be estimated Phoenix Copper cannot currently estimate the additional value that may be unlocked if this initiative can be implemented. Likewise Phoenix Copper will also investigate the possibility of mining additional copper ore below the current Rosmann East pit floor. As that material has not yet been grade control drilled and its exact nature and composition has not been determined Phoenix Copper is currently unable to say whether it can be mined and processed profitably through the current treatment facility or, if it can, what its value may be.

The estimate, made in April 2011 of production of surplus cash flow from Mountain of Light operations exceeding \$1 million within 4 months of April 2011 will not be achieved. Delay in cash flow means increased expenses due to the long period over which cash flow is derived. As a result, there will be a working capital shortfall which Phoenix Copper is currently seeking to address through a range of means, including the possibility of a small share placement.

Concurrently with the work described above Phoenix Copper will progress, and complete as soon as possible, the required metallurgical test work in respect of the Paltridge North deposit.

Phoenix Copper's ambition to become a self funding exploration company has regrettably not been realised to date and the efforts to get there, together with the cost of exploration activities that have been conducted since July 2010 and ongoing administration expenses have collectively significantly depleted available cash to the point where a substantial restructuring of the overall business of Phoenix Copper is underway along with consideration of future funding options.

Phoenix Copper's Board maintains its current strategic intent. The desire that Leigh Creek Copper Mine Pty Ltd assets will, in due time, contribute cash flows sufficient to meet administration costs and contribute to exploration expenditure (if not indeed result in Phoenix Copper being able to self fund exploration) remains strong. Phoenix Copper will most assuredly move forward with significantly more certain knowledge and data than has been the case to date. The operations will be leaner, its financial controls more assiduous and its activities more firmly based in metallurgy and sound experience.

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<sup>1</sup> Estimated to be less than 0.4% copper

**Table 1**

<b>Indicated Mineral Resources 7 June 2011</b>				
	<b>Cut-off Grade</b>	<b>Tonnage</b>	<b>Grade % Copper</b>	<b>Tonnes Copper Contained</b>
<b>ML5467 - MOUNTAIN OF LIGHT</b>				
<i>Rosmann East</i>	>0.4%	100,000	0.88%	900
<i>Paltridge North</i>	>0.4%	710,000	0.96%	6,800
<b>ML5498 – LYNDHURST</b>				
<i>Lorna Doone</i>	>0.4%	620,000	0.90%	5,600
<i>Lynda</i>	>0.4%	750,000	0.84%	6,300
<b>TOTAL</b>	<b>&gt;0.4%</b>	<b>2,180,000</b>	<b>0.90%</b>	<b>19,500</b>

## **Exploration Activities**

### **Yorke Peninsula**

Phoenix Copper will continue with a modest exploration programme focused on its Yorke Peninsula tenements and will closely watch the exploration success of its Yorke Peninsula neighbours, including Rex Minerals whose current activities come ever closer to the boundaries of Phoenix Copper's tenements. When additional funds become available this programme will be accelerated and others initiated.

### **Burra**

Phoenix Copper is keen to undertake diamond drilling along the projected northern extension of the Monster Mine at Burra North. However this drilling campaign has been deferred pending the Minister for Primary Industry and Resources announcing his decision regarding the lifting of the reserve from the Mining Act affecting the Monster Mine at Burra.

### **Spalding**

A RAB drilling program has been undertaken at Washpool (EL 4370), 9 km NW of Spalding. One hundred and one holes for a total of 3811 M were completed to test widespread Cu anomalism reported in Field Portable X Ray Fluorescence (FPXRF) analyses to the north and east of the historic Wheal Sarah workings. FPXRF assays of drill cuttings report widespread, low grade enrichment of Cu, with zones of higher grade mineralisation encountered in some holes. Visible malachite was reported in a number of holes, across a range of geological units. Primary sulphides including pyrite and chalcopyrite were reported in many holes adjacent to and within doleritic units in the area. Better FPXRF results are shown in Table 2 below.

**Table 2**

Hole Id	GDA94N-Z54	GDA94E-Z54	Azi mag	Azi grid	Dip	Depth	From	Width	Grade % Cu	Inc. from	Width	Grade % Cu
<b>PCRB0066</b>	6296500.00	271270.00	83	90	-60	<b>48.00</b>	0	<b>1</b>	<b>0.40</b>			
<b>PCRB0070</b>	6296450.00	271283.00	100	107	-60	<b>30.00</b>	2.0	<b>9.0</b>	<b>0.50</b>	3.0	1.0	<b>1.10</b>
<b>PCRB0076</b>	6296410.00	271258.00	20	27	-60	<b>70.00</b>	22	<b>3</b>	<b>0.56</b>	23.0	1.0	<b>1.54</b>
<b>PCRB0097</b>	6296700.00	271320.00	93	100	-60	<b>42.00</b>	29.0	<b>4.0</b>	<b>0.45</b>	30.0	1.0	<b>1.10</b>

These holes represent the first exploration drilling conducted in the area since the South Australian Department of Mines drilled three diamond holes in 1967. This recent drilling provides important lithological information for further exploration in the area. The results are encouraging and future work in the area will concentrate on wet chemical assaying of selected holes to confirm FPXRF assays, then drill testing both stratigraphic parallel and cross cutting structural trends.

*Data aggregation for this report was generally based on FPXRF assays of intersections over 0.3 % Cu.*

### **Other Exploration**

Phoenix Copper has a substantial tenement holding of 4,477 square kilometers, from Burra to Kapunda and on the Yorke Peninsula. Since listing the potential has been considerably enhanced by a selective increase in those holdings by a total of 2,904 square kilometers. There is considerable potential for additional exploration success on these tenements and the company will look to undertake further exploration programs as soon as funds can be made available.

Phoenix Copper will update the market regularly regarding its exploration activities, the progress of its restructuring and the Mountain of Light operations generally and, in particular, the outcome of test work in respect of the Paltridge North deposit.

### **COMPETENT PERSON'S STATEMENT**

The information in this report that relates to Mineral Resources (except for that relating to Rosmann East) is based on and accurately reflects information compiled by Mr Ken Bampton of Ore Reserve Evaluation Services, who is a consultant and advisor to Phoenix Copper Limited. Mr Bampton is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Bampton consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results and the information in this report that relates to Mineral Resources at Rosmann East is based on and accurately reflects information compiled by Mr Mark Manly, who is a fulltime employee of Phoenix Copper Limited and a Member of the Australasian Institute of Mining and Metallurgy. Mr Manly has sufficient experience relevant to the style of mineralisation and the type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Manly consents to the inclusion in this announcement of the matters based on his information in the form and content in which it appears.

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