

11 April 2007

WA's cheapest nickel sulphide miner

Investment Highlights

- With consistent production from its current operations, the bolting on of production from Carnilya Hill and North Dordie for FY08 and an exciting exploration program about to commence at the McMahon and Durkin orebodies (Kambalda Dome), MCR remains cheap. It has modest hedging (2,982t FY07 and 2394t FY08); it is trading on 5.2 times FY07 and 3.5 times FY08 earnings and a yield of 5.7% for FY07 and 7.1% for FY08.
- We prefer nickel sulphide:** For nickel price exposure, Paterson's maintain our preference for nickel sulphide producers over nickel laterites with their **lower barriers to entry** (nickel laterite capital requirements are prohibitive) and therefore ease of increasing production rates and bringing online new operations and **processing simplicity** (sulphide producers sell ore or low grade concentrates requiring little or no processing whereas laterites require complex processing).
- Production:** MCR will be the largest WA (payable) nickel producer in FY07 (outside of LIM and BHP, making it best placed to capitalise on a continued higher nickel price. FY08 sees MCR and SMY in a battle for the top spot as both companies ramp up production.
- Leverage to a higher nickel price in the short term:** MCR remains the cheapest nickel sulphide producer in terms of Enterprise Value to FY07 and FY08 payable production tonne of nickel providing the greatest leverage to a continued strong nickel price.
- MCR is cheap on all metrics.** We believe concerns over mine life are overdone. MCR is growing its resource base every year since it's listing in 1997 while at the same time growing its production base and exploring aggressively. We believe MCR is best placed to take advantage of the strength in the nickel price in the short to medium term. With MCR trading at a 40% discount to our \$4.74/sh price target, MCR is cheap.

Company

Stock code:	MCR
Share price:	\$3.36
Recommendation:	BUY

\$4.29 \$5.24



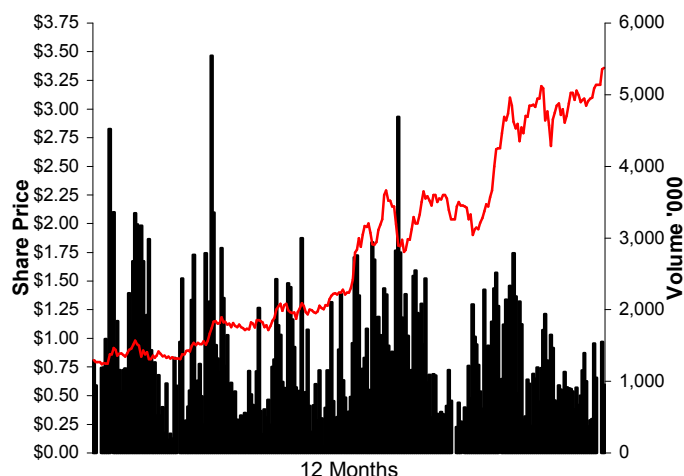
S&P/ASX 300 = 6165

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Company Statistics & Performance

Shares on Issue	196.8m	Daily Vol.	1,279,000
Market Cap.	\$661.3m	Debt	\$4.3m
52 Week Range	\$0.78 - \$3.36	Cash est.	\$87.4m

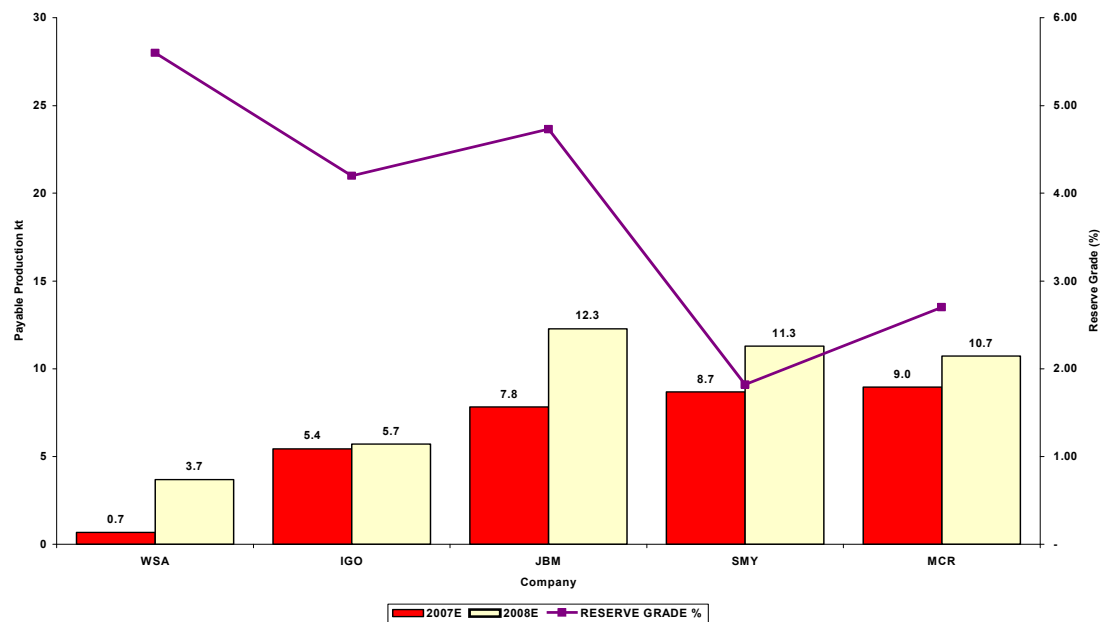


Investment Summary

Year End June 30	2006A	2007F	2008F	2009F
Reported Earnings				
Net Profit (\$m)	30.2	126.3	189.0	209.3
EPS (cents)	15.3	64.2	96.0	106.3
EPS growth (%)		318.9	49.6	10.8
PER (x)	21.9	5.2	3.5	3.2
EBITDA				
EBITDA (\$m)	71.4	213.1	304.5	332.0
EV/EBITDA (x)	8.6	2.5	1.2	0.6
Cashflow Multiples				
Gross Cashflow (\$m)	74.3	165.2	222.1	241.0
GCFPS (cents)	38.2	84.5	113.6	123.2
PGCF (x)	8.8	4.0	3.0	2.7
Free Cashflow (\$m)	35.2	102.3	194.4	220.2
FCFPS (cents)	18.1	52.3	99.4	112.6
PFCF (x)	18.6	6.4	3.4	3.0
Dividend				
Dividend (cents)	5.0	19.0	24.0	26.0
Yield (%)	1.5	5.7	7.1	7.7
Franking (%)	100	100	100	100

Payable nickel production

Figure 1: Forecast FY07 and FY08 payable nickel production



Source: Patersons Estimate

MCR:

MCR remains on track to produce 9kt of payable nickel for FY07 from its 4 producing mines and with the bolt on production of 1.4kt from Carnilya Hill and 0.3kt from North Dordie, we forecast FY08 to come in around 10.7kt from six operations. MCR has 33% (2,982t) of FY07, 22% (2,394t) of FY08 and 5% (600t) of FY09 production hedged.

SMY:

SMY's payable production of 8.7kt for FY07, from Sally Malay and Lanfranchi, will increase to 11.3kt as the Winner and later Deacon orebodies are brought on line at the Lanfranchi operations. SMY has 53% (4,494t) of FY07 and 19% (2,100t) of FY08 production hedged and 100% of FY09 production is unhedged.

IGO:

IGO's sole producing asset, the Long shaft operations are forecast to consistently produce circa 9ktpa. However given ground conditions and haulage constraints IGO doesn't have the same production expansion capacity as MCR and SMY and it has a higher portion of this hedged (33% (1800t) for FY07, 42% (2400t) FY08 and 42% (2400t) for FY09) but it is mining higher-grade material.

JBM:

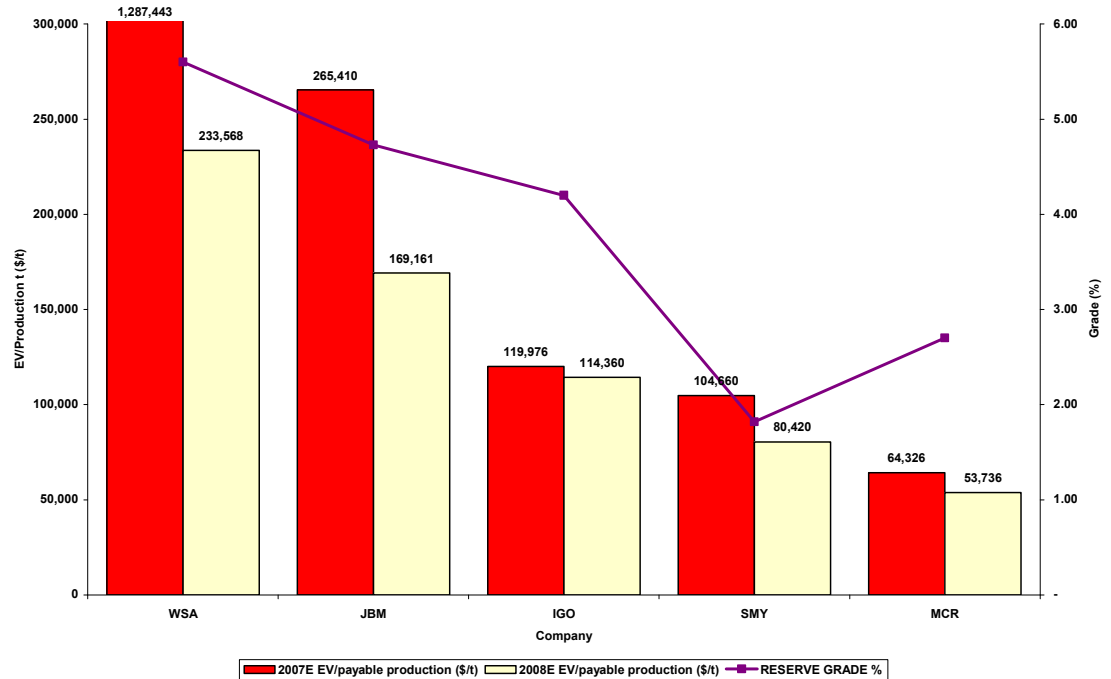
JBM's payable production profile increases from 7.8kt to 12.3kt in FY08 as Prospero comes online. Production is 100% unhedged.

WSA:

With operations only ramping up at Flying Fox underground, FY07 payable production of 0.67kt will increase to 3.7kt in FY08. Production is 100% unhedged and will ramp up to 14.2kt payable in 2010.

Enterprise Value per payable production t

Figure 2: Comparison of WA nickel sulphide producers on Enterprise Value to payable production



Source: Patersons Estimate

MCR

MCR remains the cheapest exposure to a short-term higher nickel price. We believe fears over mine life will be allayed by MCR's aggressive exploration program (esp. from the Kambalda leases).

SMY:

SMY has a longer defined mine life than MCR and this is shown in the price but mined head grades are also lower.

IGO:

We believe up to 30% of IGO's share price is for its 30% of the Tropicana JV with AngloGold Ashanti and its large exploration book. IGO does deserve a premium for its higher head grade but this is negated by its restricted production capacity and out-of-the-money hedge book.

JBM:

A premium for corporate appeal and historical performance is built into the share price, making it an expensive exposure to a short-term high nickel price.

WSA:

WSA is a longer-term development story with a large high-grade resource, production is only ramping up but a premium for takeover speculation is already being built in.

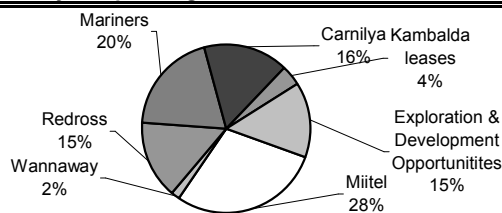
Mincor Resources NL

\$3.36

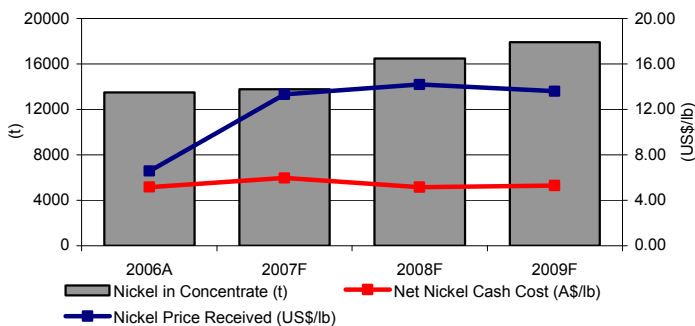
Valuation	A\$m	A\$/sh
Miitel	224	1.11
Wannaway	13	0.06
Redross	119	0.59
Mariners	152	0.75
Carnilya	127	0.63
Kambalda leases	30	0.15
Forward Sales	(74)	(0.37)
Corporate	(57)	(0.29)
Exploration & Development Opportunities	113	0.56
Unpaid Capital	7	0.03
Cash	87	0.43
Debt	(4)	(0.02)
Total @ 8% discount rate	735	3.65
Price Target (30% Premium to NPV)	956	4.74

Sensitivity Price Target	+10%	0	-10%
Nickel Price	\$5.32	\$4.74	\$4.21
A\$: \$US	\$4.16	\$4.74	\$5.50

Valuation Summary of Operating Assets



Nickel Production Summary



Reserves & Resources

Reserves	Mt	Ni %	Ni kt
Miitel (incl. Nth Miitel)	0.58	2.6	15.0
South Miitel	0.38	2.6	9.8
Wannaway	0.04	2.7	1.0
Redross	0.27	3.0	8.2
Mariners	0.41	2.7	11.0
Total	1.67	2.69	44.9

Resources	Mt	Ni %	Ni kt
Miitel (incl. Nth Miitel)	0.80	3.8	30.2
South Miitel	0.30	3.8	11.3
Wannaway	0.14	3.2	4.5
Redross	0.30	4.2	12.5
Mariners	0.35	4.5	15.6
North Dordie	0.14	1.5	2.1
McMahon North	0.31	3.3	10.3
Ken North	0.08	6.6	5.3
Durkin Deepes	0.28	4.6	13.1
Total	2.69	3.89	104.9

Directors

Name	Position
David Humann	Non Executive Chairman
David Moore	Managing Director
Jack Gardener	Non Executive Director
Ian Burston	Non Executive Director
Jim Reeve	Non Executive Director

Substantial Shareholders	Shares (m)	%
MIR Investment Management	12.99	6.60
Barclays GlobalInvestors	10.26	5.25

Commodity Assumptions	2006A	2007F	2008F	2009F
A\$:US\$	0.75	0.78	0.76	0.75
Copper (US\$/lb)	2.29	3.07	2.73	2.46
Lead (US\$/lb)	0.49	0.74	0.66	0.65
Zinc (US\$/lb)	0.96	1.62	1.39	1.25
Nickel (US\$/lb)	7.03	16.71	16.12	14.06
Gold (US\$/oz)	526	639	694	739
Iron Ore Fines (US\$/t)	41	48	51	50
Iron Ore Lumps (US\$/t)	53	61	66	63

Production Summary	2006A	2007F	2008F	2009F
Nickel in Concentrate (t)	13496	13781	16497	17915
Copper in Concentrate (t)	1194	1595	1804	1531
Cobolt in Concentrate (t)	258	567	608	322

Per Pound of Payable Metal

Net Nickel Cash Cost (A\$/lb)	5.16	5.95	5.13	5.29
Nickel Total Cost (A\$/lb)	6.68	7.61	6.58	6.56
Nickel Price Received (US\$/lb)	6.57	13.31	14.19	13.60
Spot Nickel Price (US\$/lb)	7.03	16.71	16.12	14.06
Average FX Received (US\$/A\$)	0.75	0.77	0.76	0.75

Profit & Loss (A\$m)	2006A	2007F	2008F	2009F
Sales Revenue	175.2	369.3	451.9	481.4
Other Income	10.3	-0.6	8.7	16.8
Operating Costs	98.1	128.4	132.7	142.3
Exploration Exp.	5.0	11.0	6.9	7.1
Corporate/Admin	10.9	16.2	16.5	16.8
EBITDA	71.4	213.1	304.5	332.0
Depn & Amort	29.3	32.8	34.2	32.7
EBIT	42.1	180.3	270.3	299.3
Interest	0.7	0.4	0.3	0.3
Operating Profit	41.4	179.9	270.0	299.0
Tax expense	11.3	53.6	81.0	89.7
Abnormal Losses / Minorities	0.0	0.0	0.0	0.0
NPAT	30.2	126.3	189.0	209.3

Normalised NPAT	29.0	125.9	189.0	209.3
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Cash Flow (A\$m)	2006A	2007F	2008F	2009F
Adjusted Net Profit	30.2	126.3	189.0	209.3
+ Interest/Tax/Expl Exp	17.0	65.0	88.3	97.1
- Interest/Tax/Expl Inc	9.0	58.9	89.3	98.0
+ Depn/Amort	29.3	32.8	34.2	32.7
+/- Other	6.9	0.0	0.0	0.0
Operating Cashflow	74.3	165.2	222.1	241.0
- Capex (+asset sales)	28.4	63.4	27.7	20.9
- Working Capital Increase	10.7	(0.5)	0.0	0.0
Free Cashflow	35.2	102.3	194.4	220.2
- Dividends (ords & pref)	7.8	17.5	41.1	50.8
+ Equity raised	0.0	0.6	0.0	0.0
+ Debt drawdown (repaid)	(0.6)	(0.1)	0.0	0.0
Net Change in Cash	26.8	85.3	153.4	169.3
Cash at End Period	45.0	130.4	283.7	453.1
Net Cash/(LT Debt)	40.7	126.4	279.8	449.1

Balance Sheet (A\$m)	2006A	2007F	2008F	2009F
Cash/Bullion	45.0	130.4	283.7	453.1
Total Assets	164.8	286.1	448.9	612.7
Total Debt	4.4	4.0	4.0	4.0
Total Liabilities	93.8	160.9	175.8	181.1
Shareholders Funds	71.1	199.3	347.2	505.7

Ratios

Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	60.3	472.2	781.8	865.8
Return on Equity (%)	42.4	63.4	54.4	41.4

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