

**Breakaway
Research**

Magnetic Resources

Emerging iron ore play

MAU

Share Price: 37 cents
Target Price: 70 cents

Magnetic Resources is a rapidly emerging iron ore play. With geophysics and field work, it has been an early mover in identifying prospective tenements close to WA's existing rail network. It has now accumulated over 6,300km² of tenements and estimates that these could contain cumulative targets of more than one billion tonnes of iron ore.

Two projects out of the portfolio currently stand out in terms of short term potential. Firstly the Wubin project is only 80km south of an existing Sinosteel mine and has similar ore types on surface. The second is the Jubuk project which comprises coarse crystalline magnetite leading to favourable metallurgical performance and production of a premium concentrate. The potential scale of Magnetic's projects is already attracting interest from companies wishing to participate in its projects.

Market Cap (\$m): \$25m
12 month range: \$0.14 - \$0.62
Shares on issue: 67.5m
Cash: \$4.5m
Debt: \$0

Directors:

Peter Thomas: Non-Exec Chair
George Sakalidis: Man. Director
Roger Thomson: Exec. Director

Substantial Shareholders

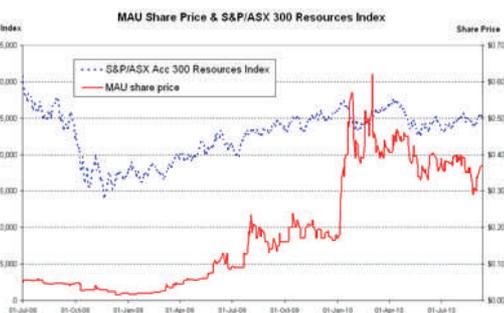
Image Resources NL: 10.7%
G. Sakalidis: 6.1%

Enterprise Value	Number Issued (m)	Value (\$m)
Ordinary shares	67.5	25.0
Partly paid shares (20 cents unpaid)	17.4	6.4
Options	2.3	0.9
Cash from options		0.6
Cash on hand		4.5
Enterprise Value		27.2

Investment Case

- ⇒ Demand from China, India and other emerging economies will underpin iron ore demand for the next 20 years.
- ⇒ The combination of geophysics and surface mapping provides increased confidence in the presence of significant mineralisation despite a lack of current drilling on many projects.
- ⇒ MAU has a significantly lower market capitalisation than most iron plays.
- ⇒ We estimate that it is being valued on a resource of 42Mt. All 7 projects could deliver a resource that at least double this tonnage.
- ⇒ Recent share price weakness means investment now is below the level of recent placements.
- ⇒ The next round of drilling programs could substantially de-risk a number of projects and lead to a rapid rerating in the share price.
- ⇒ The introduction of corporate partner on one or more projects could provide a 'see-through' valuation.

Independent Research prepared by Breakaway Research — a Member of the Breakaway Investment Group



Data sourced from BR, SR, Bloomberg, Iguana

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Overview

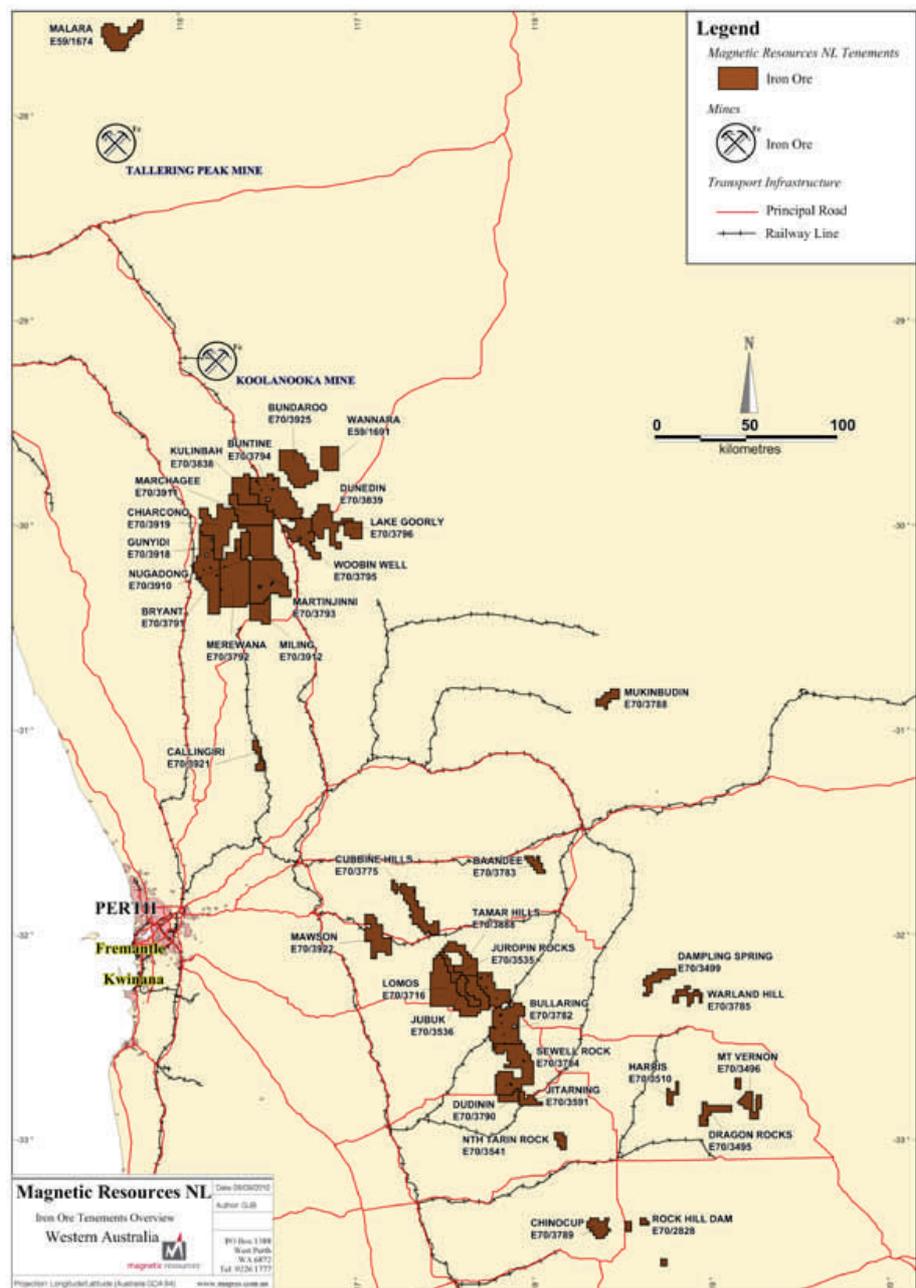
Magnetic has been aggressively staking a number of tenements in WA based on a combination of geophysical prospectivity and location to supporting rail infrastructure. Using aeromagnetic data, the company has identified iron rich anomalies which are, in many cases, under shallow cover and have been ignored by other explorers.

Based on the tenement groupings, there are over 13 different projects covering 10 identified banded iron formations. More recent tenement applications are north of Talling Peak and Dalwallinu (see map below).

Most projects are within 200 to 300km of Perth and close to the existing rail network which provides flexibility in port destinations. As with many competing iron ore projects, it is often the cost of accessing infrastructure that 'makes or breaks' a project.

10 groups of tenements covering 10 banded iron formations

Tenement locations are generally near existing rail lines.



Magnetic anomalies have been used to estimate potential target tonnages.

Outcropping iron ore mineralisation such as at Jubuk (pictured below) increase confidence in the target tonnages.



The indicative NPV and IRR of the Wubin direct shipping ore (DSO) project are particularly attractive.

Project Summary

The company has used magnetic anomalies from its geophysical data to estimate target tonnages within its project areas. This data is supported by outcropping iron ore in the more advanced projects.

The target iron ore tonnages estimated by Magnetic provide a useful valuation tool to assess the ‘risk-reward’ tradeoff associated with investing in Magnetic. These target tonnages are substantial, particularly at Wubin which potentially includes a proportion of high value direct shipping ore (DSO).

The target tonnages are not JORC-compliant resources. However, when there is outcropping mineralisation associated with a magnetic anomaly, it increases the likelihood that further exploration will be successful.

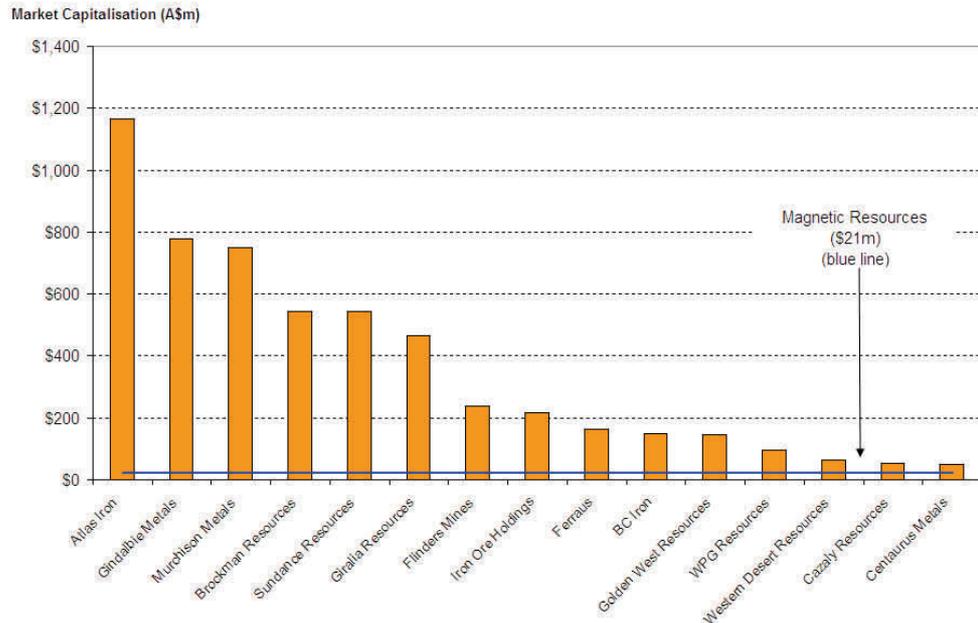
Project Area	Name	Target Tonnage
1	Wubin	500-1000Mt BIF 50-100Mt DSO
2	Dalwallinu	360-720Mt BIF
3	Quairading	50-100Mt BIF
4	Jubuk	100-200Mt
5	Sewell	110-210Mt
6	Mt Vernon	100-200Mt
7	Malara	250-500Mt

Based on the assessed target tonnages outlined above and industry comparisons, Breakaway Research has estimated ballpark capital and operating costs for series of conceptual operations, and derived net present values (NPV) and internal rates of return (IRR) using a 10% discount rate. We have used a long term contract price for direct shipping ore (DSO) of \$60/t and magnetite concentrate of \$85/t. The current DSO spot price is approximately \$120/t.

The financial analysis of these conceptual operations generates very encouraging outcomes, highlighting the dramatic upside potential for shareholders if Magnetic Resources can successfully advance any of these exploration projects through to development.

For example in relation to the Wubin DSO project, a conceptual operation with a capital cost of around \$100m and operating costs of \$36.90/tonne generates an NPV in excess of \$550 million and a staggering 115% IRR. Conceptual magnetite projects based on the remaining targets would incur far greater capital costs (typically well in excess of \$1 billion each), but have similar or higher NPVs, albeit with an IRR typically in the order of 20%.

These valuations compare favourably with the modest market capitalization (\$25m) and enterprise value (\$27m) of Magnetic Resources. We have plotted other WA iron ore companies which have projects in various stages of advancement.



The market cap of Magnetic is low compared to most other iron ore plays...

Each iron ore project is different including variations in their degrees of advancement, size, ore quality, capex/opex and access to infrastructure. However, Breakaway Research estimates that on average, the market currently values early stage companies' resources at around \$0.50 per tonne of resource on an undeveloped basis.

Magnetic is being valued on a resource of 42Mt when all projects could deliver a least double this tonnage...

Using this benchmark, the market is valuing Magnetic Resources on a resource base comprising 42 million tonnes. As evident on the earlier table on page 3, exploration success in each of the individual 7 project areas could lead to twice this tonnage. Hence, the result of exploration success in only one project is a doubling of the share price.

Investor focus is now on likely success in at least one project.

In this report we have limited our discussion to the two more advanced projects as the implications above tend to now focus investors on the likelihood of success in at least one project within the portfolio. However, all the projects are prospective and will require systematic exploration over time.

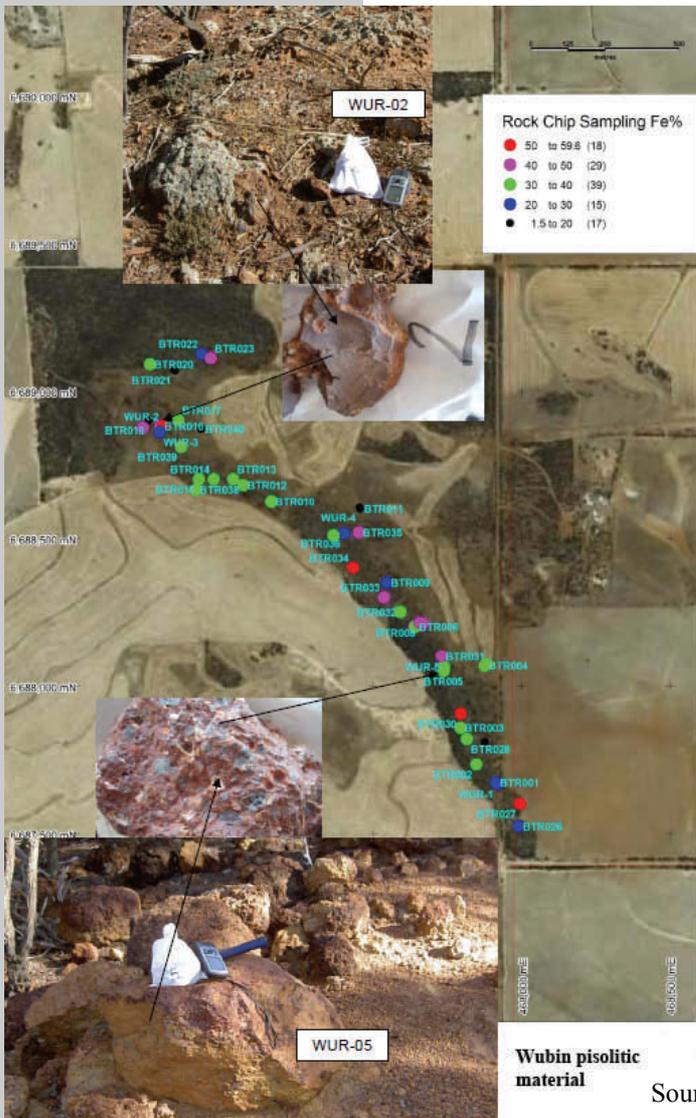
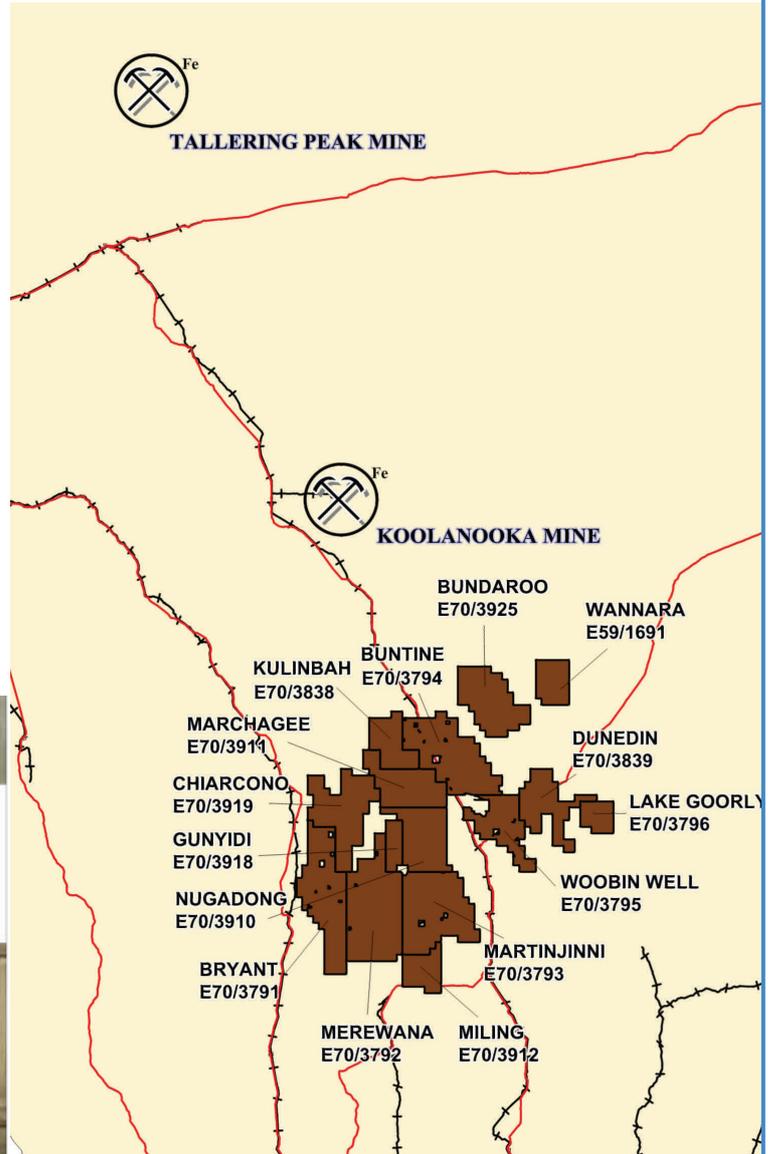
Wubin Iron Ore Project

In the northern Woobin Well-Buntine tenements, Magnetic's Wubin project is shaping up with exciting assay results from initial rock chip sampling in areas with limited outcrop. In fact 40% of the 118 samples of mostly laterite duricrust or lateritized outcrops contained greater than 40% Fe with a maximum value of 59.5% Fe.

The Buntine (E70/3794) and Woobin Well (E70/3795) tenements which cover the sampled areas have been granted and negotiations for access agreements with landowners has commenced. Most of the areas sampled are not suitable for cropping so Magnetic will be in a position to commence drilling once landowner and statutory approvals are received. An initial 4000m of RC and 2000m of air core drilling is planned.

The Wubin Iron Ore Project incorporates tenements which are only 80km south of Sinosteel's Koolanooka operations (see map below).

Sinosteel's Koolanooka operations are mining similar ore only 80km north of Wubin.



The composite image outlines pisolitic ore which has been located and sampled in the Wubin Project. This is identical to the material which is currently being mined and upgraded to DSO quality at Sinosteel's Koolanooka operations.

The image also presents the line of outcropping mineralization with rock chip sampling results as well as the land use.

There is also interpreted extensive goethite-haematite mineralisation in other areas within the Wubin tenements.

Wubin pisolitic material

Source: Company

Jubuk Iron Ore Project

Using the aeromagnetic survey there are 5 prospective horizons which could have a total target tonnage of 100-200Mt. These could comprise:

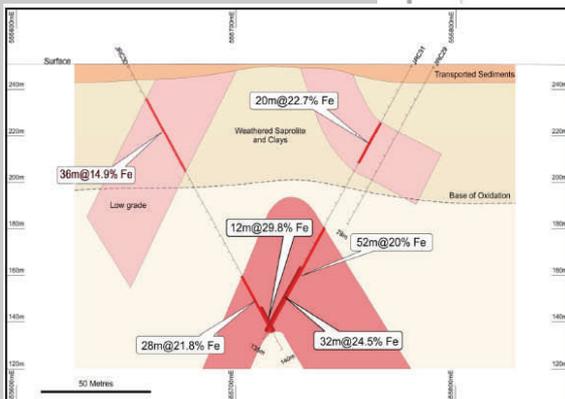
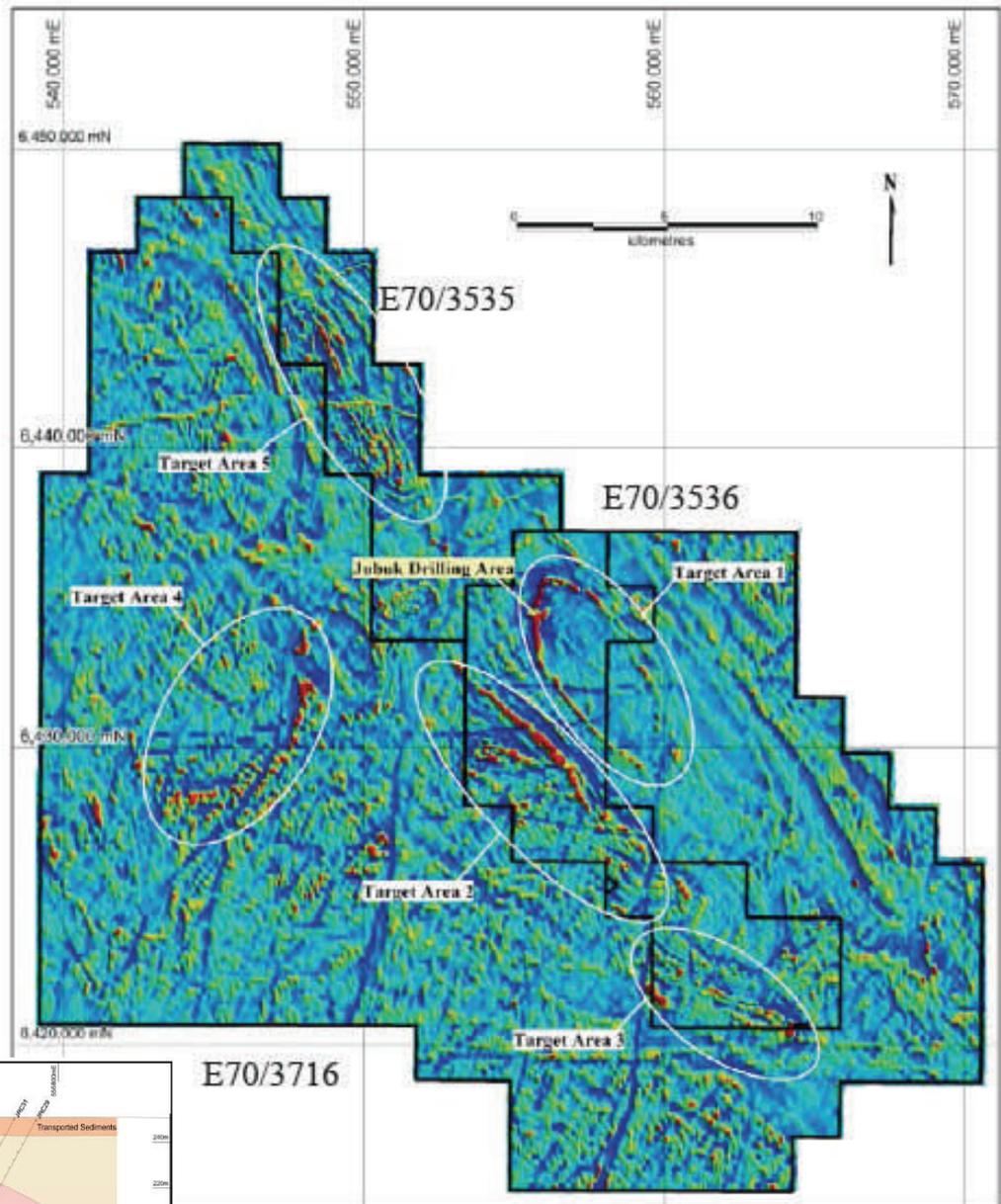
- ⇒ Target 1: 30-60Mt
- ⇒ Target 2: 20-40Mt
- ⇒ Target 3: 15-30Mt
- ⇒ Target 4: 17-35Mt
- ⇒ Target 5: 17-35Mt

5 targets have been identified for a total target tonnage of 100-200Mt.

Outcropping banded iron formation is also present.



These targets are identified below. A rail line is 30km south of the project.



Initial drilling has highlighted large magnetite rich horizons, leading to increased confidence in the extrapolation of the aeromagnetic anomalies. The ore is a coarse crystalline magnetite. This has led the company to focus on early metallurgical testing despite the fact that a resource is yet to be confirmed.

Jubuk ore displays excellent metallurgical characteristics...

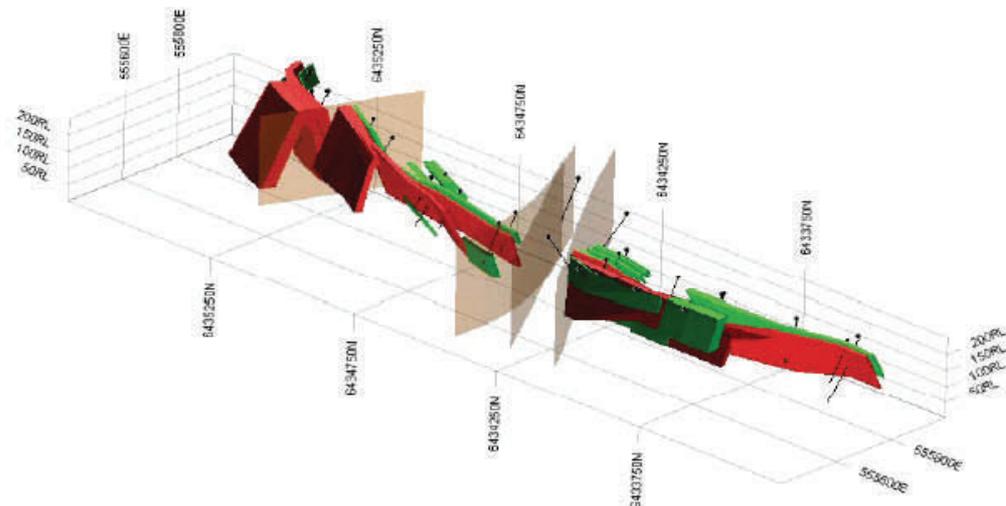
Magnetic is now receiving approaches from interested parties wishing to participate in the project...

Indeed, recent work by metallurgical consultants Engenium Pty Ltd has confirmed that the Jubuk banded iron formation (BIF) responds to conventional treatment and is capable of beneficiation to produce a premium product. The results of the Davis Tube Recovery Test (DTR) were encouraging and produced the following outcomes.

Davis Tube Product	Mass (g)	Fe %	SiO ₂ %	Al ₂ O ₃ %	P %	LOI %
Magnetics	9.82	69.69	1.36	0.90	0.002	-3.17
Non Magnetics	19.55	3.91	76.79	7.72	0.054	0.78
Davis Tube Recovery	29.4%	90.0%	0.9%	5.5%	1.8%	na
Calc Head Assay		25.9%	51.6%	5.4%	0.037%	

This has led to Magnetic proposing a 25 hole program to evaluate previously unrecognised western fold limb, to test strike extensions of the BIF and to commence resource definition drilling.

However some resource modelling based on the initial 25 holes has already been carried out as highlighted below. Magnetic is now receiving approaches from companies expressing an interest in participating in the project which may involve both funding and offtake agreements.



Disclosure

Source: Company

Breakaway Investment Group (AFSL 290093) may receive consultancy fees and commissions on sale and purchase of the shares of Magnetic Minerals and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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