



MINING RESEARCH

Maghreb Minerals

4.75p

Bou Jabeur – Buried treasure

12 June 2008

Maghreb has received significant zinc and lead assay results from the company's infill and step out drilling programme at the Gite de L'Est Pb-Zn-Ba-F mine in Tunisia. These latest results are extremely encouraging for increasing both the tonnage and grade and support our opinion in our note dated 13 December 2007 that there is considerable upside to the Bou Jabeur project. An updated audited resource statement is now scheduled for late Q3/early Q3 2008 as part of a more detailed mining and metallurgical Scoping Study which will go some way to establishing the technical and economic viability of the deposit. We believe that the Bou Jabeur project is worth at least 9p per share based on our highly conservative assumptions.

The latest results from the company's infill and step out drilling programme (Phase 2) demonstrate continuity of mineralisation across the gaps between the drill holes of the earlier Office National des Mines (O.N.M.) and Maghreb's Phase 1 verification drilling programme. The assay results from the step out drill holes show that strong zinc – lead mineralisation continues from between 50 metres (m) and 120m below the previously known resource. This deposit remains open to depth and laterally.

To date a total of 21 drill holes for a total of 8,165m has been completed in the Phase 2 drilling programme using three rigs operating continuously between January and June 2008. The deeper intersections assayed at the various drill holes contain substantially higher grades and one particular hole has a significant intersection with sub-massive mineralisation of 46.3m with 9.12% Zn grading and 1.72% Pb (10.84% combined zinc + lead) within which have been found intervals of over 20% combined zinc + lead.

Unaudited resource modelling by the company of the upper part of the deposit indicates emergence of a continuous high-grade zone of around 3.2 million tonnes (Mt) grading 7.2% combined zinc + lead, within an 11 Mt deposit envelope.

The Phase 2 drilling programme is scheduled for completion by the end of June 2008 and a fully compliant updated audited resource statement is scheduled for late Q3/early Q4 2008. This will be prepared and published as part of a more detailed Scoping Study. This Scoping Study is likely to represent a key milestone in terms of verification of both increased tonnages and significantly improved Zn-Pb grades indicated by the latest results. The Scoping Study will further verify and is expected to enlarge the previous Tunisian estimates and will represent a significant step towards the resumption of mining operations.

The Bou Jabeur project is located in a convenient location with access to existing infrastructure including rail access to a mill and concentrator on care and maintenance.

Bou Jabeur is sensitive to ore grades and prices. Based on our DCF analysis, the NPV (15%) valuation ranges from US\$17m (9p per share) for our conservative base case to US\$110m (60p per share) for our scenario with improved parameters. In addition, our analysis excludes any further upside from higher zinc grades expected by Maghreb.

This valuation range provides considerable upside for the company's current share price, particularly as it does not include Fej Lahdoum and other exploration licences. We believe that Maghreb is currently significantly undervalued and expect a substantial re-rating within the next twelve months, due to the increased tonnages and higher zinc grades which are expected to be confirmed in the resource estimate update.

ANALYST

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SALES & TRADING CONTACTS

See reverse

COMPANY DESCRIPTION

Mineral exploration and development in Tunisia

INVESTMENT DATA

Ticker	MMS
Listing	AIM
No. of shares	91m
Market cap.	£4.3m
Enterprise value	£2.1m

SHAREHOLDERS Holding (%)

Firebird Global Master Fund	24.06
City Equities	14.74
Pershing Keen Noms	12.60
Hawkwood Group	7.67
Raven Noms	6.22
BNY Noms	3.92

12M SHARE PRICE PERFORMANCE



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Valuation

Given the encouraging results from the infill and step out drilling programme and the issue of a fully compliant updated resource estimate in the near future, we consider this to be an appropriate time to produce our indicative valuation analysis.

We have produced a range of valuations for Bou Jabeur based on a discounted cash flow model. From our analysis we conservatively value Bou Jabeur at US\$17m (£9m) or 9p per share. Under a scenario of sustained higher zinc prices and improved grades, the indicative value of the project would be well in excess of 60p per share. We believe that Maghreb is currently undervalued and expect a re-rating within the next twelve months, assuming that the audited updated resource statement can verify the anticipated improved zinc grades.

To test the robustness of the Bou Jabeur project our fundamental DCF valuation considers a range of scenarios with flexed costs, capital expenditure and most importantly improved zinc grades and prices, to which the model is particularly sensitive. Our risked base case assumes lower zinc grades (2.17%) and produces a post tax NPV of US\$17m or 9p per share at a discount rate of 15%.

Our analysis is based on production commencing in 2011. The base case provides a reasonably risked floor value to the project. We have assumed:

- Capital expenditure of US\$40m
- Zn price of US\$1.40/lb declining to US\$0.75/lb in the longer term
- Above industry average operating costs of US\$0.75/lb Zn + Pb
- 80% recovery rates for zinc and lead
- Production of 2,000 mined tonnes per day (tpd).

Base case scenario

Discount rate	US\$m	£m	p/share
5%	42	21	23
10%	27	13	15
12.5%	21	11	12
15%	17	8	9
20%	9	5	5

**Values per share based on 91m shares currently in issue. Not adjusted for options or future equity raisings.*

Improved parameters and upside

For our improved parameters case we have kept all assumptions as per the base case. We have included above industry average operating costs. However, we have used higher zinc grades of 4% which we believe are firmly underpinned by the company's recent drilling results. We believe that the choice of 4% zinc grades remains conservative in view of the grades that have been indicated by the step out drilling results.

Our improved parameter model produces an NPV of US\$81m at a discount rate of 15%. Although we are of the opinion that the improved parameter case is a more likely scenario, we have taken a conservative view, even though the recent announcement from the company indicates Zn-Pb grades in excess of 6%.

Higher Zn grades case

Discount rate	US\$m	£m	p/share
5%	155	77	85
10%	111	55	61
12.5%	94	47	52
15%	81	40	44
20%	60	30	33

There is further upside to the Bou Jabeur project not captured by our improved parameter scenario. To highlight the potential upside in the project, we ran the model at a Zn price of US\$1.80/lb in the first four years of the model declining to US\$0.75/lb in the longer term. Zn prices are expected to reach the US\$1.80/lb level over the next few years as new supplies of Zn concentrates dry up.

Higher Zn grades and prices case

Discount rate	US\$m	£m	p/share
5%	199	99	109
10%	146	73	80
12.5%	126	63	69
15%	110	55	60
20%	84	42	46

Risks

There are a number of key risk hurdles that Maghreb need to clear, although we believe that a high degree of the risk is likely to be eliminated by the soon to be commenced Scoping Study due for completion in late Q3/early Q4 2008. This study will include metallurgical test work to verify the level of zinc recovery and mine planning to assess the shape of the resource to ascertain the costs and recoveries from underground mining. In view of these risks, we have used a 15% discount rate.

Summary

Maghreb's share price has drifted down from 8.2p in June 2007 to a current low, mostly due to the current sector malaise surrounding mineral development and exploration companies. The latest results from the Phase 2 drilling programme provide significant new information and indicate a substantial uplift in the size and grade of the Gite de l'Est Pb-Zn-Ba-F resource. This, together with the completion of a more detailed Scoping Study in the near future will provide us with a significant degree of confidence and will be a major step towards the resumption of mining operations at Bou Jabeur.

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