

RESOURCES

Murchison Metals Ltd

Stage 1 Production Set to Commence. Valuation Upgraded

Recommendation:

BUY

Stage 1 Production to Commence in July 2006

Infrastructure Could be Constructed/Managed by a Specialist Operator

Stage 2 Pre-Feasibility Study Shows Strong Economics

Significant High Iron Grade Resource Potential Exists

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May 2006

ASX: MMX

Share Price:
\$0.60/share

Valuation:
\$2.97 share

Number of Shares:
279.7M (fully paid)

Number of Options :
101M (\$0.20-\$1.00 exerc.)

Market Capitalisation:
\$228.0M (fully diluted)

Valuation Capitalisation:
\$1,125.3M

Average Mthly Turnover:
\$14.9M

12 Month Low / High:
\$0.25 / \$0.64 per share

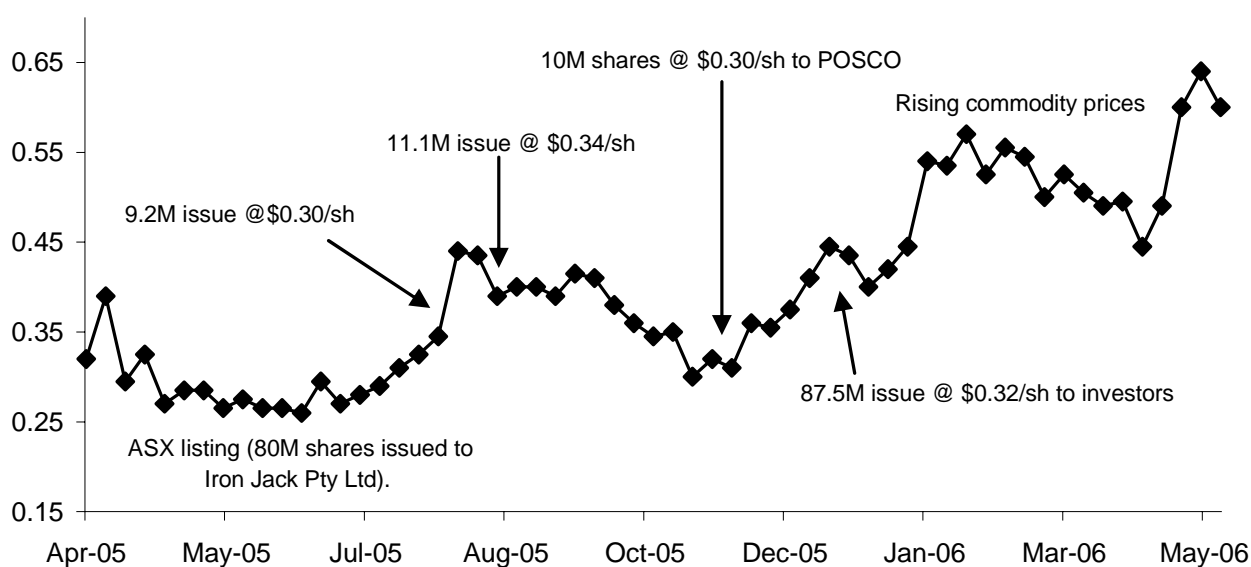


Source MMX Prime movers ready for haulage of Stage 1 iron ore to the Port of Geraldton.

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CHART 1: MMX SHARE PRICE PERFORMANCE SINCE LISTING



Source: BBY

Murchison Metals Ltd

MMX BUY \$0.60

Stage 1 production set to commence. Valuation upgraded

We maintain our BUY recommendation and have upgraded our valuation to A\$2.97/share (old: A\$2.09/sh) after a company update and pre-feasibility study release. The pre-feasibility study completed by Maunsell-AECOM and ProMet Engineers, highlights the robustness of the Stage 2 project despite a 29% increase in forecast project CAPEX. The key valuation upgrade drivers include higher forecast long-term iron ore prices (+5%) and a lower forecast direct CAPEX contribution by MMX as the company plans to attract a specialist infrastructure manager to finance and operate rail & port infrastructure, significantly reducing its CAPEX and financing requirements. Stage 1 production has been delayed until final Government environmental approvals are received, likely in Jul 06. First shipments are planned for Aug 06. We believe that MMX presents an excellent opportunity to invest in an emerging iron ore producer that could produce 25Mt pa by 2012 with POSCO its key partner/customer.

Key Jack Hills project highlights

- **Location** – 380km NE of the Port of Geraldton.
- **Resources** – 67Mt JORC resource (including mine reserve of 8.5Mt @ 63%Fe), potential for additional resources >300Mt based on previous exploration work.
- **Ore quality** – 62-63%Fe, low phosphorus (<0.05%) & low impurities. Direct Shipping Ore, not requiring beneficiation.
- **Mine life** – at least a 20-year mining operation (Stage 1 & 2).
- **Production** – Stage 1 to commence in Jul/Aug 06. FY07 annual production of 1.7Mt increasing to 2.0Mt for four years. Stage 2 planned production of 25Mt annually FY2010-12.
- **POSCO** – strategic partner bringing technical, marketing, infrastructure; and potentially, financial support.

Key operational, financial and corporate highlights

- **Cash** – A\$16.7M Mar 06 post-placement (Dec 05) raising A\$28M.
- **Stage 1** – 1.2Mtpa iron ore contracts with Chinese steel mills.
- **Iron ore prices** – Year 1 contract prices set at US\$58/t. Subsequent year's forecast at a premium to benchmark prices.
- **Stage 2** – 10Mtpa contracts with POSCO & 6Mtpa with various Chinese steel mills.
- **Project financing** – Stage 1 complete by Mar 06 (CAPEX A\$49M), Stage 2 before mid 2008 (CAPEX A\$1.72B inc. A\$1.44B infrastructure, CAPEX funded off-balance sheet).

Project timetable outlook

- Mar 06 – Stage 2 drilling and feasibility study commenced.
- Jul 06 – mine production to commence (subject to gov't approvals).
- Aug 06 – first shipments.
- Mar 07 – Stage 2 feasibility study complete.
- Jun 08 – Stage 2 construction of rail & port to commence.
- Jul 10 – Stage 2 production to commence.

Company Data

Number of shares (fully diluted)	380.1M
Market capitalisation	\$235.6M
12 month high/low	\$0.64 / \$0.25
Average monthly turnover	\$14.6M
All Ordinaries Index	5285
Valuation (fully diluted)	A\$2.96/sh
Year end	30 June

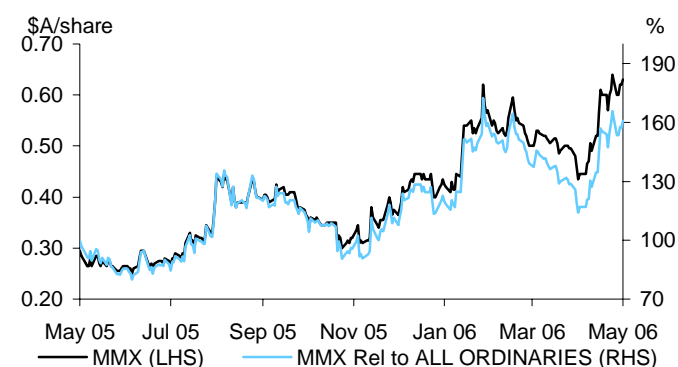
Earnings Summary

Year end June	2006F	2007F	2008F	2009F	2010F	2011F
EBITDA (A\$M)	(2.1)	19.9	48.1	31.6	24.4	250.5
NPAT (A\$M) ¹	(3.4)	4.0	24.6	13.7	7.6	155.1
EPS (¢/sh)	(0.9)	1.1	6.5	3.6	2.0	55.6
PER (x)	na	57.1	9.3	16.7	29.9	1.1
EBITDA Multiple (x)	na	12.6	4.6	9.2	16.7	0.6
Cashflow (A\$M)	(1.8)	14.1	34.8	28.9	19.0	267.7
CFPS (¢/sh)	(0.5)	3.7	9.2	7.6	5.0	95.8
P/CFPS (x)	na	16.2	6.6	7.9	12.0	0.6
Dividend (¢/sh)	0.0	0.0	0.0	0.0	0.0	15.1
Return on Assets (%)	na	3.4	16.5	6.2	2.3	23.3
Return on Equity (%)	na	6.2	26.8	14.2	9.5	53.0
Gearing ND/(ND+E) (%)	20.5	25.6	na	39.4	69.3	na
Interest Cover (x)	4.5	18.1	17.8	na	na	17.9
EBITDA margin (%)	na	17.3	31.3	21.7	19.7	33.9
EBIT margin (%)	na	5.2	22.1	11.6	6.8	31.8

Directors

Executive Chairman	Paul Kopejtka
Managing Director	Trevor Matthews
Executive Director	Robert Vagnoni

MMX versus ALL ORDINARIES Index



Year End 30 June																			
PROFIT & LOSS		2005A	2006F	2007F	2008F	2009F	2010F	2011F	RESERVES & RESOURCES		2005A	2006F	2007F	2008F	2009F	2010F	2011F		
Sales Revenue	\$M	0.1	0.0	115.2	153.6	145.4	124.0	739.2	Jack Hills - Inferred and Indicated Resources (Stage 1 & 2)										
Other Income	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Tonnes ¹	mt	67.0	67.0	65.3	63.5	61.5	380.0	366.7		
Operating Costs	\$M	(1.5)	0.0	(91.6)	(102.5)	(110.8)	(96.5)	(485.8)	Grade - Iron	%	62.0	62.0	62.0	62.0	62.0	62.0	62.0		
Corporate Costs	\$M	0.0	(2.1)	(3.8)	(3.0)	(3.0)	(3.0)	(3.0)	Grade - Silica	%	2.7	2.7	2.7	2.7	2.7	2.7	2.7		
Expl write-off	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Grade - Alumina	%	0.4	0.4	0.4	0.4	0.4	0.4	0.4		
EBITDA	\$M	(1.4)	(2.1)	19.9	48.1	31.6	24.4	250.5	Grade - Phosphorus	%	0.02	0.02	0.02	0.02	0.02	0.02	0.02		
Depreciation & Am.	\$M	0.0	(1.3)	(13.9)	(14.2)	(14.7)	(16.0)	(15.6)	Grade - LOI	%	2.00	2.00	2.00	2.00	2.00	2.00	2.00		
EBIT	\$M	(1.4)	(3.4)	6.0	33.9	16.9	8.5	234.9	¹ includes JORC reserves of 8.5Mt grading Iron 63%, Silica 4.7%, Alumina 0.5% and Phosphorus 0.08%										
Net Interest	\$M	0.0	0.8	(0.3)	(1.9)	2.6	2.4	(13.1)	BBY estimates only (includes 67Mt of JORC measured & inferred resources)										
Pre-Tax Profit	\$M	(1.4)	(2.7)	5.7	32.0	19.5	10.9	221.7	MINE PRODUCTION - Iron ore										
Tax	\$M	0.0	(0.8)	(1.7)	(7.3)	(5.9)	(3.3)	(66.5)	Mining	mt	0.0	0.0	5.2	5.4	6.0	6.0	40.0		
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Waste : ore ratio	x	0.0	0.0	2.0	2.0	2.0	2.0	2.0		
Net Profit	\$M	(1.4)	(3.4)	4.0	24.6	13.7	7.6	155.2	Lump - iron ore	mt	0.0	0.0	1.1	1.2	1.3	1.3	8.7		
Abnormal	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Fine - iron ore	mt	0.0	0.0	0.6	0.6	0.7	0.7	4.7		
Reported Profit	\$M	(1.4)	(3.4)	4.0	24.6	13.7	7.6	155.2	Total	mt	0.0	0.0	1.7	1.8	2.0	2.0	13.3		
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	(57.2)	Grade - Iron	%	62.0	62.0	62.0	62.0	62.0	62.0	62.0		
Retained Earnings	\$M	(2.6)	(6.1)	(2.1)	22.6	36.2	43.8	141.8	Grade - Silica	%	2.7	2.7	2.7	2.7	2.7	2.7	2.7		
CASH FLOW									Grade - Alumina	%	0.39	0.39	0.39	0.39	0.39	0.39	0.39		
Revenue	\$M	0.0	0.0	85.8	143.4	148.3	126.7	657.5	Grade - Phosphorus	%	0.02	0.02	0.02	0.02	0.02	0.02	0.02		
Costs	\$M	(1.9)	(1.1)	(67.8)	(100.7)	(108.8)	(103.8)	(363.3)	Grade - LOI	%	2.00	2.00	2.00	2.00	2.00	2.00	2.00		
Net Interest	\$M	0.1	0.8	1.1	(1.8)	1.1	2.4	(4.3)	COSTS										
Tax Paid	\$M	0.0	(0.4)	(1.3)	(3.5)	(8.7)	(3.3)	(19.3)	Mining costs	A\$/t	0.0	8.0	8.1	8.2	8.3	4.2	6.2		
Other Costs	\$M	0.0	(1.1)	(3.8)	(2.6)	(3.0)	(3.0)	(3.0)	Processing costs	A\$/t	0.0	2.5	2.5	2.6	2.6	1.3	1.5		
Gross Cash Flow	\$M	(1.9)	(1.8)	14.1	34.8	28.9	19.0	267.7	Transport	A\$/t	0.0	33.0	33.6	34.5	35.3	18.0	2.0		
Net Capex	\$M	(0.2)	(39.8)	(9.3)	(7.8)	(58.3)	(102.6)	(3.6)	Administration	A\$/t	0.0	1.2	1.2	1.3	1.3	0.7	0.6		
Exploration / Mine	\$M	(1.5)	(7.9)	(28.0)	0.0	(35.0)	(35.0)	(4.2)	Total (excl. royalties)	A\$/t	0.0	44.7	45.4	46.5	47.5	24.1	10.2		
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Royalties	A\$/t	0.0	0.0	7.4	10.5	7.9	3.8	6.1		
Other	\$M	(1.5)	0.0	0.0	0.0	0.0	0.0	0.0	Total cash costs	A\$/t	0.								

May 2006

Valuation & Sensitivities

Valuation upgraded to A\$2.97/share

A\$2.97/share
valuation assumes
MMX secures an
infrastructure
operator

Stage 2 is viable
despite higher CAPEX

We have upgraded our valuation to A\$2.97/share (previously A\$2.09/share) post the release by the company of its pre-feasibility study for Stage 2 and our confidence that the company through its participation in the Geraldton Iron Ore Alliance will successfully secure a specialist infrastructure manager to construct and operate infrastructure for the emerging iron ore producers in the Mid West region of WA. However, even if MMX were to sole fund mine development and rail and port infrastructure CAPEX of A\$1.7B, the project remains viable with a forecast valuation of A\$1.71/sh using a 15% discount rate for Stage 2. We previously forecast CAPEX for Stage 2 of A\$1.4B. Offsetting the higher forecast CAPEX is a 5% forecast lift in long-term iron prices and forecast lower operating costs before infrastructure related charges.

Conservative valuation methodology and assumptions

MMX is trading at a
significant discount
to our A\$2.97/sh
valuation

We believe MMX
represents excellent
value in the emerging
iron ore industry

Our valuation is derived using fundamental NPV valuation methodologies (Chart 2). Key considerations include: (i) a WACC DCR of 9.3% for Stage 1 based on an **equity beta** of 1.71, and an after tax cost of debt of 6.3% (ii) a DCR of 15% for Stage 2 recognising the project is at the early stage of development (iii) cashflow generated over a mine life of 20 years based on BBY forecast of reserves (iv) a ramp-up of production from Stage 1 production of 1-2Mt to 25Mt annually within six years (v) production mix made up of 65% lump 35% fine iron ore (vi) an average Stage 1 project **nominal** weighted lump and fine iron ore price contracted at US\$53.7/t compared to an equivalent Japanese benchmark contract price of US\$45/t (vii) Stage 2 received prices based on Japanese benchmark prices (viii) an average operating cash cost including transport, royalties and native title costs for Stage 1 of A\$55.0/t and Stage 2 average costs of A\$23.94/t over the project life (ix) an average rail and port operator margin and capital amortisation charges of A\$10.50/t (x) capital cost for Stage 1 of A\$48.5M (including resource drilling, feasibility and contingency costs) and for Stage 2, mine development and mine plant and equipment costs of A\$280M (excludes off-balance sheet infrastructure CAPEX of A\$1.44B to be financed and constructed by a specialist infrastructure manager) (xi) sustaining annual CAPEX at 2% of the total mine development capital cost, and (xii) other assets of A\$5M (Table 1).

TABLE 1: MMX-STAGE 2 VALUATION ASSUMPTIONS AND COMPARISONS

Our view is that MMX through the Geraldton Alliance, will secure an infrastructure developer.	Year End June		Unit	Latest	Jan'06 report valuation
	Currency		A\$/US\$	0.71	0.71
	Lump (nominal)		US\$/dmtu	71.3	67.9
	Fines ((nominal)		US\$/dmtu	55.8	53.2
	MMX weighted price received		US\$/t	39.5	37.7
	MMX weighted price received		A\$/t	55.6	53.1
	Production ramp-up		Months	24	24
	Production		MT	25	25
	Production lump/fines		Ratio	65/35	65/35
	Operating costs		A\$/t	16.8	16.7
	Operating costs (incl. Royalties)		A\$/t	23.9	23.6
	Rail & port access charge		A\$/t	3.4	nil
	Rail & port amortisation charge		A\$/t	7.1	nil
	CAPEX ¹		A\$M	280	1,367
	Sustaining CAPEX		%	2.0	2.0
	EBITDA Margin ²		%	43.8	56.1
	EBIT Margin ²		%	42.2	48.0
	Discount rate		%	15.0	15.0
	NAV (Jun.'06)		A\$M	1,062.2	739.1
	Valuation		A\$/share	A\$2.97	A\$2.09

Source: BBY. ¹Excludes rail & port infrastructure CAPEX, planned to be constructed and managed by a specialist infrastructure developer. Lower margins reflect inclusion of infrastructure access and amortisation charges.

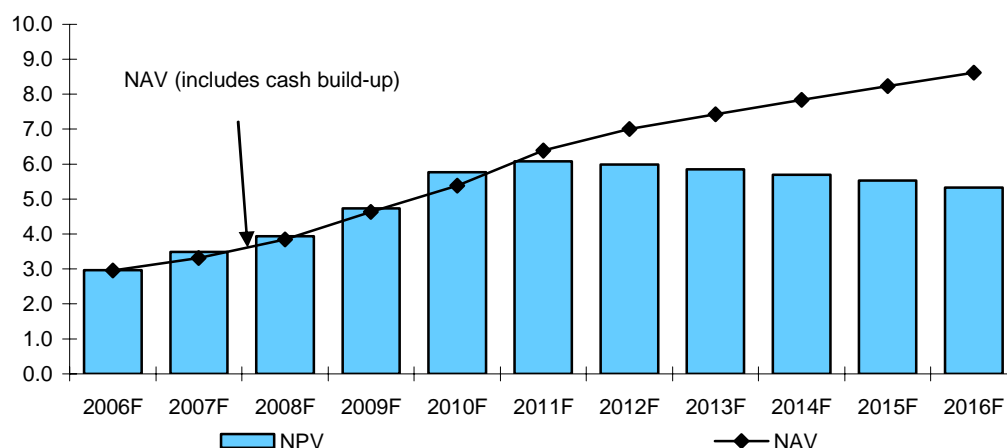
Project is most sensitive to exchange rates and prices

Project is sensitive to key project parameters

Our sensitivity analysis reviews the impact of key assumption variations to our valuation. Changes in the A\$/US\$ exchange rate have the greatest impact on our valuation, followed by iron ore prices, the discount rate and operating costs including port and rail access and amortisation-related costs. Our valuation is least impacted by changes in our CAPEX assumptions (Table 2).

CHART 2: MMX - NET APPRAISED VALUE & MINE DISCOUNTED CASHFLOW (A\$/SHARE)

MMX NPV profile using ungeared cashflows peaks in 2011 at A\$6.08/sh



Source: BBY

TABLE 2: VALUATION SENSITIVITY - 10% CHANGE IN KEY PARAMETERS (A\$/SHARE)

	Units	A\$/share			% Change		
		2006F	2007F	2008F	2006F	2007F	2008F
Valuation	Current	2.97	3.42	3.97			
A\$/US\$	+10%	2.22	2.57	3.00	(25)	(25)	(24)
A\$/US\$	-10%	3.85	4.46	5.15	31	30	30
MMX (fob) - Iron ore prices US\$/t	+10%	3.73	4.31	4.99	27	27	27
MMX (fob) - Iron ore prices US\$/t	-10%	2.15	2.50	2.91	(26)	(26)	(26)
Discount rate (15.0%)	+10%	2.56	3.01	3.54	(13)	(12)	(11)
Discount rate (15.0%)	-10%	3.42	3.90	4.46	16	14	13
Operating costs before royalties	+10%	2.54	2.94	3.42	(14)	(14)	(14)
Operating costs before royalties	-10%	3.37	3.90	4.52	14	14	14
Project - CAPEX	+10%	2.70	3.13	3.63	(9)	(9)	(8)
Project - CAPEX	-10%	3.19	3.70	4.28	8	8	8

Source: BBY

Analysis Parameters

Strong iron ore fundamentals to support prices

Conservative long-term forecast:

- A\$/US\$ = A\$0.71;
- lump Fe price US\$71.1¢/dmu;
- fine Fe price US\$55.7¢/dmu

Commodity price parameters incorporated into our analysis reflect a positive outlook for iron ore products over the medium to longer term as strong underlying demand, particularly from China and SE Asia, outstrips supply in the short term. At the same time, our analysis adopts conservative price assumptions over the longer term for both lump and fine iron ore prices of US\$71.1¢/dmu and US\$55.7¢/dmu, respectively, against current prices of US\$78.8¢/dmu and US\$61.7¢/dmu for lump and fine ore, respectively (Table 3) forecast to increase by 10% for the year beginning 1 April 2006. Long-term historical (1975-2005) **US real GDP-deflator adjusted** fine ore prices averaged US\$38.4¢/dmu and this compares to our forecast long-term **US real GDP-deflator adjusted** fines ore price of US\$38.4¢/dmu. Our analysis assumes a long-term A\$/US\$ exchange rate of US\$0.71 (average exchange rate since the float of the currency in 1983) against the current spot exchange rate of US\$0.77, reflecting (i) buoyant global economic conditions for commodities particularly from China and other SE Asian economies and (ii) favourable A\$ interest rates which remain above US\$ rates. Long-term A\$ historical (1983-2005) **US real GDP-deflator adjusted** fines ore prices averaged A\$50.8¢/dmu and this compares to our forecast long-term 'real adjusted' fines ore prices of A\$54.7¢/dmu for the period 2012-2026. The higher long-term average real fines iron ore price is skewed to higher prices in the early years of production which we believe is justified given the strong fundamental outlook (Chart 3).

Tonnes processed:

- 2008 = 1.8Mtpa;
- 2009 = 2.0Mtpa;
- 2010 = 2.0Mtpa;
- 2011 = 13.4Mtpa

Revenue growth driven by production ramp-up and long mine life

The key revenue drivers include (i) a Stage 2 mine life of at least 15 years (ii) buoyant commodity prices as discussed above (iii) high quality iron ore attracting minimal price discounts and (iv) a rapid ramp-up of production within six years to 25Mt of ore processed annually by 2012 (Chart 4).

Costs reflect the key attributes of the mineralisation

Key project attributes to keep costs low include:

- low strip ratio;
- bulk open pit mining methods;
- large tonnage of high grade material;
- access to port facilities at Geraldton for Stage 1 and new port at Oakajee 23km to the north for Stage 2

A number of key project attributes will assist in keeping operating costs down. These include (i) an ore body which is amenable to bulk open-cut mining methods (ii) low strip ratios (iii) large tonnages of high grade **Direct Shipping Ore (DSO)** which requires only crushing and screening (iv) ore characteristics that are low in impurities including phosphorus, silica and alumina, and (v) access to key deep water port facilities at Geraldton. However, Stage 2 requires new port facilities (planned at Oakajee, 23km North of Geraldton) and rail capacity to be built requiring significant expenditure. We are of the view that the Geraldton Alliance, which includes Murchison Metals (MMX), Gindalbie (GBG), Mt Gibson (MGX), MidWest (MIS) and West Golden Resources (WGR), will be successful in attracting a specialist infrastructure operator to develop and manage rail and port infrastructure required for Stage 2. Our key cost assumptions (Table 4) include (a) capital cost for Stage 1 of A\$48.5m and A\$280M for Stage 2 mine development and mine plant and equipment including feasibility costs and contingencies, (excludes infrastructure costs) (b) sustaining CAPEX at 2% of the total project cost (c) average project on-site **mining** costs of A\$8.2/t for Stage 1 and A\$6.4/t for Stage 2 (d) average project **processing** costs per tonne of ore produced of A\$2.6/t for Stage 1 and A\$1.7/t for Stage 2 (e) average off-site transport and port costs of A\$34.7/t for Stage 1 reflecting the high cost of road transport from Jack Hills to the port of Geraldton (a distance of approximately 600km) and A\$8.8/t for Stage 2 once suitable rail infrastructure is in place (f) rail and port access and amortisation charges of A\$10.50/t (g) administration costs in the range of A\$0.6-1.3/t and (h) royalty and native title costs of A\$7/t.

Long-term A\$ 'real' fine prices = A\$54.7¢/dmu consistent with historical averages

TABLE 3: CURRENCY & COMMODITY PARAMETERS

	Units	2006F	2007F	2008F	2009F	2010F	2011F	Long-term
Currency	A\$/US\$	0.74	0.73	0.71	0.71	0.71	0.71	0.71
Lump - Iron price	US¢/dmu	82.7	84.5	80.2	74.3	70.4	70.3	71.1
Fine - Iron price	US¢/dmu	64.8	66.2	62.9	58.2	55.2	55.4	55.7

Source: BBY. Based on 30 Jun year-end.

TABLE 4: PRODUCTION AND COST PARAMETERS

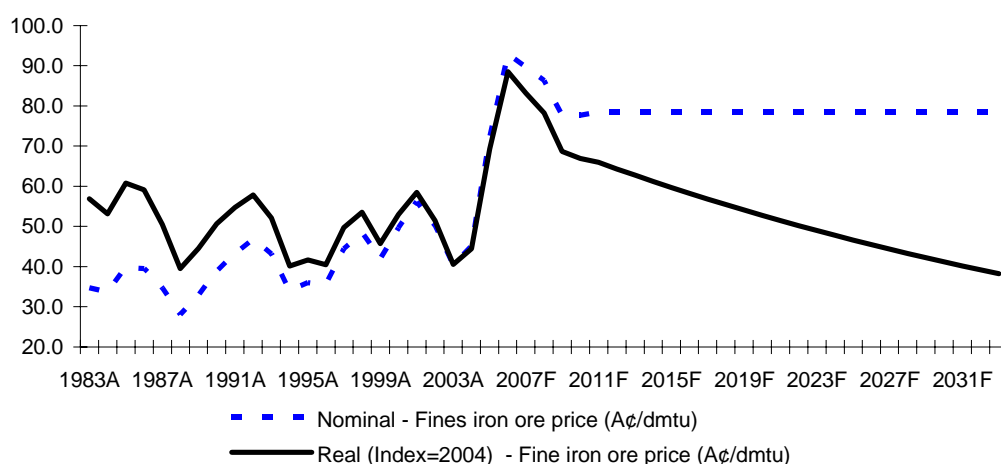
Iron ore production
to be ramped-up to
25Mt annually
within six years

Production	Units	2006F	2007F	2008F	2009F	2010F	2011F	2012F	Long-term
Tonnes mined	Mt	0.0	5.2	5.4	6.0	6.0	40.0	78.5	87.0
Strip ratio	x	0.0	2.0	2.0	2.0	2.5	2.5	2.5	2.5
Lump - iron ore produced	Mt	0.0	1.1	1.2	1.3	1.3	8.7	14.6	16.2
Fine - iron ore produced	Mt	0.0	0.6	0.6	0.7	0.7	4.7	7.9	8.7
Costs¹									
Mining	A\$/t	0.0	8.1	8.2	8.3	8.4	6.2	5.9	6.4
Processing - ore	A\$/t	0.0	2.5	2.6	2.6	2.6	1.5	1.5	1.7
Transport & port.	A\$/t	0.0	33.6	34.5	35.3	36.2	7.8	8.0	8.0
Transport & port access charge							5.3	3.1	3.3
Transport & port amort. charge							9.7	7.7	6.6
Administration	A\$/t	0.0	1.2	1.3	1.3	1.3	0.7	0.5	0.6
Royalties & native title	A\$/t	0.0	8.2	11.3	8.7	7.7	6.9	6.9	6.9
Total cash costs	A\$/t	0.0	53.8	57.9	56.4	56.4	38.1	33.8	33.5

Source: BBY. Based on 30 June year-end.¹ Costs per tonne of ore produced. Production originally planned to commence in Mar/Apr has been delayed until FY '07.

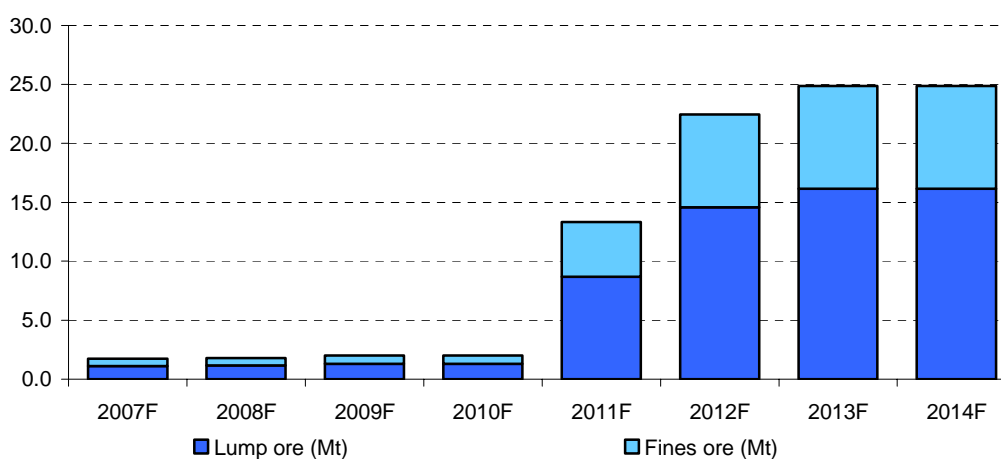
CHART 3: HISTORICAL AND FORECAST NOMINAL AND REAL FINE IRON ORE PRICES A¢/DMTU

Historical prices



Source: BBY

CHART 4: MMX – JACK HILLS IRON ORE PRODUCTION (MTPA)



Source: BBY

Financial Analysis

MMX on track for first profit in 2006

Stage 2 EBITDA margins are forecast to be robust

MMX is on track to earn a maiden profit in 2007 once the Stage 1 Jack Hills iron ore project is commissioned in 2H06. In the first full year of production, we forecast an EBITDA of A\$19.9M. Once Stage 2 reaches target annual production of 25Mt in 2012-13, the company could be generating EBITDA of over A\$500M annually. Cashflow generated over the next 4-5 years from Stage 1 production will be used to fund a feasibility study and provide working capital for Stage 2 (Table 5). BBY forecasts that the Stage 2 project could generate average EBITDA margins of 43.8% and EBIT margins of 42.2% over the project's life, which reflects (i) high prices received from high quality production and (ii) low mine operating and rail and port costs. Rail and port access and amortisation costs, charged by the owners / managers of infrastructure have been deducted above the EBITDA line reducing margins.

Rapid pay-back period forecast for the project

We forecast a Stage 2 project payback period of less than 4 years

We are forecasting project capital costs of A\$48.5M for Stage 1 and A\$280M for Stage 2 to construct mining and ore processing capacity over the period 2005-2010. Stage 1 construction is well advanced, while environmental approvals are forecast by Jul.'06. Stage 2 construction is forecast to commence in the Jun H.'08 and take 24 months to complete by Jun H.'10. MMX's Stage 2 project is forecast to generate significant surplus cashflow after interest and on-going capital costs. We forecast the project will generate sufficient cash before dividends to repay the cost of the project (including capitalised interest) within two years from the start-up of Stage 2 production in Dec H.'10 on the assumption that infrastructure CAPEX is met by a specialist infrastructure operator (Chart 5).

TABLE 5: MMX - EARNINGS (A\$M) GROSS @ 100%

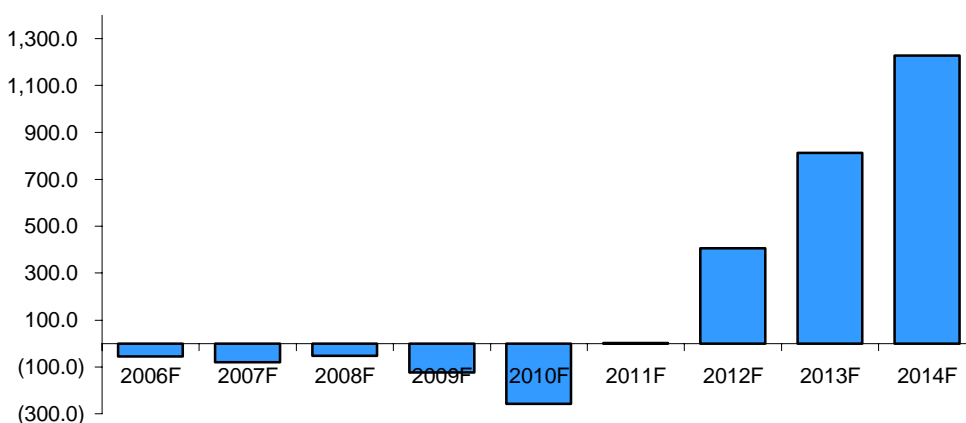
Maiden profit forecast for 2006 growing rapidly post 2010 as MMX's Stage 2 project is commissioned

Year-end 30 June	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F
Revenue	0.0	115.2	153.6	145.4	124.0	739.2	1,248.1	1,383.3	1,383.3
Costs	(2.1)	(95.3)	(105.5)	(113.8)	(99.5)	(488.8)	(737.7)	(811.2)	(814.6)
EBITDA¹	(2.1)	19.9	48.1	31.6	24.4	250.5	510.4	572.1	568.7
Depreciation	(1.3)	(13.9)	(14.2)	(14.7)	(16.0)	(15.6)	(16.1)	(16.6)	(17.1)
EBIT	(3.4)	6.0	33.9	16.9	8.5	234.9	494.3	555.5	551.5
Interest cost	0.8	(0.3)	(1.9)	2.6	2.4	(13.1)	0.6	14.6	26.0
Tax	0.8	(1.7)	(7.3)	(5.9)	(3.3)	(66.5)	(148.5)	(171.0)	(173.3)
NPAT	(1.9)	4.0	24.6	13.7	7.6	155.2	346.4	399.1	404.3

Source: BBY.¹EBITDA from 2008 -2010 impacted by declining Chinese contract iron ore prices.

CHART 5: MMX - CUMULATIVE CASHFLOW BEFORE FINANCING ACTIVITIES (A\$M)

Cumulative cashflow before financing activities becomes positive in 2012 a project (Stage 1 & 2) payback period within 7 years



Source: BBY

Corporate Structure & Operations

Key asset is the Yilgarn region Jack Hills iron ore project (MMX 100%)

Key assets are based in the Yilgarn region of WA

MMX listed on the ASX in April 2005. Its key projects are located in WA and include (i) Iron Jack Ltd (100%), controlling the Jack Hills iron ore resource and site for its Stage 1 & 2 projects and tenements at Weld Range and (ii) ATL Exploration Proprietary Limited (100%), which owns interests in a number of resource projects based in WA including (a) Duck Hill - laterite nickel project (50%) 155km NE of Kalgoorlie (b) Tarraji - copper / gold project (10%), 70km NE of Derby WA (c) Turtle - copper / gold (50%) Kimberly WA (d) Christmas Creek - gold 10% Kimberley WA and (e) Old Halls Creek gold project 12km SE of Halls Creek. MMX plans to progressively divest its non-core assets and concentrate on developing the Jack Hills iron ore project (Chart 6), which is forecast to begin generating cashflows from the Jun H.'06.

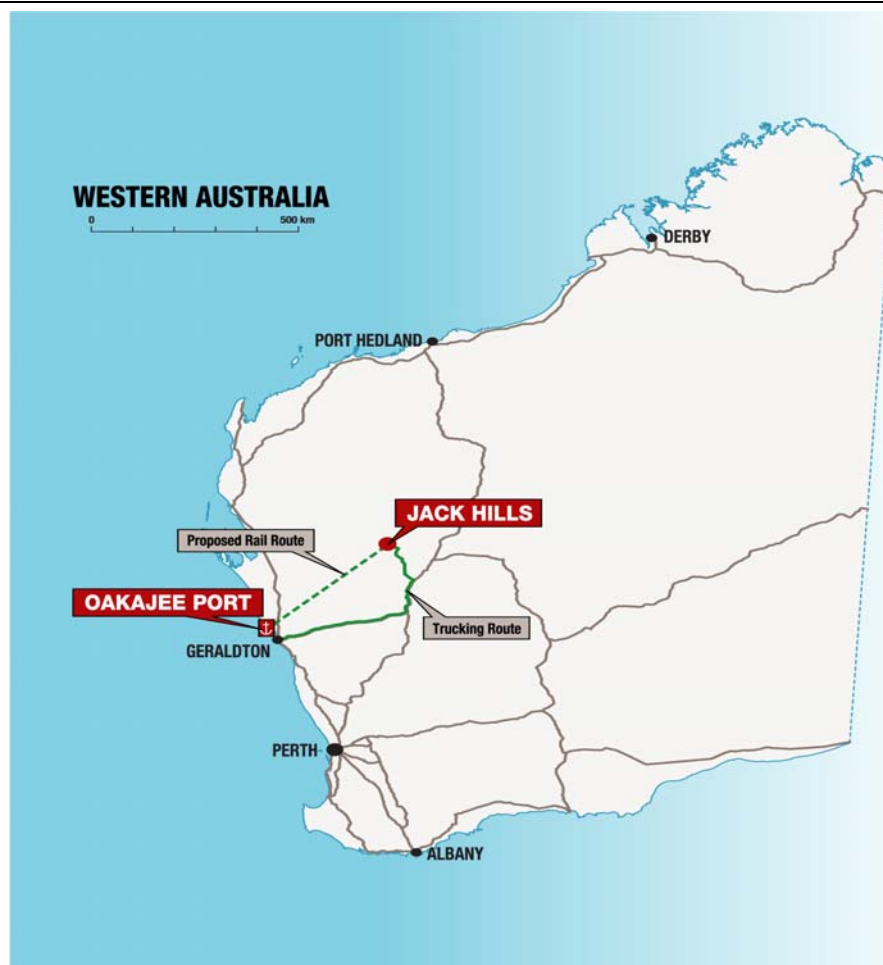
Strategic alliance with POSCO is a key milestone for MMX

MMX has won the support of POSCO. POSCO has taken equity in MMX and agreed to take 10Mt annual production for 25 years from the Stage 2 development

POSCO is one of the world's largest iron and steel producers based in Korea. Discussions between POSCO and MMX began in late 2004. In late Aug.'05 POSCO completed an extensive six-month due diligence review covering the Jack Hills and Mt Weld iron ore projects resulting in an agreement to take a 10M share placement at A\$0.30/sh and 30M options at a strike price of A\$0.50/sh. The exercise of options is timed to coincide with the completion of the planned BFS by 31March 2006 with an extension to 31Dec08 if the BFS is not complete. POSCO has also agreed to take up to 10Mt of iron ore from Stage 2 for 25 years and a trial shipment of 50kt from Stage 1. In addition, POSCO is a member of a consortium planning to carry out a feasibility study to develop new port and rail infrastructure servicing the emerging iron ore mid-west region of WA.

CHART 6: MMX – PROJECT LOCATION MAP

MMX plans to build a rail line from Jack Hills to the planned new port at Oakajee 23km North of Geraldton



Source: MMX

Jack Hills Project

An old discovery that is ready for development

Jack Hills iron ore discovery based in the Yilgarn region was first discovered in the 1960s by Itoh & Co

The MMX Jack Hill tenements cover 145km² in the Yilgarn region of WA located 380km NE of Geraldton and 100km W of Meekatharra. The Jack Hills tenements were extensively explored during the 1960s and 1970s by various mining groups. In 1973, Northern Mining completed 59 RC drilling holes and constructed an underground adit for bulk sampling analysis. During the 1990s Kingstream Mineral Resources investigated the potential of developing a vertically integrated steelmaking operation in the Murchison region of WA using iron ore mined from the Jack Hills and surrounding resource discoveries including Talling Peak, Blue Hills and Mt Weld. Low iron ore prices and sufficient supplies available from the Pilbara region resulted in this project not proceeding.

Significant scope exists to increase the resource base

Key ore features:

- high grade Fe 62%;
- competent ore;
- low P and silica;
- low strip ratio;
- ore outcrops;
- open pit mining

Resources are set to grow as new targets are identified

At Jack Hills, seventeen separate iron ore bodies have been identified and partially drilled and other targets have been identified on the flanks of the Hills. A typical Mt Hale ore cross section is shown on Page 15, (Chart 8). Two separate styles of high grade haematite ores are known, including (i) massive haematite - high iron grade 64-65%Fe with low silica and phosphorus and (ii) enriched supergene ore – lower iron grade. Earlier this decade Anglo estimated a resource of up to 380Mt @ 62%Fe based on (i) past drilling (ii) measured outcropping (iii) potential strike extent (iv) depth potential and (v) density. Current JORC indicated haematite resources are 67Mt @ 62%Fe with low impurities including 2.3% silica (SiO₂), <2.0% alumina (Al₂O₃), and <0.05% phosphorus (P) with a "Loss on Ignition" (LOI) of 1.0-2.0%. At Mt Matthew, the H3 & H4 ore bodies have considerable scope to be expanded, over a strike length of 6.5km with potential for 1.5Mt / vertical metre (Table 6). At Noonie Hills and Stuart Bore, haematite outcrops have been identified over a strike length of 13km and 11km, respectively. These targets are yet to be drill tested.

TABLE 6: JACK HILLS – KEY IDENTIFIED RESOURCES

Ore chemistry is favourable with low:

- silica 1.0-5.0%;
- P <0.05%;
- LOI 0.4-4.6%

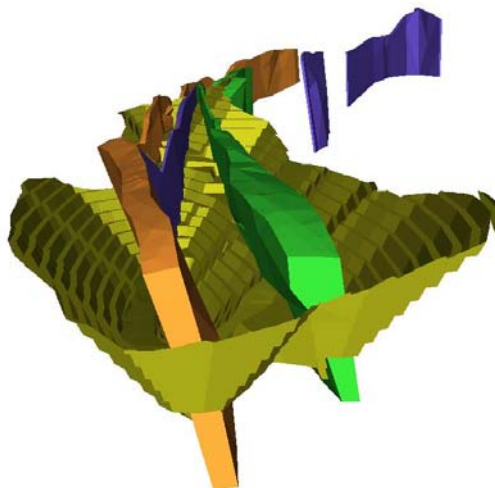
Ore body	Key features
H3	10.1Mt @ 66%Fe. Strike 2km average width 10M. Typical drill hole 25M with average grade of 65.4%Fe.
H4	15.7Mt @ 61-62%Fe with average width between 66M in the north and 16M in far south.
H8	2.6Mt @ 66%Fe with average width of 35M, SiO ₂ 4.0%, Al ₂ O ₃ 1.2% P 0.01% and LOI 1.6%.
Pinnacles	2.67Mt @ 65.8% Fe outcrops 300M above the surrounding plain at Mt Hale. Strike extends 300M down dip. Significant potential to expand the resource base.
Brindal	11.9mt @ 63%Fe to only 11M depth. Mineralisation extends well below 30M. Significant potential.

Source: Al Maynard & Associates consulting geologists report & BBY.

CHART 7: JACK HILLS – STAGE 1 PLANNED PIT SHOWING ORE BODIES

Pit shows the two steeply dipping ore bodies which have an average true width in the range of 20-40 metres

Latest drilling results confirm good continuity and Fe grade



Source: MMX

Operations

Stage 1 project on track for production in July 2006

Stage 1 production delayed due to slower than expected environmental approvals

The Jack Hills Iron Ore project is located 380km NE of Geraldton in the Mid West region of WA. Stage 1 project production plans to commence in July 2006 against previous expectations of April 2006 due to delays in environmental approvals. First shipment likely in August 2006. A review of its mining and transport arrangements has led to an upward revision in planned production for year 1 and year 2 by 0.3Mt and 0.2Mt, respectively, in line with our forecasts. Average operating costs before royalties for Stage 1 have been forecast at A\$46.7/t reflecting the high cost of road transport.

MMX has secured sales contracts for Stage 1 production

Stage 1 contract prices are well above Japanese benchmark prices

The high quality of the Jack Hills iron ore has attracted strong customer interest. MMX has successfully entered into off-take contracts for 100% of Stage 1 production for the first 12 months and long-term contracts accounting for a significant proportion of subsequent years' production (Table 7). For the first 12 months MMX has signed contracts to the value of US\$71M based on negotiated contract prices of US\$58/t well above current equivalent price of US\$45/t based on a lump/fines production ratio 65/35 for its lump / fine iron ore product . The contracts cover 1.2Mt production representing 60% of production, with negotiations advanced with other customers to take the remaining 40% of production. Prices in subsequent years are likely to be at a premium to Japanese benchmark prices for lump and fines iron ore. POSCO Steel of Korea has agreed to take a 50kt bulk sample from Stage 1 production for testing. POSCO Steel, MMX's strategic project partner, has agreed to take up to 10Mt annually from a **Stage 2** operation.

Contract mining and processing utilised for Stage 1

Mobilisation of equipment to site expected shortly

Stage 1 project will utilise contract mining, crushing and screening on site. Ore will then be transported by road to MMX's storage and transfer station at the Port of Geraldton for shipment to customers in China and Asia. The mining, crushing and screening contract was awarded to Mining and Civil Australia in December 2005. The procurement of mining equipment was complete with orders placed for crushing and screening plant in January 2006. The mobilisation of equipment is planned for late June to coincide with mine production in July 2006. The company has received delivery of 30 prime movers to be utilised by the haulage contractor Mitchell Corporation. The first of the 90 truck trailers has been delivered. The construction of the ore storage and transfer facility is on schedule to be in position to accept deliveries of ore well before August 2006.

TABLE 7: MMX – IRON ORE CONTRACTS

Four major long-term contracts and prepayments signed with steel mills.

Date	Company	Contract terms and prepayment details
7 Jul.'05	Delong Steel Ltd & Rizhao Steel Co. Ltd.	Contract – 12 months over 2006 delivering 0.35Mt.
15 Jul.'05	BAAO Mining Co. Ltd	Contract – 25 year 0.3Mtpa increasing to 0.6Mt for the following 5 years. Stage 2 - 3-5Mtpa.
10 Aug.'05	Tangshan Danyang Co. Ltd	Contract - 0.54Mtpa from Stage 1 production for 3 years. Stage 2 - 2Mtpa.
29 Aug.'05	POSCO	Contract – trial 50kt from Stage 1 Stage 2 – 10Mtpa for 25 years.

Source: MMX

**Stage 1 CAPEX
higher due to
increased spending
on road upgrades**

Stage 1 project capital cost increased slightly ahead of BBY forecasts

MMX estimates Stage 1 CAPEX at A\$48.5M (previous BBY estimate A\$43M), reflecting increased capital spent on haul roads and the decision to seal the Beringarra-Cue road to realise future maintenance cost savings. In addition, approximately A\$5M will be required for working capital. By the end of March 2006 the company had spent A\$20.1M. The company plans to fund A\$30M of CAPEX requirements via project debt financing. Final offers from three major banking institutions regarding debt financing are awaited.

Pre-feasibility study results confirm our confidence Stage 2 project

The company on 27 April released a detailed pre-feasibility study for the development of port facilities and rail infrastructure for Stage 2 project. The study was completed by leading international engineering group Maunsell-Aecom and ProMet Engineers. The comprehensive study covered mining related requirements and costs and the construction of rail and new port infrastructure planned for Oakajee 23km North of Geraldton. The study concluded that iron ore could be mined and delivered **Free On Board (FOB)** for A\$13.66/t. Estimated CAPEX for mine, rail, port, EPCM and other costs was A\$1.77B. A full Definitive Feasibility Study has commenced and is planned for completion in early 2007.

**Key to the project
success is the
development of new
rail and port
infrastructure**

Stage 2 project is a potential company maker

MMX is embarking on an ambitious project development to lift annual production of iron ore from 1-2Mt to 25Mt by June 2012. Stage 2 feasibility study commenced in March 2006 and is forecast to cost A\$20M. The Western Australian government is encouraging the development of this project. Significant expenditure will be required to construct a new 450km rail line and port infrastructure to be located 23km North of Geraldton at Oakajee. The WA Government, on Wednesday 19 April 2006, confirmed that Oakajee, is the preferred site for a new, privately funded deep water port. The Geraldton Iron Ore Alliance, which consists of MIS, MMX, GBG, MGX and GWR, was formed in December 2005 to coordinate a common user infrastructure development strategy for the region. MMX's alliance with POSCO, and its decision to take up to 10Mtpa of iron ore for 25 years under Stage 2, underpins the potential development. If Stage 2 goes ahead, POSCO could assist in financing the project. Key milestone achievements for project go-ahead include (i) establishing a JORC standard reserve base of sufficient size (250-300Mt) to support a large mining operation producing 25Mt annually (ii) achieving the necessary regulatory approvals including (a) environmental (b) native title and (c) mining, and (iii) project financing. BBY is of the view that MMX will find sufficient resources to sustain a 25Mtpa mining operation, with our confidence based on the success of previous exploration and evaluation work. We also expect MMX to obtain the necessary approvals for the project given it is about to commence mining at its Stage 1 development. Key risks include (i) the timing of freehold land access (ii) environmental approvals (iii) financing and (iv) construction costs and timing.

Significant CAPEX required to develop Stage 2

CAPEX:
- Stage 1 A\$48.5M;
- Stage 2 A\$280M for
mine development:
- Stage 2 A\$1.44B for
infrastructure

The Jack Hills iron ore project will be developed over two stages with construction of Stage 1 already underway and Stage 2 to commence in mid 2008 ready for first production in 2H'10. The key CAPEX components include (i) rail related infrastructure, including a 450km rail line to the new port at Oakajee (ii) port infrastructure (iii) mine infrastructure and (iv) 15% contingency. Our analysis assumes sustaining CAPEX of 2% of the project capital cost (Table 8). In our analysis we assume that Stage 2, at full production, will deliver annual production of 25Mt.

Stage 2 infrastructure could be managed by a third party

MMX could introduce outside specialist companies to develop and manage the rail and port infrastructure

Our analysis assumes that MMX introduces a specialist infrastructure group to develop, operate and manage project infrastructure. MMX recently announced a consortium including POSCO Engineering and Construction Company Ltd, Toll Holdings and a large Japanese industrial company to carry out a feasibility study into the development of new rail and port infrastructure in the mid-west region of WA. The benefit to MMX would be considerable, including (i) significantly lower project CAPEX and financing requirements (ii) lower project risk (iii) management time savings (iv) improved project valuation as discussed above and the ability to attract project financing (v) ability to maintain majority ownership of the mining assets and (vi) the securing of an additional 10Mtpa off-take agreement. We are of the view that MMX and the Geraldton Iron Ore Alliance will be successful in securing a specialist infrastructure operator to manage rail and port capacity for this emerging iron ore region in WA.

Project risks exist

The key project risks are:

- financing;
- construction time;
- and
- cost overruns.

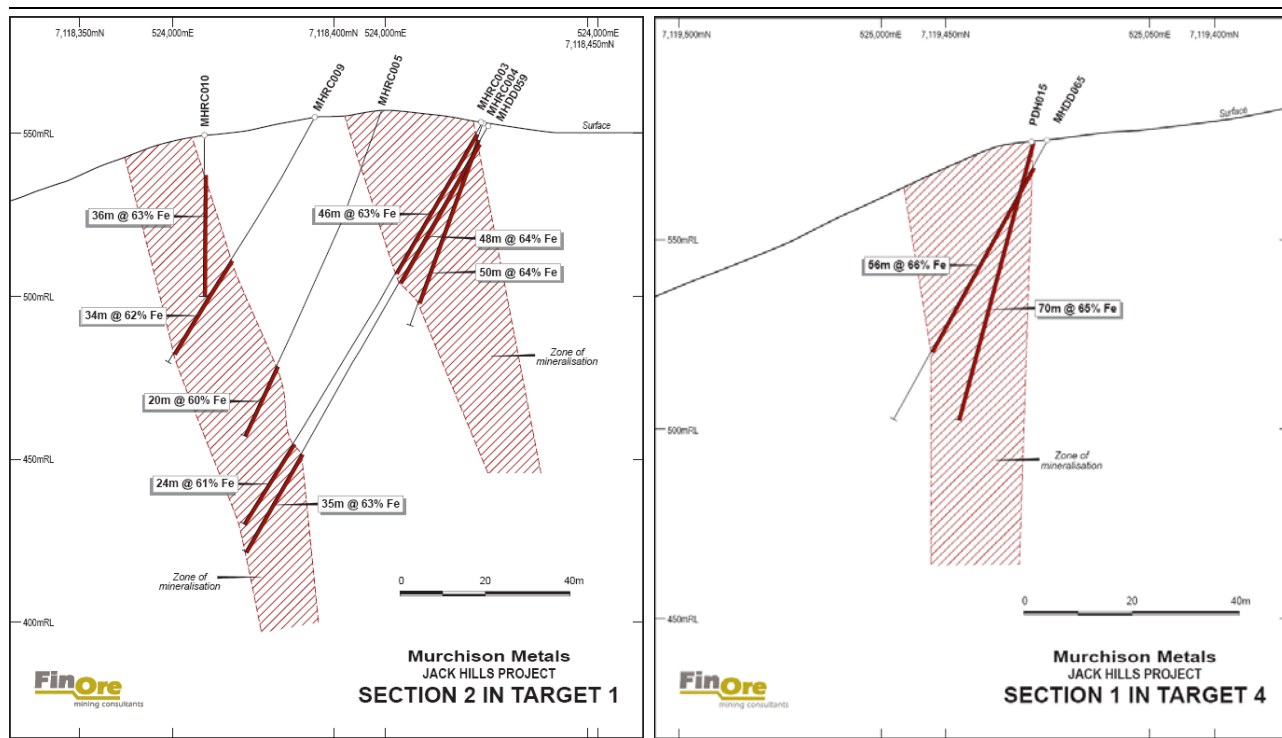
With any greenfield project, particularly a project of this size, numerous risks exist, including (i) the identification of sufficient reserves of a quality to sustain a long life mining operation (ii) delays to environmental, native title and other government regulatory approvals (iv) project funding on favourable terms (v) under-estimation of capital costs due to higher input costs and tight market conditions for skilled labour (vi) a longer than forecast construction period (vii) slower than forecast production ramp-up to target 25Mt annually (viii) higher than forecast operating costs (ix) weaker market conditions for iron ore and (x) a higher exchange rate.

TABLE 8: JACK HILLS PROJECT - FORECAST PROJECT CAPEX (A\$M)

Jack Hills – Stage 1 project	
Feasibility study & resource drilling costs	7
Road upgrade (includes haul roads)	12
Port storage at Geraldton	12
Mine development	5
Road transport equipment	10
Working capital	3
Sub-total	49
Jack Hills – Stage 2 project	
Feasibility study and resource drilling costs	35
Mine development	70
Plant & Equipment	110
Other / Contingency	65
Rail & Port ship loading capacity ¹	1,444
Sub-total	1,724
TOTAL	1,773

Source: MMX & BBY. ¹Capital cost to be funded by a specialist infrastructure group. MMX and users of regional infrastructure will pay an operator access usage charge reflecting an appropriate rate of return on capital of around 15%. MMX and capital amortisation charge.

CHART 8: JACK HILLS STAGE1 – TYPICAL CROSS SECTIONS



Source: MMX. Jack Hills typical cross section from Stage 1 drilling. Ore body true width between 20-40 metres.

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