

RECOMMENDATIONS

Rating	BUY ▲
Risk	Very High
Price Target	\$0.59
Share Price	\$0.40

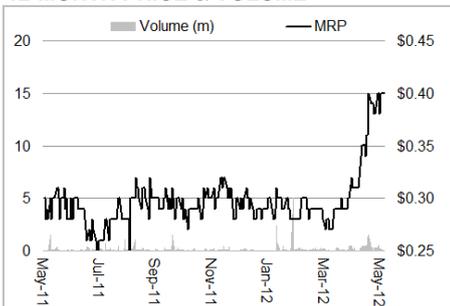
SNAPSHOT

Monthly Turnover	\$3.1mn
Market Cap	\$85mn
Shares Issued	215mn
52-Week High	\$0.41
52-Week Low	\$0.23
Sector	Materials

BUSINESS DESCRIPTION

MacPhersons Resources is a prolific gold/silver explorer and developer with a large land package in the Kalgoorlie and Coolgardie regions of WA.

12-MONTH PRICE & VOLUME



RESEARCH ANALYST

Adrian Prendergast

03 9602 9384 aprendergast@baillieu.com.au

Disclosure

The author owns no shares in MRP.

Recommendations

Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of ± 10 -15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

MacPhersons Resources (MRP)

COMPANY REPORT – INITIATION OF COVERAGE

Rapid resource growth gives leverage

- MacPhersons Resources is a prolific gold/silver explorer and developer with a large land package and growing silver/gold resource in the Kalgoorlie and Coolgardie regions of WA. The company first listed on the ASX in December 2010.
- Of particular interest within the company's extensive land holdings are the discoveries being made along the Boorara and MacPhersons areas, which have estimated strike lengths of 20km and 11km respectively. These have numerous silver, gold, silver-zinc, silver-zinc-gold, and silver-zinc-gold-copper-lead targets and discoveries are being made on the back of successful large-scale drill programs.
- Mill in place:** Key to unlocking the value of these discoveries will be the mill processing and mine assets at the company's acquired Nimbus project. This will allow MacPhersons to leverage off existing infrastructure in a bid to fast track development of any or all of its projects in the region. The current developments would see silver (and potentially gold) production start in early to mid-2013.
- Nimbus project:** Of the company's suite of assets, the most advanced is the Nimbus silver-gold-zinc project. The project is driven by the rapid growth of its resource base (with multiple recent upgrades), its close proximity to the township of Kalgoorlie, and the high likelihood of initial production within the next twelve months given the established infrastructure on site.
- The Nimbus project is made up of 110sq km of continuous tenements situated just 8km east from the 50 million ounce KCGM Super Pit gold mine.
- Scalability:** The majority of MacPhersons' current resource estimate for Nimbus is based on drilling from just one deep VHMS lens. With a total of up to nine lenses expected to be present, the resource shows exceptional opportunity to be scaled upwards.
- We expect Nimbus holds ultimate potential for at least 25moz of silver. We feel comfortable the company will be able to reach this based on a combination of its results to date and its (so far) highly accurate resource model.
- Development case:** With plant commissioning ongoing, MacPhersons plans to initiate its silver production in stages of modular expansion with scale increasing inline with the expected growth of the company's resource base.
- Remaining milestone:** One of MacPhersons' highest priorities in 2012 will be to finish its studies into the project's complex metallurgy and finalise its mill design – which in our view is the largest remaining hurdle to production.
- Rating:** MacPhersons offers attractive value for investors seeking a pure-play silver exposure with large potential for organic growth leveraged off its growing resource base. We currently value the company on an in situ resource multiple of \$10 per ounce of silver and \$100 per ounce of gold, with no value at this stage included for its potential zinc production from 2014.
- We initiate coverage on MacPhersons with a BUY rating and a \$0.59 per share 12-month price target (at a risk adjusted discount to our \$0.918 valuation). Results from ongoing metallurgical tests and exploration remain key catalysts in the short-term. We maintain a Very High risk rating on MacPhersons typical of a mining company in an exploration and development phase.

Rapid resource growth gives leverage

- Overview:** MacPhersons Resources is a prolific explorer and developer with a large land package in the Kalgoorlie and Coolgardie regions of WA. Of particular interest within the company's extensive land holdings are the discoveries being made along the Boorara and MacPhersons areas, which have estimated strike lengths of 20km and 11km respectively. Numerous silver, gold, silver-zinc, silver-zinc-gold, and silver-zinc-gold-copper-lead targets and discoveries are being made on the back of successful large-scale drill programs.
- Mill in place:** Key to unlocking the value of these discoveries will be the mill processing and mine assets at the company's acquired Nimbus project. This will allow MacPhersons to leverage off existing infrastructure in a bid to fast track development of any or all of its projects in the region. The current developments would see silver (and potentially gold) production started in early to mid-2013.
- Nimbus project:** Of the company's suite of assets, the most advanced is the Nimbus silver-gold-zinc project. The project is driven by the rapid growth of its resource base (with multiple recent upgrades), its close proximity to the township of Kalgoorlie, and the high likelihood of initial production within the next twelve months (given the established infrastructure on site).
- The Nimbus project is made up of 110sq km of continuous tenements situated just 8km east from the 50 million ounce KCGM Super Pit gold mine.

Rapid growth of its resource base with multiple recent upgrades

FIG.1: Just around the corner from the Super Pit



Source: MRP

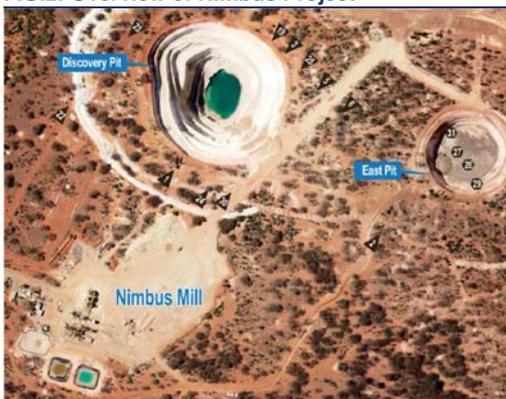
- Historical mining:** The previous owner, Polymetals mined silver ore from the shallowest of these lenses from 2003-2007. Nimbus produced a total 3.62 million ounces of silver from high-grade oxides from two open pits down to a depth of only around 40 metres (the Discovery and East pits). At that point the project was placed on care and maintenance once mining started to hit transitional and fresh sulphide ore, of which the mill was not calibrated for. With an average silver price at the time of just \$9.07 per ounce (versus current price of >\$32 per ounce), Polymetals deemed the required mill refurbishment (for sulphide processing) uneconomic. Instead, Polymetals only aimed to mine the high-grade oxides at shallow depths sitting near surface (with an average mined grade of 352gpt silver).

Polymetals aimed to only mine the high-grade oxides sitting at surface

- In acquiring the Nimbus project, MacPhersons acquired a mill capable of processing ore from its other nearby projects. Further, with a silver price four to five times higher (than its previous owner, Polymetals enjoyed), it also acquired strong economic incentive to a. refurbish the mill and b. recommence mining operations at Nimbus by expanding both Discovery and East pits to depth – possibly to join the two pits into a single large pit. The current economics makes the project look encouraging particularly given the polymetallic mineralisation has been shown to extend (at least) as far as 370 metres, whilst remaining open at depth.
- **Scalable resource:** Mineralisation at Nimbus is characterised by a volcanic-hosted massive sulphide deposit (VHMS-style) with mineralisation occurring in steeply dipping stacked lenses typically up to 20 metres in thickness. The company expects up to nine to be present at the project. The bulk of MacPhersons’ current resource estimate for Nimbus is based on drilling from just one deep VHMS lens. With a total of up to nine lenses expected, the resource shows exceptional opportunity to be scaled upwards.
- The oxide ore sits at shallow depths to around 40 metres (the parts not already mined) and consists of predominantly silver mineralisation. Any traces of zinc have long since leached out from extensive weathering over time. However, once you hit the transitional ore and get into the fresh rock, occurrences of other metals becomes more regular with an identified zinc halo. This accumulation of zinc presents potential for by-product production once mining of the Discovery and East pits (including cutbacks) has progressed into the fresh ore.

With a silver price four to five times higher, strong economic incentive exists to refurbish the mill and recommence mining.

FIG.2: Overview of Nimbus Project



Source: MRP

FIG.3: Nimbus Mill



Source: MRP

- MacPhersons acquired Nimbus in July 2011 and was quick to announce an exploration target of 6moz of silver. Since then the company has posted impressive exploration success at Nimbus, with an extensive RC and diamond drill campaign carried out throughout 2011 confirming and extending the identified mineralisation that was previously based on historical data.
- **Resource upgrade:** On the back of these results and ongoing drilling, MacPhersons today announced an expanded total delineated resource of 9.42 million ounces of silver (2.462mt at 119gpt silver) and 32,700 tonnes of zinc for Nimbus. Not only does the announcement confirm further positive drill results for the project but it also extends a new VHMS lens under the East pit (confirming geological models).
- The recently announced silver-rich VHMS lens and its associated mineralisation and identified gold-silver zones have not yet been included in the company’s resource estimates. The results are due for review post the completion of the next drill program.
- **Ultimate potential:** We expect Nimbus holds ultimate potential for at least 25moz of silver. Given its results to date and the company’s (so far) highly accurate resource model, we feel comfortable the company will be able to reach this potential. Meanwhile, potential still remains for exploration to yield a total resource in excess of 50moz of silver. We consider this as the high case scenario and hence is not included in our current estimates for production.

We expect Nimbus holds ultimate potential for at least 25moz of silver

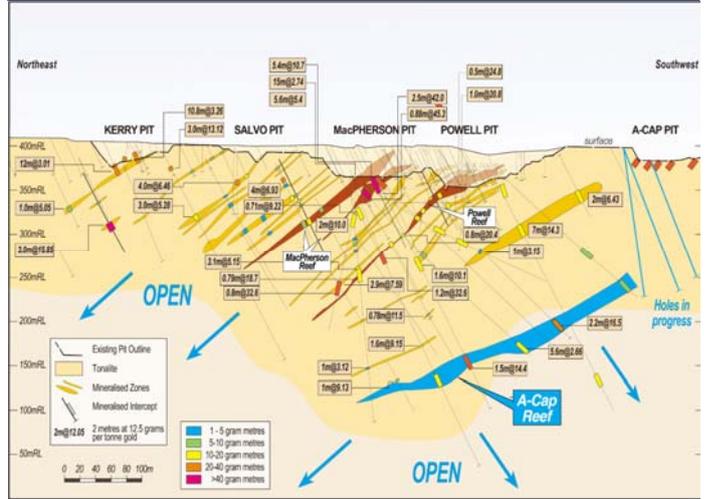
- Milestones:** Key milestones for the project remain linked to a. the company's ability to finalise studies on the metallurgy, which at Nimbus, is complex; and b. to any resulting adjustments to the project's processing profile prior to recommissioning of the mill. This could see the addition or removal of additional by-products not currently included in our model.

FIG.4: Nimbus Core Samples



Source: Nimbus Site Visit April 2012

FIG.5: Cross-section of MacPhersons Reward project



Source: MRP

- Gold projects:** Versus our valuation on MacPhersons of \$0.918 per share, the company has a current share price of just \$0.395 per share. Above all else, we believe this disparity illustrates the small level of value currently being priced in for MacPhersons' gold projects.
- Boorara gold project:** A large source of potential for gold resource growth is the newly acquired Boorara gold project, located just 8km from the KCGM Super Pit. This consists of 40sq km of continuous tenements sitting in a prime location along the Boorara shear zone. The project has an existing gold resource of 84,600 ounces delineated from limited shallow drilling work along its extensive 20km strike length, with mining leases already in place.
- Barrick Gold's Kanowna Belle and Golden Ridge projects lie to the north of the Boorara's boundary and to the south respectively. Both have large gold projects holding large +10moz gold deposits with mineralisation extending to at least 1,700 metres in depth.
- Potential:** The Boorara ground sits just 2.5km from Nimbus, and in easy trucking distance to the mill for ore processing. Work conducted in the second half of 2011 as part of the due diligence process for Boorara identified a stockwork of high grade veins just 500 metres north of the current delineated resource. We continue to watch these developments with keen interest, expecting work on the project to accelerate once Nimbus starts production.
- While primarily a gold target, the area has also shown to be prospective for polymetallic mineralisation.
- MacPhersons Reward:** A remnant mine which MacPhersons was first floated on. MacPhersons Reward consists of four shallow interconnected open pits that were mined during the 1980's. During 2010, twenty diamond holes were sunk into MacPhersons Reward with all finding gold mineralisation. On the back of this data an initial resource of 94,100 ounces (at 1.8gpt gold) was estimated.
- Results from follow up drilling were completed in November 2011, with a revised resource estimate expected to be released this quarter. Current drilling at MacPhersons is focused on a new discovery at the site that was intersected in drilling below two of the existing pits. While a lower priority for the company, ongoing drilling will aim to target this new discovery to test its potential for an economic accumulation.
- Tycho:** Also on the ground of the MacPhersons Reward project is the Tycho prospect. With 46,600 ounces of shallow gold sitting close to mine infrastructure, Tycho presents itself as holding potential for short-term cash flow (low cost but short life).

Boorara sits just 2.5km from Nimbus and in easy trucking distance.

- **Mill refurbishment:** The path to production for Nimbus hinges on its metallurgy and the recommissioning of its mill. This will allow the company to bring on its silver circuit during the first half of 2013. Beyond this, MacPhersons then plans to use initial cash flow from its silver production to establish a second circuit at the plant, this time dedicated to gold production. In the near-term, ore will potentially be fed by the company's gold deposits: Tycho, Boorara and MacPhersons Reward.
- Once the Merrill Crowe is commissioned, MacPhersons will bring on the primary crushing circuit and carbon-in-leach (CIL) circuit (both already purchased). The key long lead time item at the mill is the Merrill Crowe plant, which has already been ordered and expected in approximately nine months. In addition to the mill refurbishment and recommissioning, MacPhersons is also going to construct a new, fully permitted, on site tailings dam.
- **Development case:** With plant commissioning ongoing, MacPhersons plans to initiate its silver production in stages of modular expansion with scale increasing inline with expected growth of the company's resource base. Further significant resource growth will move to propel the company forward and secure its position as an emerging Australian gold/silver producer.
- Our base case assumes initial output from Stage 1 of the company's operations to be in the range of ~300,000 - 500,000 ounces per year of gold and silver, with production to be expanded incrementally thereafter - based on the company's growing resource base.
- **Next exploration program:** MacPhersons is planning to initiate its next drill program at Nimbus. This will consist of 40,000 metres of RC drilling mostly aimed at targeting shallow oxide resources that fall within and just outside the current optimised pit design (completed by CSA Global). The program is expected to cost approximately \$5 million, to commence in June 2012, and last 5-7 months. This drill program is also aimed at classifying a resource for the recently discovered new silver-rich VHMS lens.
- **Capital management:** MacPhersons holds a cash balance of \$11.3 million as at 31 March. This should see the company remain funded until calendar year end, although on our estimates there is potential for the company to source a small amount of external capital (\$5-\$10 million) prior to starting mining operations in early 2013. Accordingly, we have adjusted our target price for any potential dilution (albeit small).
- **Key risks:** High priority for MacPhersons' will be to finalise its studies of the project's complex metallurgy and its mill design. In our view, the completion of the mill is the largest remaining hurdle to production. Further, and typical of its profile as an explorer, substantial portions of the risk remained linked to exploration. The company's ultimate potential profitability will be primarily driven by its ability to grow its resource base and extend the life and scale of its developing operations.
- **Rating:** MacPhersons offers attractive value for investors seeking a pure-play silver exposure with large potential for organic growth leveraged off a growing resource base. We currently value the company on an in situ resource multiple of \$10 per ounce of silver and \$100 per ounce of gold, with no value at this stage included for its potential zinc production from 2014.
- We initiate coverage on MacPhersons with a BUY rating and a \$0.59 per share 12-month price target (at a discount to our \$0.918 valuation based on current risks and liquidity). We also maintain a Very High risk rating on MacPhersons; typical of a mining company in an exploration and development phase.

Path to production for Nimbus hinges on its metallurgy and recommissioning of the mill.

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Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

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E.L. & C. Baillieu Stockbroking Ltd
 ABN 74 006 519 393
 Australian Financial Service Licence No. 245421
 Participant of ASX Group
 Participant of NSX Ltd

www.baillieu.com.au

Melbourne (Head Office)
Address Level 26, 360 Collins Street
 Melbourne, VIC 3000 Australia
Postal PO Box 48, Collins Street West
 Melbourne, VIC 8007 Australia
Phone +61 3 9602 9222
Facsimile +61 3 9602 2350
Email baillieu@baillieu.com.au

Bendigo Office
Address Cnr Bridge & Baxter Streets
 Bendigo, VIC 3550 Australia
Postal PO Box 40
 North Bendigo, VIC 3550 Australia
Phone +61 3 5443 7966
Facsimile +61 3 5442 4728
Email bendigo@baillieu.com.au

Newcastle Office
Address Level 1, 120 Darby Street
 Cooks Hill, NSW 2300 Australia
Postal PO Box 111
 The Junction, NSW 2291 Australia
Phone +61 2 4925 2330
Facsimile +61 2 4929 1954
Email newcastle@baillieu.com.au

Perth Office
Address Level 10, 191 St Georges Terrace
 Perth WA 6000 Australia
Postal PO Box 7662, Cloisters Square
 Perth, WA 6850 Australia
Phone +61 8 6141 9450
Facsimile +61 8 6141 9499
Email perth@baillieu.com.au

Sydney Office
Address Level 18, 1 Alfred Street
 Sydney, NSW 2000 Australia
Postal PO Box R1797
 Royal Exchange, NSW 1225 Australia
Phone +61 2 9250 8900
Facsimile +61 2 9247 4092
Email sydney@baillieu.com.au