MC Research

Mount Burgess Mining N.L.

Date of Note	April 2006	Major Shareholders	% held
Stock code	MTB - ASX	JP Morgan Nominees	10.2
Price	9cA	Citicorp Nominees	10.1
Issued shares (undiluted)	178.9m	ANZ Nominees	8.9
Warrants/options	8.85m	NR Forrester & Assocs	6.3
Market capitalisation	$A16.1m	AP Stirling & Assocs	6.2
Cash	$A573,000	Gresham House PLC	5.0
Debt	-		

Mount Burgess Mining N.L. (MTB) is one of the longest established Australian junior mining groups. It has a history of mine development in Western Australia and has a successful record as an exploration company in that state. Currently its focus is on diamonds in Namibia and base metals in Botswana, but it also has a long term exploration project in the Telfer region of Western Australia for gold near Newcrest's major operation.

- The company's most advanced project is the Kihabe base metals project in Botswana. The Kihabe zone of mineralisation lies close to the Namibian border and contains zinc, lead and silver with copper and vanadium credits as well. Although the grades are relatively low, initial estimates suggest any operation would be low cost and economic at metal prices two thirds lower than current levels.

- Kihabe is being logistically supported from MTB's Tsumkwe diamond exploration effort in Namibia. MTB has been exploring for diamonds in the country for a number of years and over the last year or so has discovered encouraging quantities of fresh garnets indicating the possibility of nearby kimberlites.

- The company has also been actively exploring ground near the Telfer gold mine for some years. A number of gold majors have linked with MTB to explore its Telfer leases, the most recent being Barrick which has subsequently withdrawn from the JV. Currently MTB is investigating the possibility of establishing an open cut heap leach operation at Telfer supported by the present level of gold above $500.

Unlike many of its peers MTB's suite of interests is limited and focussed, and is adequately controllable within the company's compact management structure. It is exploring for base metals in both Botswana and Namibia and has tied up all the base metal prospective proterozoic belt on both sides of the border. Using the conservative metal prices from the recent scoping study (see later) the Kihabe base metals prospect could be in production by 2008 and the NPV would be around 50cA per share. Kihabe could generate net earnings of 7cA per share by 2009. Using current metal prices (April 2006) the figures would be materially higher, with an NPV of $A3.53 per share and perhaps as much as 60cA per share in prospective earnings. The diamond interests remain speculative but success in Namibia could add material value to the asset base. MTB is a company with attractive medium term prospects.

Company outline

Mount Burgess had a successful record as a gold explorer in the 90s having been listed on the Australian Stock Exchange in 1985. It found and developed a small gold mine at Butcher's Well in Western Australia in the first half of the 90s and also made a further significant high grade discovery at the near-by Red October project. Unfortunately the company experienced geological problems at Butcher's Well and sold that operation and Red October to Sons of Gwalia for around $A14 million. Whilst the pull back from being an operator was disappointing the funds raised from the sale of assets enabled MTB to navigate some very difficult years for the mining sector. It also enabled the company in the late 90s to reposition itself in Africa where a number of countries were keen to attract foreign capital to their mineral exploration and development sectors.

Note: The above charts are used with the permission of Sharelink.

Currently MTB's main projects are the Kihabe base metal prospect in Botswana, the Tsumkwe diamond project in Namibia and the long standing Telfer gold prospect in Western Australia.

Kihabe

The potential for mineralisation at Kihabe has been known about since the late 70s when Botswana's Geological Survey carried out a soil geochemical survey. This work was followed up in the next decade by Billiton who also drilled a number of holes on Kihabe and had some promising results from that programme. Unfortunately during the 80s base metal prices stagnated and with Kihabe being right on the border with Namibia, where the struggle for independence created an uncertain atmosphere, the property lay unworked after Billiton relinquished its licence in 1983.

Twenty years later MTB was granted a prospecting licence for Kihabe. Although Kihabe is remote it is very close to MTB's diamond prospect at Tsumkwe just over the border in Namibia, and the company has been able to persuade both the Botswana and Namibian governments to open the Dobe Border Gate which is close to both properties. Mount Burgess is thus able to operate the two exploration programmes from one site which offers useful economies.

MTB carried out a widely spaced drilling programme on Kihabe and the results indicated the potential for a relatively low grade but near surface base metal deposit, primarily of zinc, lead and silver with associated copper and vanadium, lending itself to open cut development. The strike length of the anomaly is around 2.4kms and MTB's programme so far has drilled 14 reverse circulation holes down to a depth of 100m. A variety of results have been obtained, and coupled with the previous work done by Billiton the indication is that some 17.5 million tonnes exists with average grades of 3% zinc, 1% lead and 28 grammes silver. There are signs of higher grade material in other zones nearby as well as the copper and vanadium. The drilling done so far has been wide spaced and as part of the process of proving up a deposit into a JORC compliant resource/reserve, and even extending it, a programme of infill drilling is underway.

The current plan is for infill drilling to take place in the first half of 2006. Metallurgical test work should be finished by June and a pre-feasibility study is planned to start in July and be completed by the end of the year. In the first half of 2007 a bankable feasibility study is to be undertaken and completed by July. If the study is positive project finance will be obtained and construction started with a view to mine production starting by November 2008.

The company commissioned a scoping study from Australian mining engineering consultants ProMet Engineers based on data provided by MTB which was completed last November. The key operating inputs used were as follows:-

Table 1: Operating inputs

Capital cost	US$ 100 million
Planned production	2.5m tonnes ore/year
Zinc (full production)	70,500 tonnes
Lead (full production)	23,250 tonnes
Silver (full production)	2,047,500 ozs
Operating costs	US$ 24.10/tonne
Smelting costs	US$ 12.70/tonne
Depreciation	US$ 5.70/tonne
Interest	US$ 1.66/tonne
Total costs	US$ 44.16/tonne
Zinc price	US$ 1,358/tonne
Lead price	US$ 925/tonne
Silver price	US$ 7.15/oz

Table 2: Forecast earnings and NPV (Nov 2005 metal prices)

$USm	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Revenue (net)	79.60	89.50	99.50	99.50	99.50	99.50	99.50	29.80
Operating costs	48.20	54.20	60.20	60.20	60.20	60.20	60.20	18.10
Depreciation	12.81	12.81	12.81	12.81	12.81	12.81	12.81	12.81
Interest	5.57	4.65	3.72	2.79	1.86	0.93	-	-
Pre-tax	13.02	17.84	22.77	23.7	24.63	25.56	25.56	(1.11)
Taxation	3.90	5.35	6.81	7.09	7.37	7.64	7.92	-
Attributable	**9.12**	**12.49**	**15.89**	**16.61**	**17.26**	**17.92**	**17.64**	**(1.11)**
NPV @ 7.5%	7.22	9.14	10.76	10.40	10.00	9.60	8.74	(0.51)
Total NPV $Am	**90**							

Source: MTB/ProMet figures
Note: $US1 - $A1.38

The above figures allow the depreciation charge to cover the re-payment of capital borrowed to develop Kihabe. The NPV in Table 2 is based on the metal prices used in Table 1 which are considerably lower than current market prices. Table 3 uses current market prices (14th April) where zinc is $US3,080/tonne, lead is $US1,150/tonne and silver is $US12.61/oz. The effect is startling with a seven times uplift in the NPV for Kihabe at the higher metal prices. The project does not, on the figures used in the scoping study, lose money (once it is up and running) until its three primary metals have fallen by two thirds in price! It also must be remembered that in the revenue figures in both tables there is no credit for the secondary copper and vanadium product. The scoping study also used Australian costs as its guide and costs in Botswana should come in lower.

Table 3: Forecast earnings and NPV (April 2006 metal prices)

$USm	2009	2010	2011	2012	2013	2014	2015	2016
Revenue (net)	182.88	206.77	227.96	227.96	227.96	227.96	227.96	69.28
Operating costs	48.20	54.20	60.20	60.20	60.20	60.20	60.20	18.10
Depreciation	12.81	12.81	12.81	12.81	12.81	12.81	12.81	12.81
Interest	5.57	4.65	3.72	2.79	1.86	0.93	-	-
Pre-tax	116.30	135.11	151.23	152.16	153.09	154.02	154.95	38.37
Taxation (30%)	34.89	40.53	45.37	45.65	45.93	46.21	46.49	11.51
Attributable	**81.41**	**94.58**	**105.86**	**106.51**	**107.16**	**107.81**	**108.46**	**26.86**
NPV @ 7.5%	64.43	69.24	71.69	66.71	62.09	57.78	53.77	12.32
Total NPV $Am	**632**							

Source: MTB/ProMet figures
Note: $US1 - $A1.38

Tsumkwe

Virtually contiguous to Kihabe, but over the border in Namibia, MTB is exploring the Tsumkwe prospect for diamonds. This programme has been going on for a number of years with a reasonable degree of success, three kimberlites have been found, also some macro diamonds and more recently a number of fresh garnets within a G10 garnet anomaly. None of the kimberlites were diamondiferous, a very common outcome in the search for diamonds, where most kimberlites discovered have, at best, uneconomic diamond grades, and most are usually barren.

The significance of the garnet discoveries is that if they are G10s, which are prime indicators of potentially diamondiferous kimberlites, and being fresh and thus unworn they are likely to have travelled only a very short distance from their source. The theory MTB is pursuing is that the source, which may be kimberlite, is close, and within its lease area which covers 7,800 sq kms of mainly Kalahari sand covered ground. Because of this cover progress is slow, although exploring for diamonds is typically painstaking.

Tsumkwe's geological setting is promising as the lease is situated on the southern edge of the Angolan craton, a craton which over the years has hosted a considerable number of diamondiferous kimberlites. The lease is right on the contact with the Damaran fold belt which provides the possibility of finding deep tapping kimberlites which have penetrated the diamond forming part of the mantle. Tsumkwe is the main MTB diamond project but the company is also seeking further exploration leases on the craton in Namibia.

We have not tried to attribute a value to Tsumkwe as no diamond bearing kimberlites have yet been discovered. Typically values for exploration companies, where a diamondiferous kimberlite has been discovered have been calculated on the basis of carats per 100 tonnes of mineralisation. The actual value of the diamonds is, of course, very important as gem stones are far more valuable than the more common industrial and near gem stones. Indeed the rough ratio used is that industrial/near gem stones represent 80% of annual diamond production but only 20% of value. Below we show the market capitalisations of some peer group diamond explorers with primarily African acreage many of whom have yet to strike lucky.

	Diamond country	**Recent share price**	**Market cap $Am**
Mount Burgess	Namibia	9Ac	16
African Diamonds	Botswana/Sierra Leone	166.50p	295
Dwyka Diamonds	South Africa/Tanzania	35.75p	79
European Diamonds	Lesotho	22.25p	36
Gravity Diamonds	Congo	15.50p	49
Xceldiam Diamonds	Angola	48.00p	63

As can be seen MTB's market capitalisation is by far the smallest of the group. Interestingly the nearest value is that of European Diamonds (ED) which is one of two producers in the table, Dwyka being the other. ED's Lesotho mine has been around for many years and is a very low grade operation but produces very high value gem stones. Xceldiam has highly prospective alluvial leases in Angola in a joint venture with the state owned Endiama. Gravity is just beginning to crank up its effort in the Congo and in many respects is well behind MTB as far as its work programme is concerned. It is difficult to draw any firm conclusions from the table, but it is reasonable to claim that MTB is hardly overvalued within the diamond peer group, and this is without considering the Kihabe base metals project. It is also the case that Namibia does not have the same market cachet that Angola or the Congo does, particularly in the diamond area where the country is viewed primarily as an offshore rather than a shore based producer.

Telfer gold

MTB's longest running single exploration venture is its Telfer gold project in Western Australia. It has had a number of distinguished joint venturers involved over the years, the most recent having been Barrick Gold. The thinking is that within a very complex geological setting there could well sit another major gold deposit mirroring the nearby Telfer Gold mine of Newcrest.

Over the years there have been a number of attempts to 'crack' the geology which have met with limited success. The dream of another Telfer mine remains just that, a dream. However, there have been some interesting results over the years on some parts of the property and MTB, with the recent strength of the gold price in mind, is reviewing historical drilling results from the Tim's Dome prospect.

Here a number of low grade gold intersections over a 2km strike length were recorded and MTB is investigating whether at a gold price close to $US600 an open cut, heap leach operation might be economic. The problem is that though Tim's Dome looks like a low cost project, with the mineralisation lying close to the surface, the widths are generally narrow at an average of around 5ms over the strike, and the average grade could be around 1.5gms. There are, however, a few quite good widths, for example 22m of 2.25gms gold and the odd high grade results such as two 1m widths grading 11.2gms and 13.5gms respectively. Tim's Dome is pure speculation at this time but there might be a small-scale operation with the ability to generate enough cash flow to underwrite MTB's exploration budget for Telfer as the company continues to explore this complex property.

Prospects for metals in 2006

The current interest in metals contrasts markedly with the investment community's view of the sector as the new millennium dawned six years ago. Then all the talk was of the internet, telecommunications, and the high tech boom; mining was barely a sunset industry. Since then the situation has changed out of all recognition, and even conservative investors are looking at commodities as a good long term investment class as prices soar. Mining shares are also very much the flavour of the moment, but we wonder how many institutional investors around the world have a proper weighting in the sector. Although there is quite a lot of scepticism around about the longevity of the metals boom, especially amongst those commentators who failed to recognise it initially, few disagree that China and India are major and fast growing raw material consumers.

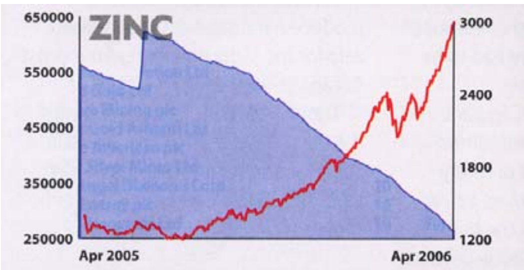
MTB's hopes for Kihabe have received a massive boost from the exceptional performance of zinc in recent months. Zinc had had a poor time during the late 80s and the early 90s and this led to major financial failures such as the collapse of Australian giant Pasminco, now resuscitated. Fortunately the statistical position for zinc has been improving over the last couple of years with smelter capacity tightening. Mine production levels have also fallen and the market surplus of production over demand has almost disappeared. Zinc inventories, which were at record levels in 2002, have therefore declined materially.

Zinc consumption has risen steadily over the last thirty years with growth averaging around 3% per annum. Despite this the price of zinc has been dull with only two periods of substantial real price improvement - 1973/4 and 1989/90 - the former being by far the most dramatic of the two, happening, as it did, during the great inflation of the mid seventies. We are now in much calmer times as regards inflation, but we are also experiencing the emergence of China as a leading economic power, certainly in the field of manufacturing. This process is driving demand for raw materials to fuel China's explosive economic growth both in manufacturing and in infrastructure spending. China also used to be one of the prime sources of raw material inventories which used to leak out onto world markets undermining the price of many metals including zinc.

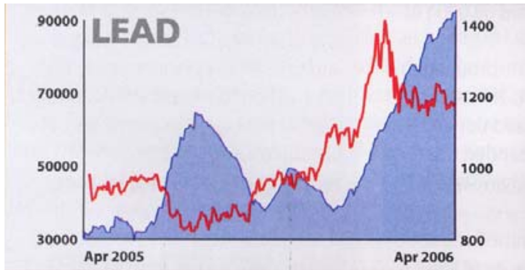
We believe the fundamentals for zinc are on the mend allowing the metal's attractive qualities to come back into play. In an environmentally conscious age zinc has a number of positive characteristics. It is non-toxic and its key uses are in galvanising steel, die-castings, construction, the manufacture of brass, pharmaceuticals and cosmetics, and agriculture. The life cycle of many zinc products is long - zinc sheet used in roofing and cladding can last over 100 years and galvanised coatings for steel products can prolong the life of the product for up to 50 years. Zinc is also completely recyclable, losing none of its prime properties in the process. These qualities of long life and recyclability are particularly important, and positive, from an environmental point of view.

Lead, although it does not have zinc's environmental cachet, has also been on an upward trend over the last couple of years as consumption has strengthened and inventories have run down. Since the beginning of the year there has been a sharp rise in LME lead stocks in line with other metals such as copper, aluminium and tin; however, in recent weeks exchange inventories for these latter three metals have begun to reduce, while lead stocks remain at recent highs. Silver, not for the first time, looks fundamentally compelling. The precious metals sector, now led by gold, looks very strong. Although the issue of aboveground stocks of silver remains unresolved, the position of Indian hoarders complicates analysis, the plan to establish a silver exchange traded fund has materially boosted interest in the metal. If gold can make progress beyond $600 further advances by the silver price are likely.

Zinc (tonnes inventories/$US per tonne)



Lead (tonnes inventories/$US per tonne)



Silver ($US per oz)

Note: The above metal price charts are taken from the Mining Journal.

All in all the outlook for Kihabe's metals suite is good. Also if gold performs as strongly as some bulls expect, with an assault later this year or early in 2007 on the all time peak of $850, the prospects for a profitable gold operation at Telfer would clearly be enhanced as well. The long lead times experienced in exploring for diamonds and then developing a new diamond mine mean that if MTB were successful in its search at Tsumkwe current diamond market conditions would not necessarily still be in force when production started. However, the diamond market is currently experiencing strong demand, led inevitably by China, with the supply chain tight, and further price rises are expected this year. Since De Beers has stepped back from its role as global custodian of the diamond market, competition from other selling groups has underpinned the market's strength by stimulating demand.

Financial brief

Consolidated income statement

Year to end June	2005 (Dec)	2005	2004
Revenue	7,740	38,985	202,898
Administrative expenses	(455,030)	(808,189)	(846,801)
Exploration written off	(70,043)	(379,210)	(19,957)
Other expenses	(8,093)	(24,453)	(83,581)
Profit/(loss)	(525,426)	(1,172,867)	(747,441)
Income tax	-	-	-
Attributable profit/(loss)	**(525,426)**	**(1,172,867)**	**(747,441)**

Consolidated financial statement

Year to end June	2005 (Dec)	2005	2004
Current assets			
Cash	573,054	538,040	92,726
Debtors	74,535	44,358	51,464
Other assets			
Plant and equipment	71,992	82,685	55,183
Exploration	12,144,307	11,440,660	10,153,082
Total assets	12,863,888	12,105,743	10,352,455
Current liabilities			
Creditors	90,916	194,208	198,026
Debt	21,652	25,540	8,043
Provisions	33,701	33,093	43,244
Other liabilities	8,526	11,403	20,335
Total liabilities	154,795	264,244	269,648
Net assets	**12,709,093**	**11,841,499**	**10,082,807**
Shareholders funds			
Equity	31,438,356	30,113,976	27,182,417
Reserves	178,612	109,972	109,972
Accumulated losses	(18,907,875)	(18,382,449)	(17,209,582)
Total equity	**12,709,093**	**11,841,499**	**10,082,807**

Consolidated cash flow

Year to end June	2005 (Dec)	2005	2004
Operating			
Payments	(386,832)	(836,628)	(849,874)
Net interest	6,143	9,556	12,506
Investing			
Net sales of plant and equipment	(4,665)	(13,510)	23,171
Sales of investments	-	5,000	146,300
Exploration etc expenditure	(914,152)	(1,643,929)	(1,734,273)
Financing			
Net proceeds from equity issues	1,324,380	2,931,559	2,175,472
Lease repayments	(6,764)	(8,866)	(41,569)
Net increase/(decrease) in cash	18,110	443,182	(268,267)
Cash at beginning of period	538,041	92,726	360,993
Cash at end of period	573,054	538,040	92,726

MTB's current monthly cash burn is around $A170,000 per month. At that rate the cash at the end of December should last the company just a couple more months; so further funds will be needed after that.

Conclusion

Whilst MTB remains an investment for risk taking investors who know their way around the junior mining sector, its projects are genuinely interesting, and in the case of Kihabe highly prospective also. Indeed Kihabe's net present value on the basis of the recent scoping study is five times MTB's current market value, and that calculation is based on metal prices significantly below present levels. Although the mining share market may be due a correction as we enter the northern hemisphere's quiet summer period, it is not fanciful to forecast a further leg to the metals bull market as the traditionally strong late year period looms. If that proves to be the case it is also reasonable, on the basis of past mining sector booms, to expect an increasingly positive performance from the junior sector relative to the leading majors who have led the bull market so far. MTB's quality exploration and development programme cannot be ignored forever.

Recommendation categories

Risk averse investors	MTB is not suitable
Balanced risk investors	MTB is not yet suitable
Risk orientated investors	MTB may be suitable
Income investors	MTB is not suitable
Capital growth investors	MTB may be suitable
Value investors	MTB may be suitable
Speculative investors	MTB may be suitable
Specialist mining investors	MTB may be suitable

Explanation

Risk averse investors would not find MTB to be an attractive investment as its potential is largely in the future. For **balanced risk investors** MTB has a development and exploration programme mapped out, but there is a lot of further work to be done on MTB's properties and such investors should probably stay their hand. For **risk orientated investors** MTB presents an acceptable level of risk and its share price appears to be at least five times covered by the resources in its current inventory; further value can be added if the exploration programme is successful. **Income investors** are unlikely to see any dividends from MTB for many years which severely restricts its attraction to them. **Capital growth investors**, who believe that the current mining share boom has further to go, may view MTB as an interesting investment although the company's full potential may take some time to be revealed. **Value investors** could find MTB of interest at this time as our valuation shows that the NPV of current identified resources significantly exceeds the company's share price. **Speculative investors** may be attracted to MTB as it has an active exploration programme which could generate a lot of news and announcements over the next year or so and which also has a good chance of success. **Specialist mining investors** may be attracted by the base metal project plus the potentially substantial value uplift if the drilling programme for diamonds, which is taking place in a highly prospective area, is successful.

Michael Coulson
MC Research
36, Herondale Avenue
London, SW18 3JL
ENGLAND

The Author
Born in 1945 Michael Coulson has been associated with the mining sector for over thirty years, although his university background is in economics where he holds a BSc from the University of London. He first worked as a graduate trainee on the mining desk at James Capel in 1970, for many years the leading mining stockbroker in the City. After that he became a mining salesman at Sterling & Co and also developed the firm's research coverage of the sector. In 1973 he joined Fielding Newson-Smith (later to become NatWest Markets) as a gold mining analyst where he began a long association with the South African gold mining industry. Two years later he became senior mining analyst at L Messel (latterly Lehman Bros) where he started to produce an annual gold review which he published every year until 1991. In 1979 he moved to Panmure Gordon and in 1982 he left and joined Phillips & Drew (UBS) with the task of establishing the firm in the mining market.

After four years there, where two years running he was voted No 2 gold analyst in the Extel Analysts Survey, he moved to Kitcat & Aitken where he set up an integrated mining desk. In 1990 the firm's Canadian owners closed the firm and he was briefly with County NatWest. The following year he set up a small mining team at Durlacher, but in 1992 was back in the mainstream at Credit Lyonnais Laing where he was a salesman/analyst on the firm's specialist mining team and established an expertise in African shares. He was then approached by South African bank, Nedcor, to join a start-up broking operation the bank was establishing in London. This operation was closed in 1997 and the following year he joined Paribas to head its Global Mining Team.

He left Paribas in 2000 following the completion of the merger with BNP. Since then he has been doing independent research, mainly on a commissioned basis, primarily for small UK brokers lacking mining expertise. Between 2002 and 2004 he was Chairman of the Association of Mining Analysts in London and is a non executive director of City Natural Resources High Yield Trust and Moneta Porcupine Mines. In 2004 he published ‘An Insider’s Guide to the Mining Sector’ and currently is writing a second book ‘A History of Mining’.