

Investment Rationale

- Ore reserves equivalent to 3 years of production maintained for the last 7 years.
- Strong balance sheet with no debt and cash at bank of \$55.8 million.
- Flexibility to increase production of nickel ore in response to any increase in nickel price.
- Profit of \$35 million on a modest 1,700 tonnes of payable nickel hedged to May 2010.

Nickel Producer

| | |
|--------------------------|-----------------|
| ASX listing code | MCR |
| Last Price | \$0.60 |
| Shares on issue | 198.9 million |
| Unlisted options | 3.7 million |
| Market Cap. | \$120.4 million |
| 52 Week High | \$3.85 |
| 52 Week Low | \$0.46 |
| Average monthly turnover | 29.8 million |

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Investment Fundamentals

| Year-end Jun | FY08A | FY09E | FY10E | FY11E |
|---------------------|-------|--------|--------|--------|
| Sales Revenue (\$m) | 329.3 | 184.5 | 162.2 | 171.5 |
| EBITDA (\$m) | 154.8 | 39.0 | 50.0 | 50.0 |
| EBIT (\$m) | 99.2 | (28.4) | (12.0) | (12.7) |
| NPAT (\$m) | 64.0 | (12.5) | (10.0) | (4.1) |
| EPS (c) | 32.0 | (8.4) | (7.6) | (4.1) |
| DPS (c) | 12.0 | 2.0 | 2.0 | 2.0 |
| Franking (%) | 100 | 100 | 100 | 100 |
| Dividend Yield (%) | 3.6 | 3.3 | 3.3 | 3.3 |

Source: Intersuisse estimates

Price Chart



Production Statistics

| December quarter 2008 | | |
|-----------------------|--------|---------|
| Ore mined | tonnes | 180,204 |
| Nickel grade | % | 2.89 |
| Nickel in concentrate | tonnes | 4,618.3 |
| Copper in concentrate | tonnes | 372.1 |
| Cobalt in concentrate | tonnes | 74.0 |
| Sales revenue | \$m | 59.31 |
| Direct operating cost | \$m | 36.65 |
| Royalty costs | \$m | 2.42 |
| Operating surplus | \$m | 20.24 |
| Cash operating cost | A\$.lb | 5.61 |

Source: Mincor Resources NL

Company background

MCR is Australia's third largest listed nickel producer with annual production potential approaching 20,000 tonnes. Historically, the company had a very active regional and near mine exploration program at Kambalda resulting in significant increases in the nickel resource. Development drilling has maintained ore reserves at approximately 3 years of production since the start of mining. Exploration programs evaluating gold, base metals and uranium opportunities have the potential to diversify commodity risk. Strong cash flow has enabled the company to maintain a dividend flow since 2003.



Figure 1: Kambalda region mining operations

Source: Mincor Resources NL

In response to the current economic climate MCR has implemented its operational plan to protect its financial position. Cash costs have been further reduced and high cost mines have been placed on care and maintenance. This approach ensures that ore reserves are maintained and production can be rapidly increased once economic conditions improve.

Nickel operations

MCR operates two mining centres in the nickel rich Kambalda district of Western Australia. Northern operations comprise the Otter Juan, Coronet, McMahon and Carnilya Hill mines and are located to the north and east of the town of Kambalda. The Southern operations comprise the Miitel, Mariners, Redross and Wannaway mines and are centred on the Widgeemooltha Dome, some 50 km to the south of Kambalda.

All mines are owned 100% with the exception of Carnilya Hill which is 70% owned and operated by MCR. Ore produced at each of MCR's mines is trucked to the BHP Billiton mill at Kambalda and is toll treated to produce nickel concentrate which is then sold to BHP Billiton under a long-term sales agreement. Payment is made to MCR in US\$ based on the average spot nickel price during the third month after delivery.

The Wannaway mine was placed on care and maintenance in August 2008 following the completion of mining of existing ore reserves. And the Redross mine is due to close by mid 2009. As part of the operational management plan, the Miitel mine was placed on care and maintenance at the end of December and capital expenditure at the McMahon mine was halted. Full scale production and development activities continue at Otter Juan, Carnilya Hill and Mariners.

With the shift in focus from maintaining the volume of nickel metal production to increasing the margin on the ore mined, targeted metal production for 2008/09 has been reduced from 19,500 to 20,500 tonnes to 16,500 to 17,500 tonnes. Cash operating costs that have been steadily reducing from \$6.59/lb Ni in FY07 to \$6.40/lb Ni in FY08 and at the end of the December quarter had further reduced to \$5.61/lb Ni.

Mincor Resources NL

MCR

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Reserves and resources

MCR has a stated objective of discovering an additional 250,000 tonnes of nickel in resource over the next 5 to 8 years, providing a total resource of 400,000 tonnes of contained nickel to be able to sustain an annual production of 20,000 tonnes for 20 years.

During FY08, MCR again increased its resources base that now stands at a total of 4.33 million tonnes ore @ 3.87% Ni for a total of 167,300 tonnes of contained nickel. Ore reserves stand at 1.97 million tonnes @ 2.9% Ni for a total of 57,000 tonnes of contained nickel, continuing the practice of maintaining a rolling 3 years of reserves ahead of the annual production rate, as indicated in the figure below.

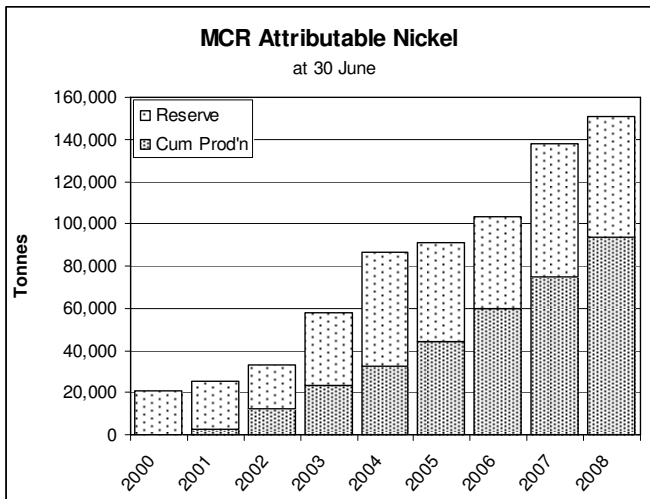


Figure 2: Cumulative nickel production and year end reserves

While regional exploration expenditure has been reduced, near mine exploration is continuing with the objective of adding substantially to ore reserves and resources so that production can increase significantly once nickel prices improve.

The success of MCR's exploration strategy is demonstrated by extensions to known mineralisation at a number of mines. Drilling on the Burnett shoot of the Miitel ore system has returned intersection or 5.58 metres @ 2.74% Ni, 1.3 metres at 4.14% and 1.1 metres at 8.91% and extending the known mineralisation at Burnett by 960 metres to the north of the current reserve limit and still remains open. Underground drilling at Wannaway continues to confirm the presence of mineralisation below the mine out ore with intersection that include 3.7 metres at 6.50% Ni.

At the Northern operations, underground drilling is reaping benefits with potential extensions being identified at Otter Juan and Carnilya Hill. Intersections of 2.66 metres @12.75% Ni outside the current ore resource boundary indicates significant upside potential at the Carnilya Hill ore system.

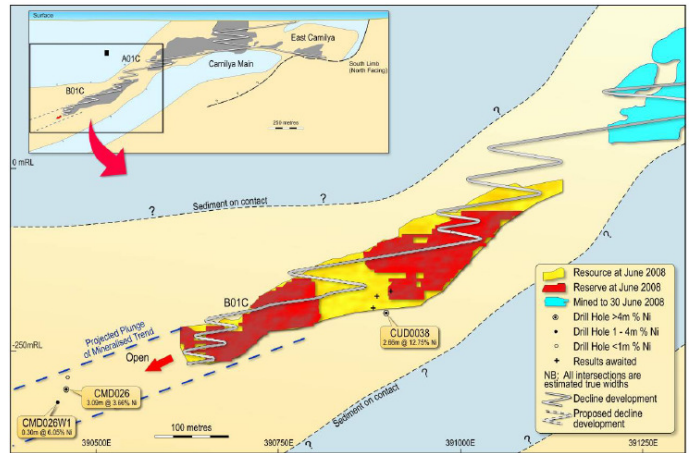


Figure 3: Carnilya Hill long section

Source: Mincor Resources NL

Other metals exploration

MCR is also undertaking exploration activities throughout Australia for base metals, gold and other commodities. A 16-hole drilling program was completed during the September quarter at the Tottenham copper project in central New South Wales. A structural review is currently being undertaken with the objective of identifying additional untested targets.

A significant gold anomaly at the Caspian Prospect within the company's Lake Cowan gold project has been identified. The anomaly covers an area of 800 metres by 200 metres at the 0.5 g/t gold level, occurring within an arsenic blanket at the 200 ppm arsenic level.

MCR's uranium exploration program at the Gascoyne Prospect, east of Carnarvon in Western Australia is yielding encouraging results with a number of radiometric anomalies having been identified.

In the Northern Territory, MCR is undertaking exploratory work in the Georgina Basin 200 km northeast of Alice Springs to test the theory that the area can host a new zinc-lead mineralisation system. The work is being conducted in partnership with Japan Oil, Gas and Minerals National Corporation which is funding up to \$4.5 million over 3 years to earn a 45% interest in the project.

In Ireland, MCR's Tipperary (MCR 51%) zinc joint venture covers a substantial package of contiguous licence areas along approximately 30 km of the strike of the Rathdowney Trend. A diamond drilling program was completed during the September quarter with the best intersection returning 8.55 metres at 0.77% zinc, including 0.30 metres at 11.2% zinc.

Corporate

As a result of the significant decrease in the price of nickel, quarterly operating surpluses reported by the company have also decreased from a high of \$48.3 million in the September quarter of 2007 to \$20.2 million for the December quarter 2008.

Mincor Resources NL

While operating cash flow remained positive, MCR announced an accounting loss for the first half of FY09 of \$22.7 mn. The loss resulted from the reduction in nickel price requiring a pricing adjustment to the previous year's earnings as well as the inability of the Miitel mine to cover its non-cash costs.

On a positive note, the implementation of the Management Plan has seen MCR's working capital position (cash and receivables less creditors and accruals) decline by just \$4.3 million to \$71.69 million during the quarter even though it paid \$4.7 million in provisional income tax and reduced revenue received by \$18.5 million compared to receivables booked in the previous quarter as a result of provisional pricing adjustments. MCR remains debt free and with a strong net cash position.

MCR

As at 31 December 2008, MCR has sold forward a total of 1.700 tonnes of payable nickel metal to May 2010 at an average price of A\$37,259 per tonne. While this represents approximately 13% of expected production over that period of time, it also represents a total profit of \$35.2 million on the hedge book during the next 17 months.

Recommendation

We rate MCR as a short-term **HOLD** and a long-term **BUY** in recognition of MCR's debt free status, strong balance sheet and ability to ramp up production once economic conditions improve and nickel prices increase in response to the likely increase in the demand for stainless steel.

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