

Macphersons Resources Limited MRP (\$0.28)

Recommendation: SPECULATIVE BUY

Production at the Silver Superpit 1H CY2014

Analyst: Tim McCormack

OUR VIEW

Macphersons Resources (MRP) recently announced that optimisation work on its 18.3Moz Nimbus silver-gold-zinc deposit near Kalgoorlie has allowed for the two existing pits to be merged into a single Silver Superpit. Production is earmarked to begin 1H CY2014 and will initially concentrate on exploiting oxide ore, the new gold zone and Lens 4 before merging the pits as primary ore is developed. Initial indications point to favourable project economics with capital expenditure expected to be ~\$40m and operating costs in the order of \$10/oz silver equivalent. Plenty of upside still exists to the Nimbus resource base with ongoing drilling targeting depth and strike extensions.

Investment Highlights

- Optimisation work still to play out:** While final optimisation work is still being completed, it is envisaged that the pit will be ~900m long, ~500m wide and ~205m deep. Initial indications are that stripping ratios will be high at ~18:1, however, this is sustainable due to the relatively high grades. There is room for improvements to this as drilling density is increased in the saddle between the two pits which is targeting high grade mineralisation. We expect to see mining contractors tender final submissions by the this month.
- Modest capex and opex:** Initial indications are that capex of <\$40m will cover start-up capital and mill expansions while operating costs are expected to be ~\$10/oz silver equivalent. We believe a finance facility will be finalised in the near term, and while the silver price has softened recently, solid operating margins still exist.
- Flow sheet to be finalised next Q:** Final engineering flow sheets are expected to be complete in ~2 months and we see metallurgical recoveries as an important outcome to determine the economics of the project. We expect to see a grind-gravity-float-leach-furnace circuit which will produce a zinc concentrate and silver/gold dore. MRP will likely stage development and not incorporate the flotation circuit until it begins mining the zinc sulphides in year two of mining. Silver recoveries should be in the order of 80-85% and gold recoveries similar. Zinc concentrate will grade 53-62% Zn.
- Plenty of room to grow resources:** There is good potential to grow the 4.4Mt at 129g/t for 18.3Moz silver equivalent deposit and we anticipate resources to advance towards 25Moz by the end of CY2013. Nimbus remains open along strike and at depth and we believe ongoing drilling will play a key role in incorporating additional ore tonnes into the ultimate pit design. A number of 600-800m holes (previous deepest 400m) will also be drilled this year (beginning in May) to test the underground potential of this high grade deposit.
- Asset sale could boost cash balance:** With the focus on Nimbus MRP may look to divest its Coolgardie gold projects. The resource of ~145koz at 1.8g/t could provide valuable cash injection if a suitor can be found.
- Catalysts:** 1) Final flow sheets and mine plans 2) Clarity on funding 3) Further resource growth and a maiden reserve at Nimbus.

Directors & Shareholders

Directors

Ashok Parekh
Morrie Goodz
Jeffrey Williams

Position

Executive Chairman
Managing Director
Non-Executive Director

Shareholders

Board and Management
RK Mine Finance

Holding (%)

37.0
8.5

Company Statistics & Performance

Shares on issue (m)	249.0	3mth ADT (\$m)	0.06
ITM Options (m)	0.0	EV (\$m)	62.7
Market Cap. (\$m)	74.7	Debt est (\$m)	0.0
52 week range	\$0.27 - \$0.45	Cash est (\$m)	12.0

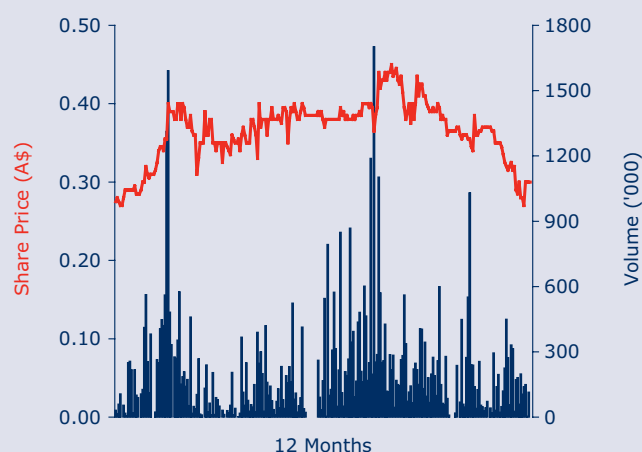


Figure 1: Location of the Nimbus silver-zinc-gold project

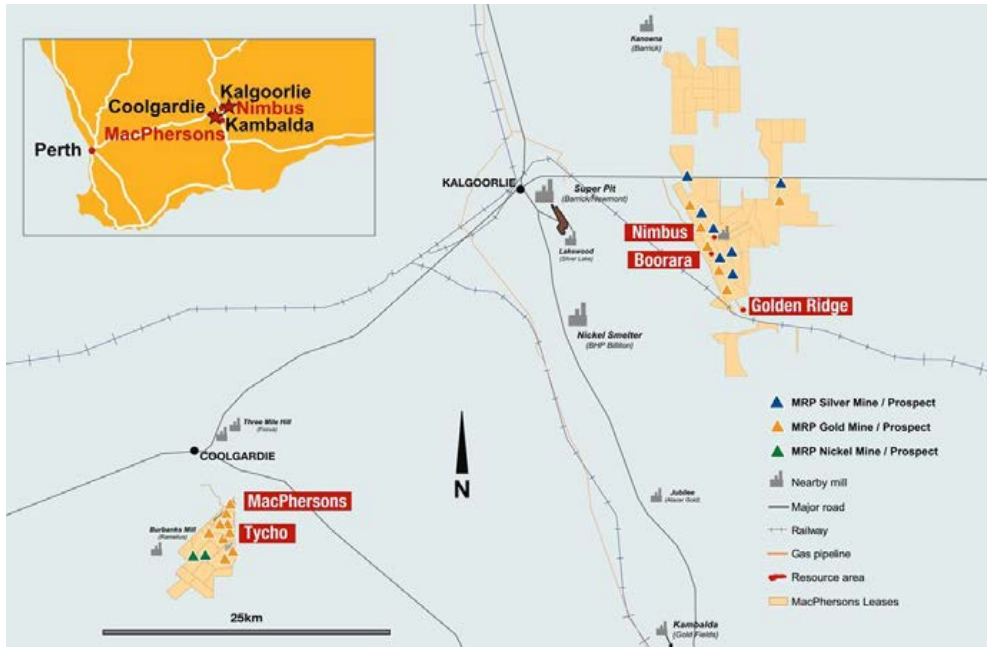


Figure 2: Pit shell for the Silver Superpit

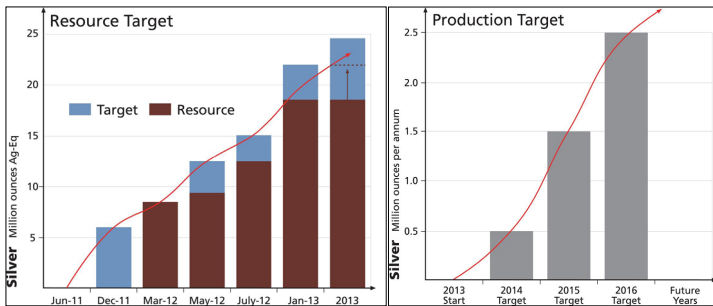


Figure 3: Resource and production targets going forward

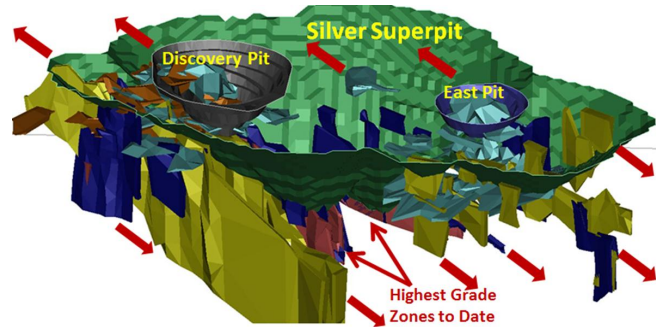
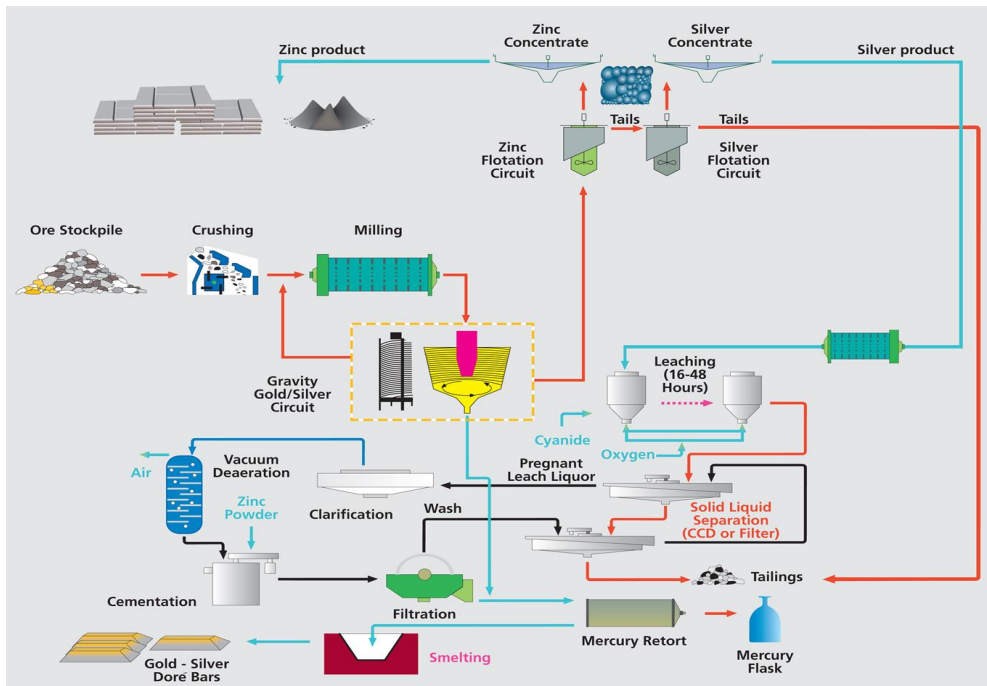


Figure 4: Proposed processing route for the Nimbus ore



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