

Macphersons Resources Limited MRP (\$0.385)

Recommendation: SPECULATIVE BUY

Path to production paved in silver

Analyst: Tim McCormack

OUR VIEW

MacPhersons Resources (MRP) is entering an exciting phase of development. Acquisition of the Nimbus project near Kalgoorlie has transformed the direction of the one time pure gold play. With a focus now on developing the Nimbus VHMS polymetallic deposit, the company is aiming to increase the current 9.5Moz silver resource to ~18Moz this CY and beyond 30Moz in the broader term. Exploration at Nimbus has been extremely positive with up to nine mineralised lenses identified as having economic potential. Mill commissioning is progressing on schedule with production expected Q3 FY2013. MRP plans to utilise cashflow from near term silver sales to fund mill expansions and ongoing resource development. While development of the company's MacPhersons Reward and Boorara gold properties has taken a back seat we still expect to see resource upgrades this Q and gold production in 2014. Underlying the company's rapid project development is a solid, well networked management team focused on advancing the project into production. With a robust cash position of \$11m and no imminent funding requirement we maintain our SPEC BUY recommendation.

Investment Highlights

- Resource potential of +30Moz silver at Nimbus.** Latest upgrades take the Nimbus resource to 9.5Moz of silver and 32.7kt of zinc. The increase comes from work completed on one of nine identified VHMS lenses within the Nimbus footprint and comes only 6 weeks after release of the projects maiden resource. Management intends to keep the market informed as to progress with upgrades on a 2-3 month basis. With the current drilling program identifying repetitions of mineralised lenses at depth and along strike from the Discovery Pit we expect the resource base to increase in excess of 18Moz silver in 2012 and ultimately has the potential to grow well beyond 30Moz. Mineralisation is typically associated with zinc however gold, lead and heavy metals are being worked into future resource estimations and may prove to be valuable by-products.
- Production to begin 2H FY2013.** With significant milling infrastructure already in place at the Nimbus project MRP is aiming for production in the 2H FY2013. Current mill capacity is a modest 180ktpa which the company plans to expand to 480ktpa in 2013 then introduce a sulphide float plant in 2014. Initial mill feed will be sourced from 2 existing tailing stockpiles which should produce ~1Moz of silver in CY2013. Cash flow will be used for further resource development and introduction of a parallel gold circuit to treat ore from the MacPhersons gold project. We highlight that the cost curve for processing silver has remained reasonably flat since 2007 and the price of silver has increased by ~400% to between \$30-40/oz. We anticipate the path to stage 1 production to account for \$7m of the current \$11m cash reserve.
- Further upside through gold properties.** MRP's MacPhersons Reward project represents further value in the company. We expect to see an upgrade to the company's initial 94.1koz gold resource this Q as well of development guidance on the 46koz Tycho deposit which sits within the same landholding. Furthermore, through the Boorara purchase in late 2011, MRP acquired an 84.6koz gold resource that sits ~3km from the Nimbus mill. Both properties have significant exploration upside and will be primary sources of ore when proposed gold production comes on line in 2014.
- Catalysts.** 1) Upgrade of the silver resource to ~18Moz by the end of CY2012 2) Clarity on mineralogy of the Nimbus deposit and most effective route of processing 3) Resource upgrade on the MacPhersons gold project 4) Production ramp up.

Directors & Shareholders

Directors

Askok Parekh
Morrie Goodz
Jeffrey Williams
Stephen Hewitt-Dutton
Ron Ellis

Position

Executive Chairman
Managing Director
Non-Executive Director
Company Secretary
Operations Manager

Shareholders

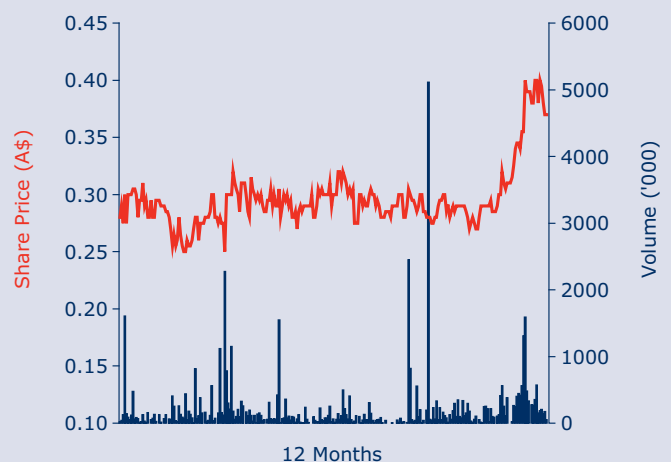
Directors/Management
Reed Resources

Holding (%)

37.0
2.5

Company Statistics & Performance

Shares on issue (m)	215.0	3mth ADT (\$m)	0.081
ITM Options (m)	22.0	EV (\$m)	79.1
Market Cap. (\$m)	90.1	Debt est (\$m)	0.0
52 week range	\$0.25-\$0.40	Cash est (\$m)	11.0



Disclosure: Patersons Securities Limited acted as Lead Manager to MRP's IPO to raise \$30m at \$0.30/sh in December 2010. Patersons received a fee for this service.

Figure 1: MRP's project locations

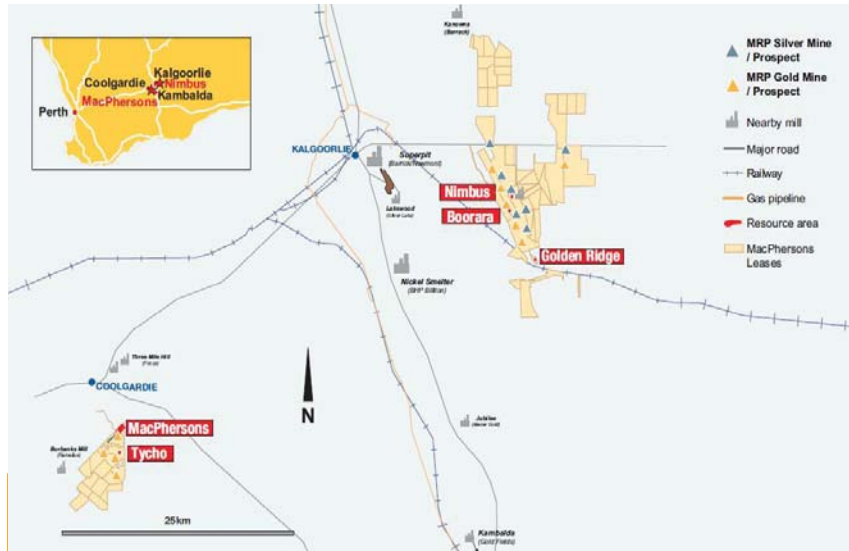


Figure 2: Nimbus exploration potential

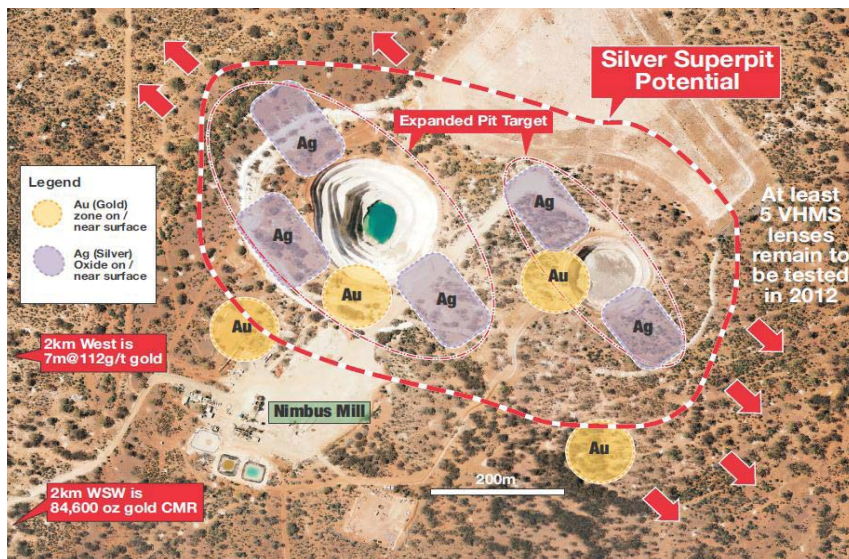


Figure 3: High grade silver/zinc intersections below the Discovery pit

