EQUITY RESEARCH

FOSTER STOCKBROKING

Level 21
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Sydney NSW 2000

Jupiter Mines Ltd (JMS.ASX)

Monday 22 November 2010

Initiation. Building a Major Steel Feed Corporation.

Event:

- We initiate on JMS with a BUY recommendation and a price target of $0.55/share.

Investment Thesis:

- **Large scale Tshipi Manganese Project:** JMS recently completed a company transforming acquisition with the purchase of a 49.9% stake in Tshipi é Ntle Manganese Mining Pty Ltd which holds 100% of the Tshipi Borwa Manganese Project in South Africa. Tshipi Borwa will be a large scale open pit mine producing 2.4Mtpa of 37% Mn ore for >20 years from 2012 with further resource upside potential to the current resource base of 163Mt. Once in full production, the project should have operating costs in the lowest quartile and is forecast to deliver >$160m in annual FCF.
- **Blue chip register:** Following the recent settlement of the Tshipi acquisition, JMS has secured a quality register with shareholders including POSCO, Pallinghurst, Investec EMG and AMCI. With considerable funding firepower under the management of Pallinghurst (almost $2b), funding risk for projects is diminished.
- **Pipeline of deals:** The Company's strategy is to continue to add projects to the portfolio that align with its upstream steel feed theme. With a near-term producing manganese project in South Africa and two exploration projects for manganese and iron ore in Australia, management have highlighted it is actively reviewing the market for coking coal project acquisitions.
- **Highly regarded management:** Led by ex-BHP CEO Brian Gilberston, we consider JMS management to have extremely good credentials for a sub-A$1b market cap company. We have confidence in management being able to source additional acquisitions on attractive terms targeting supply of raw materials to the steel industry.
- **Strong outlook for Mn:** We are bullish on the Mn price and market driven by growing steel production, particularly in China, and increased intensity of use.

Catalysts:

- Refined and optimised feasibility study with final design occurring.
- Tshipi project capital financing & ongoing acquisitions.
- Mt. Ida maiden resource.

Recommendation:

- **We initiate on JMS with a BUY recommendation and price target of $0.55/share.**
- Tshipi is a world class Mn project making the transition to production and expected to be a low cost operation. The project has a new order mining right, FID is expected in coming months and it is envisaged that development will take ~12 months.
- We value JMS at $0.55/share which includes a premium for management on the expectation that ongoing positive NPV acquisitions will be sourced on attractive terms. We note that Tshipi was acquired on an EV/t resource at the time of just $4, which compares favourably to OM Holdings, the only other ASX listed Mn producer which currently trades at >$20/t. Tshipi represents ~70% of our valuation.
- Given the major shareholders will jointly consider and are likely to support investment proposals made by Brian Gilberston and the Pallinghurst investment team, we consider project development and acquisition risk to be lower than for other mid-cap resource companies.

Metals & Mining

Rating	BUY
Previous	NA

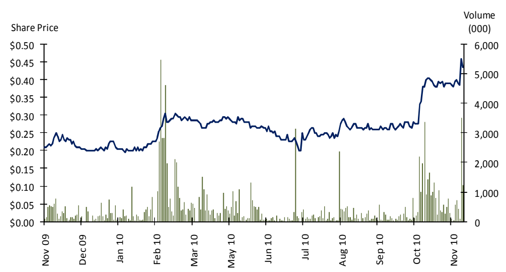
Share Price ($)	0.44
52 week low - high ($)	0.20 - 0.48
Price Target ($)	**0.55**
Previous ($)	NA
Valuation ($/share)	0.55
Methodology	DCF/Sum of Parts
Risk	High

Capital Structure	
Shares on Issue (m)	1,602.2
Market Cap ($m)	704.9
Net Debt / (Cash) ($m)	-8.0
EV ($m)	696.9
Options on issue (m)	12.1
12mth Av Daily Volume ('000)	449

Board and Management	
Brian Gilbertson	Non Executive Chairman
Paul Murray	Non Executive Director
Andrew Bell	Non Executive Director
Priyank Thapliyal	Non Executive Director
Sun Moon Woo	Non Executive Director
Greg Durack	CEO
Robert Benussi	CFO/Company Secretary

Major Shareholders	
POSCO Australia	20.0%
Pallinghurst	18.0%
Investec	17.0%
AMCI	15.0%
Energy & Minerals Group	15.0%

Share Price Graph



Analyst

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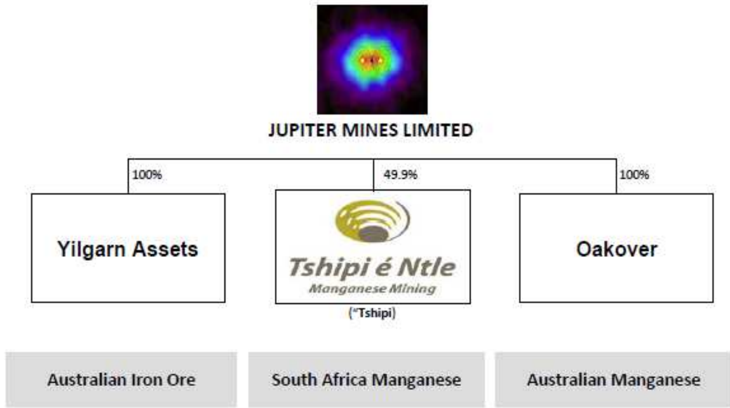
COMPANY OVERVIEW

Management's objective is to acquire and develop projects that have the potential to supply raw materials to the steel industry.

- Jupiter Mines Ltd (JMS) recently accelerated its steel feed corporation strategy through the acquisition of a 49.9% stake in the world class Tshipi Borwa Project ('Tshipi') in South Africa, one of the largest undeveloped open pit manganese projects globally. The Company's objective is to acquire and develop projects that have the potential to supply raw materials to the steel industry via the extension of 'Brownfield' regions with leverage to infrastructure. As opposed to regional 'Greenfield' exploration that requires new infrastructure and billions of new capital to unlock the value of the resource.
- Tshipi is JMS's third project and complements the existing iron ore and manganese exploration projects in Western Australia. This transaction also delivered to the company's register a number of international strategic shareholders who endorse JMS' 'Steel Feed Corporation' strategy and have the necessary financial resources to back that strategy.

Figure 1: JMS Project Portfolio



Source: Jupiter Mines Ltd

- Tshipi was acquired from a group of investors led by Pallinghurst advisors (the 'Pallinghurst Co Investors') for scrip; as a result the Pallinghurst Co-Investors have now emerged as JMS's largest shareholder with ~85%.
- The strategy of Pallinghurst Resources is to create an independent and integrated global platform to supply raw materials to the steel industry. In doing so, the company should produce returns well above the industry average, in our view. We believe that future competition for raw material input to the steel industry is likely to increase, particularly in respect of iron ore, coking coal, manganese, and other carbon steels.
- The Pallinghurst Co-Investors are a group of well-funded (US$1.7b funding capacity) long-term mineral resources investors who jointly consider and often support investment proposals made by Pallinghurst Advisors, who are led by Brian Gilberston (ex BHP CEO) and the Pallinghurst investment team. Consequently, the existing projects held by JMS and future projects to be acquired are likely to be significantly derisked as funding is likely to come from the Pallinghurst Co-Investors in conjunction with the capital markets. The Pallinghurst Co-Investors include:

JMS register is a 'who's who' with the likes of POSCO, Pallinghurst Resources, Investec, EMG and AMCI.

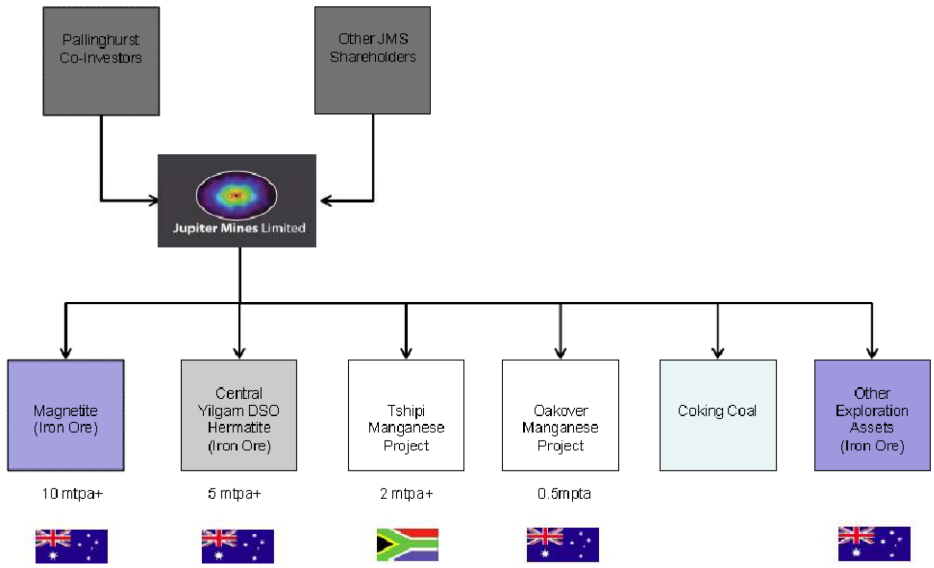
  - **POSCO (20%):** A Korean steel corporation, which is the 4th largest producer globally, listed on the Republic of Korea, New York and Tokyo Stock Exchanges. POSCO's Australian subsidiary also holds key shareholdings in Cokatoo Coal (COK.ASX); Murchison Metals (MMX.ASX) & Sandfire Resources (SFR.ASX);
  - **Pallinghurst Resources (18%):** Pallinghurst is a specialist natural resources investment company with investments in platinum, manganese, iron ore, emeralds and the luxury goods brand Fabergé. Pallinghurst has its primary listing on the JSE Limited (formerly Johannesburg Stock Exchange) in South Africa, a secondary listing

on the Bermuda Stock Exchange, and has raised approximately US$300m in equity share capital;

- **Investec (17%):** Specialist bank and asset manager providing a diverse range of financial products and services to a niche client base in three principal markets: the United Kingdom; South Africa; and Australia;
- **The Energy & Minerals Group (15%):** Houston based private investment firm with a family of funds that invest in the energy and minerals sectors; &
- **AMCI Capital (15%):** AMCI Capital is a private equity fund of the AMCI Group. The AMCI Group is an active global investor in coal, iron ore, base metals, power, shipping, logistics and trading. AMCI hold a substantial shareholding in Giralia Resources (GIR).

- Following the Tshipi acquisition and issue of shares to the Pallinghurst Co-Investors, JMS has a market cap of ~$700m and cash of ~$8m.
- Management's intention is to continue to add projects to the portfolio that align with its upstream steel feed strategy. With a near-term producing manganese project in South Africa and two exploration projects for manganese and iron ore in Australia, management have highlighted it is reviewing the market for coking coal project acquisitions, ideally with near term production profiles.

Figure 2: JMS Project Portfolio within 36 months



Source: Jupiter Mines Ltd

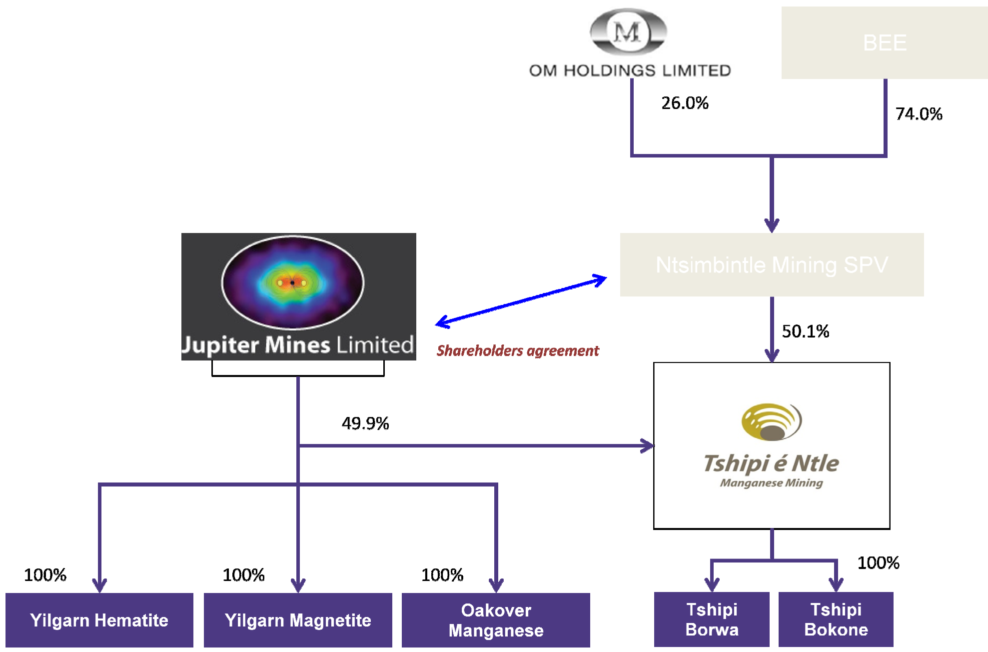
TSHIPI KALAHARI MANGANESE PROJECT (JMS - 49.9%)

Overview

JMS acquired the 49.9% stake in Tshipi at a highly attractive purchase price of A$245m, which represented an EV/t resource of just $3/t.

- The Tshipi Project is located in the Kalahari Manganese Field ('KMF'), host to the largest sedimentary manganese deposits in the world. The fields have been supplying manganese to world markets for over 70 years and have resources for another 100 years. There are seven large mining operations within the KMF.
- Tshipi Borwa is one of the largest open pit projects in the KMF and is adjacent to the Mamatwan open pit mine operated and majority owned by BHP Billiton, which has had 46 years of continuous manganese production. Mamatwan currently produces around 3.5Mtpa, however its remaining mine life is estimated to be 19 years.
- JMS announced the acquisition of a 49.9% stake in Tshipi in March 2010 and completed the transaction in November 2010 following the approval of shareholders and FIRB. The consideration of A$245m was the issue of new JMS scrip (which has been escrowed for 12 months) to the Pallinghurst Co-Investors at an issue price of $0.21/share, which was then equal to the 30-day VWAP prior to the acquisition announcement. As a result, the Pallinghurst Co-Investors have emerged with a ~85% shareholding (this includes the Pallinghurst Resources and POSCO existing stake in JMS held prior to the acquisition of Tshipi).
- At the time of the acquisition Tshipi had a resource of 163Mt at 37.1% Mn. The acquisition purchase price of A$245m (implied A$491m for 100% of the Project) represented an EV/resource (A$/t) of just $3, an attractive discount compared with fellow ASX listed manganese producer OM Holdings Ltd (OMH.ASX) which is currently trading at >$20/t.
- The Tshipi Borwa Project is 100% held by Tshipi e Ntle Manganese Mining Pty Ltd and following the JMS acquisition from the Pallinghurst Co-Investors the shareholders comprise of Ntsimbintle (50.1%) and JMS (49.9%). OM Holdings Ltd has a 26% holding in Ntsimbintle (an indirect 13% holding in the Project).

Figure 3: Tshipi Ownership Structure



Source: Jupiter Mines Ltd

Mineral Resources

- The SAMREC and JORC compliant Mineral Resources now stand at 308Mt at 35% Mn following a recent increase for the Top-Cut resource of 145Mt at 31.6% Mn (X and Z zones), which represents the manganese mineralisation occurring directly above the existing and higher grade sequence of 163Mt at 37.1% Mn (M, C and N zones). Notwithstanding the lower grade of the Top-Cut (32% Mn versus 37% Mn), the ore could potentially be upgraded through selective mining and/or processing to produce a saleable product.
- The current Feasibility and all economic analysis of the Tshipi Borwa Project excludes the mining or sale of the Top-Cut resources as it was based only on the lower zone mineralisation. Given the Top-Cut needs to be mined in any case to access the higher grade lower layers, any sales or commercialisation of the Top Cut ore will result in a reduction in the strip ratio and/or fixed costs per tonne of ore mined, thus potentially having a significant positive economic impact.
- Importantly, the resources are all within 250m from surface so are well suited to large scale open pit mining. Mineral Resources for the 'Main' lower zone begins at 70m below the surface, 2000m strike and dips 7 degrees across strike (west) and down dip (north).

Table 1: Tshipi Borwa Mineral Resource Statement (Excluding Top-Cut)

	Indicated		Inferred		Total	
Deposit	**Mt**	**% Mn**	**Mt**	**% Mn**	**Mt**	**% Mn**
Zone M	22.69	38.0	39.64	37.9%	62.33	37.90
Zone C	22.95	36.7	40.61	37.0%	63.56	36.89
Zone N	12.83	36.7	20.73	36.0%	33.56	36.25
Altered	3.35	35.4	0.43	31.4%	3.78	34.90
Total	**61.82**	**37.1**	**101.41**	**37.1%**	**163.23**	**37.10**

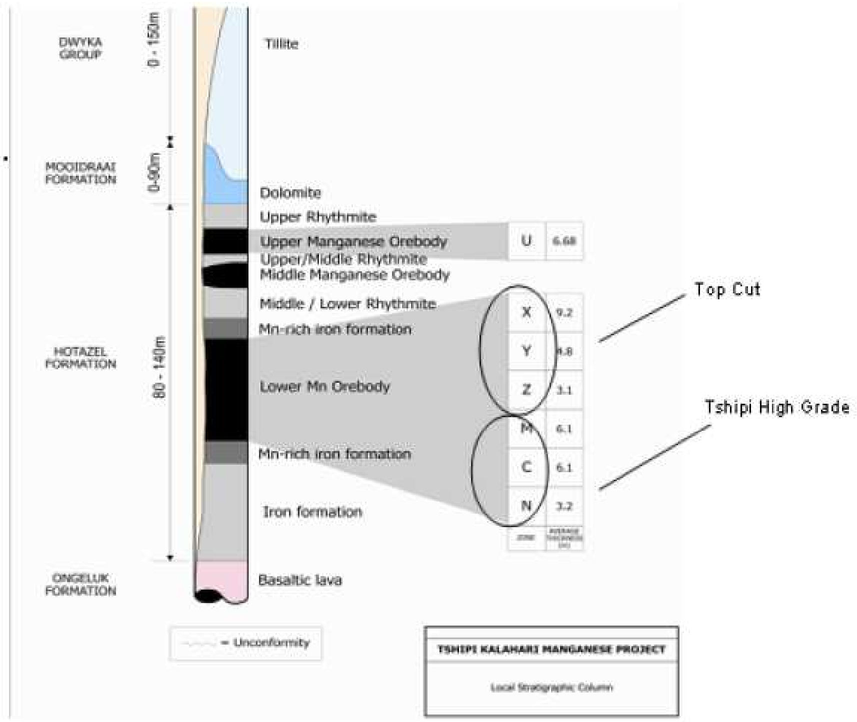
Source: Jupiter Mines Ltd, FSB Research

Table 2: Tshipi Borwa Top-Cut Mineral Resource Statement

Classification	Zone	Mt	Mn Grade (%)	Iron %	LOI %	Relative Density
Indicated	X	25.0	33.0%	4.6%	20.2%	3.56
Indicated	Z	14.0	33.4%	6.0%	19.5%	3.57
Total		**39.0**	**33.2%**	**5.1%**	**19.9%**	3.56
Inferred	X	78.0	30.9%	4.8%	20.8%	3.53
Inferred	Z	28.0	31.3%	6.1%	19.0%	3.62
Total		**106.0**	**31.0%**	**5.2%**	**20.3%**	3.55
Indicated & Inferred	X	103.0	31.4%	4.8%	20.6%	3.54
Indicated & Inferred	Z	42.0	32.0%	6.1%	19.2%	3.60
Grand Total		**145.0**	**31.6%**	**5.2%**	**20.2%**	**3.56**

Source: Jupiter Mines Ltd, FSB Research

Figure 4: Tshipi Resource Outline

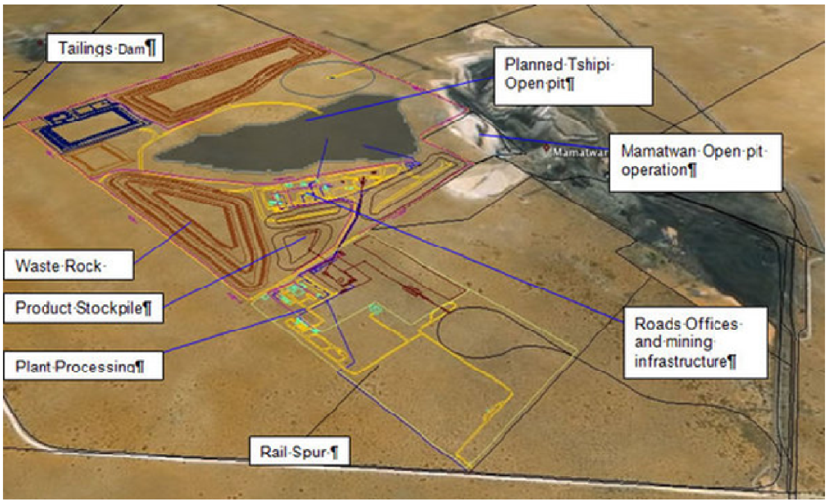


Source: Jupiter Mines Ltd

Mining & Processing

- A Feasibility Study was completed by Turgis Consulting in May 2010 and is currently being optimised. Production at Tshipi is planned at 2.4Mtpa (2Mt lump, 0.4Mt fines) utilising 62Mt of the 163Mt higher grade resource over a mine life of 26 years. Development capex is estimated at US$200m (JMS share US$100m) with operating costs forecast to be in the lowest cost quartile. FID is scheduled for late 2010/early 2011, with first production scheduled for mid 2012.
- Development of Tshipi remains on track to commence in 2011 with the Project currently undertaking FEED tenders for the optimised mine design, rail siding and plant layout. The Company recently appointed Francois Roos as Project Manager for Tshipi who will be responsible for construction of the mine, associated infrastructure, process plant and rail sliding.
- The Tshipi Borwa project has a new order mining right approved and issued by the DMR.
- Given the Tshipi ore body is an extension of BHP Billiton's Mamatwan, it is expected to produce a similar well known product and will be simply processed through conventional crushing and screening with product yield expected to be ~97% for a high grade manganese product. The mine will become one of the world's largest open pit manganese projects. Initial mining will commence on an outsourced contract mining basis. Many of the existing and/or new large-scale manganese mines within the KMF are lower margin underground operations.
- POSCO has the right to take up to 20% of Tshipi's production – the strategy for the marketing of the remainder of Tshipi production has yet to finalised between the shareholders, albeit that there is strong demand and interest for the marketing of the products.

Figure 5: Tshipi Borwa Project Location (adjacent to BHP Billiton's Mamatwan Mine)



Source: Jupiter Mines Ltd

Tshipi will be the 5th largest manganese operation in the world and is adjacent to BHP Billiton's Mamatwan Mn mine which has been in operation for >45 years.

Table 3: One of the Largest Manganese Projects in the World

Name	Owners	Location	Total Mn Metal (Mt)	Grade	Mining Style
Nchwaning/Gloria	African Rainbow Minerals Assore	South Africa	164.7	41.8%	UG
Moanda	Eramet, Gabon Govt	Gabon	100.4	43.1%	OP
Groote Eylandt	BHP, Anglo American	Australia	75.6	46.1%	OP
Wessels	BHP, Anglo American, Ntsimbintle	South Africa	64.0	44.1%	UG
Tshipi	**JMS, Ntsimbintle**	**South Africa**	**60.5**	**37.1%**	**OP**
Zhairem	Eurasian Natural Resources	Kazakhstan	54.2	24.0%	OP
Mamatwan	BHP, Anglo American, Ntsimbintle	South Africa	46.0	37.3%	OP
ElBoleo	Baja Mining, Korea Resources	Mexico	15.1	2.8%	UG/OP
Azul	Vale	Brazil	15.0	35.2%	OP
Gravenhage	Aquila Resources, Tawana Resources	South Africa	13.0	39.9%	UG/OP

Source: Jupiter Mines Ltd

Infrastructure

Rail and Ports

- Most of the rail within South Africa is owned and controlled by the state owned Transnet. Transnet currently offers rail and port capacity of 4.4Mtpa linking the Kalahari fields with the Port of Elizabeth. Transnet is evaluating infrastructure expansion plans based on new feasibility studies and funding models.
- Port Elizabeth is currently the primary bulk exporting port within South Africa with capacity of 4.4Mtpa increasing to 5.1Mtpa. However, the Durban Port is expected to play an increasingly important role for the region, with the port operations presently increasing current capacity from 1Mtpa to 4Mtpa by 2012. It is expected that the majority of Tshipi's ore will pass through Durban, in the short to medium term. The distance from Tshipi to Port Elizabeth and Durban is 1,082kms and 1,294kms respectively.
- Regional consolidation and infrastructure sharing is being considered by Tshipi and other operators in the Kalahari. Given Brian Gilbertson's close working relationships with South African officials and the neighbouring BHP Billiton mine, we expect that JMS can achieve an outcome to its infrastructure requirements.

- JMS is confident of being awarded rail capacity to Durban in order to fill the port expansion plans.
- In addition to the Durban and Elizabeth Port expansions, we understand that Transnet is considering investing in a long-term transport solution to Saldanha that might accommodate up to 12Mtpa of manganese ore.

Water

- Tshipi's water requirements (which will be low as the water usage will only be for road dust suppression and dust prevention during crushing, screening and loading operations) will be met from local boreholes and pit de watering.
- Presently ground water will meet the mines water requirements and should any problems arise then Tshipi will be able to reduce its water requirements through the use of chemical dust suppression.

Power

- Tshipi plans on providing its modest electricity requirements (4mva) through self generation using diesel or HFO gensets.
- An application has been made to Eskom (the South African state owned electricity provider) for the provision of grid power, in future this may occur.

Figure 6: BHP Billiton's Mamatwan Mine adjacent to the Tshipi Borwa Project

Source: Jupiter Mines Ltd

Manganese Market Overview

Demand for manganese is expected to remain strong with growth continuing to be driven from China.

- Demand for manganese is driven by steelmaking with ~90% of world manganese ore mine output used to produce steel. Manganese increases tensile strength, toughness, hardness, wear resistance and machinability of steel and is a vital component, specifically where sulphur needs to be removed from the steel. Increasing intensity in the use of manganese is likely to continue as developing regions witness a change in the mix of steel products being produced, and production of steel consumes higher sulphur input raw materials. Growth in the manganese content in steelmaking has increased 4.5% pa 2005-2007 (CRU 2009).
- The market classifies ores into three grade categories: high grade (>43% Mn); medium grade (30-43% Mn); and low grade (<30% Mn). Typically the seaborne market is serviced by high and medium grade ore, with low grade consumed by domestic alloy producers. China dominates low grade production.
- World demand for manganese ore is forecast to rise by ~25% through 2009-12 (IMnl, 2009), led by China with market dynamics driving further growth in the use of manganese in steel into the long-term. New supplies of manganese resources will be needed to meet this demand as lower grade Chinese supply is replaced with higher grade, lower cost imported ores.
- Market consensus indicates manganese pricing will remain steady at ~US$8/dmtu for the balance of 2010 while destocking runs its course. Increased steel production through to 2012 should see increased demand for manganese and support new supply of high grade, low-cost ore.
- BHP remains the largest producer of manganese in a concentrated market, with the top 5 suppliers accounting for ~80% of high grade supply.
- Chinese domestic production is generally low grade production; hence it remains a net importer of high and medium grade ore. China is responsible for ~50% of global steel production and consumes 26Mtpa of manganese ore (19Mt local low grade ore plus 7Mt imported medium to high grade).

Limited Exposure to Pure Play ASX-Listed Manganese Developers/Producers

- Investors seeking exposure to a pure-play manganese producer are limited to OMH with a market cap of A$689m. OMH's project, Bootu Creek, is located in the Northern Territory with a mineral resource of 32.8Mt at 23.1% Mn and production targeting 1Mtpa. However, OMH is not a straight comparable manganese producer given it is an integrated miner with a downstream sintering, smelting and marketing businesses. OMH has mining operations in Australia, smelting and sinter operations in China and a marketing business run out of Singapore.
- Advanced manganese explorers on the ASX include Mineral Resources Ltd (MIN.ASX) and Aquila Resources Ltd (AQA.ASX). Emerging explorers include: Shaw River Resources Ltd (SRR.ASX); Aurora Minerals Ltd (ARM.ASX); and Groote Resources Ltd (GOT.ASX).
- Global equity market activity remains strong in the manganese sector with the recent Hong Kong listing of China's Citic Dameng (Demang), a spin-off from Chinese energy and metals producer CITIC Resources. Demang recently listed at the top of an indicative price range raising up to HK$2.06b (A$263m) for a market cap of ~HK$8,200m. The price represents a 2011 PER of 12.5x. Dameng operates mining, ore processing and downstream processing operations in China, and is developing mining and ore processing operation in Gabon. In 2009, production totalled 1.1Mt manganese ore from its two mines in China. According to the prospectus, it holds the largest manganese mineral resources and ore reserves in China (84.6Mt @ 18% Mn). The combined manganese ore reserves in China and Gabon were 97.23 Mt as of end-Jun10. An AUD equity value of ~1b implies an EV/t of A$11.
- JMS is one of the very few ASX-listed companies with a large manganese resource transitioning to production in the near term.

Table 4: JMS' Tshipi versus OMH's Bootu Creek

	Jupiter Mines (JMS)	OM Holdings (OMH)
Enterprise Value (A$M)	697	703
Project	Tshipi, South Africa	Bootu Creek, NT
Resources (Mt)	163Mt @ 37% Mn	32.8Mt @ 23.1% Mn
Reserve (Mt)	-	20.5Mt @ 21.3% Mn
EV/Resource (A$/t)	4.2	21.4
Stage	Development	Production
Production (Mtpa)	2.4	0.9 (FY10)
Average Cash Cost (includes transport & shipping)	FSB forecast A$4.10	~A$4.70 *
Mine Life	Planned for 26 years however resources will support a multi decade long open pit operation	9 years

**Broker Consensus.*

Source: FSB Research

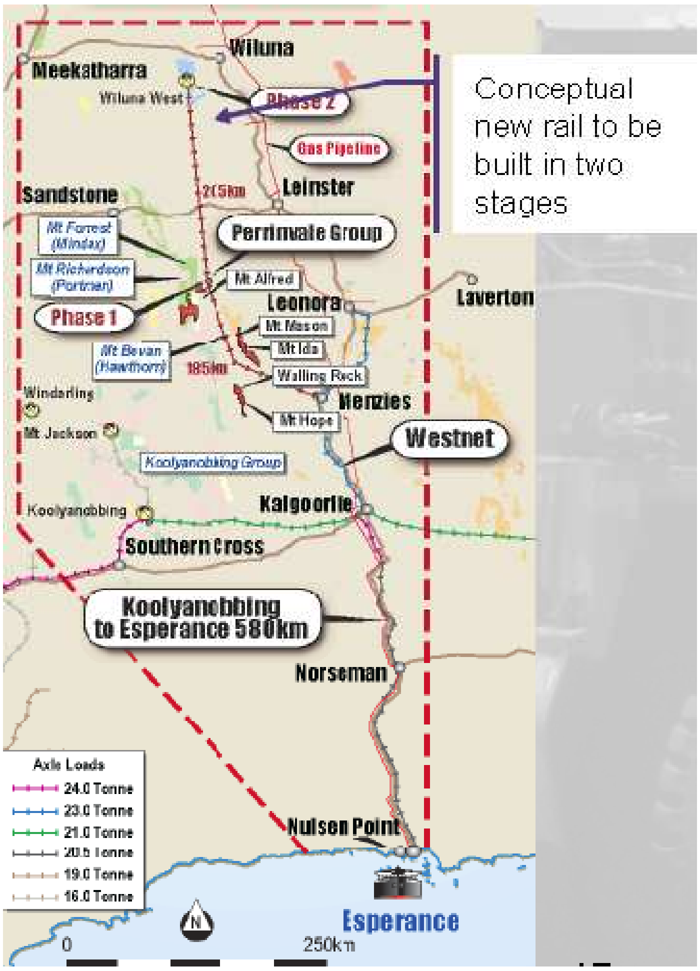
CENTRAL YILGARN IRON ORE (JMS - 100%) – MT IDA PROJECT

Overview

JMS is strategically positioned to act as a key player in the likely consolidation of undeveloped iron ore projects in the Yilgarn.

- JMS is strategically positioned to act as a key player in the likely consolidation of smaller undeveloped iron ore projects in the Yilgarn, Western Australia. In addition to the Company's 100% owned Mt Ida Project, there are a number of other prospects in the Yilgarn area including: Mt Bevan (Hawthorn Resources Ltd, no resource); Mt Richardson (Cliffs Natural Resources, DSO potential); Mt Forrest (Mindax Ltd; 1Bt @ 31.4% Fe, Magnetite); Wiluna West (Golden West Resources Ltd; 126Mt @ 59% Fe, DSO) along with the Cashmere Downs Iron Project (820Mt @ 32.5% Fe Magnetite).
- JMS' vision for the Central Yilgarn region is to leverage upon the infrastructure servicing the central Yilgarn and to export via the Port of Esperance in order to fast track production. JMS's assets are located 170km from existing railhead at Leonora leading down to Esperance which, with some infrastructure upgrading might be able to export 15-20Mtpa of iron ore, up from the existing 8-9Mtpa presently exported by the port.
- On a standalone basis, many of the existing projects are unviable due to lack of scale (resources) and financial and technical wherewithal to bring their product to market. JMS, with the backing of the Pallinghurst Co-investors, provide the management and financial backing to de-risk a development strategy of a large bulk tonnage operation. JMS management has indicated significant upgrades to rail and port infrastructure to support capacity up to 20mpta would be in the order of US$1b vs the multiple billions required to establish similar capacity for 'Greenfield' locations elsewhere in Australia.

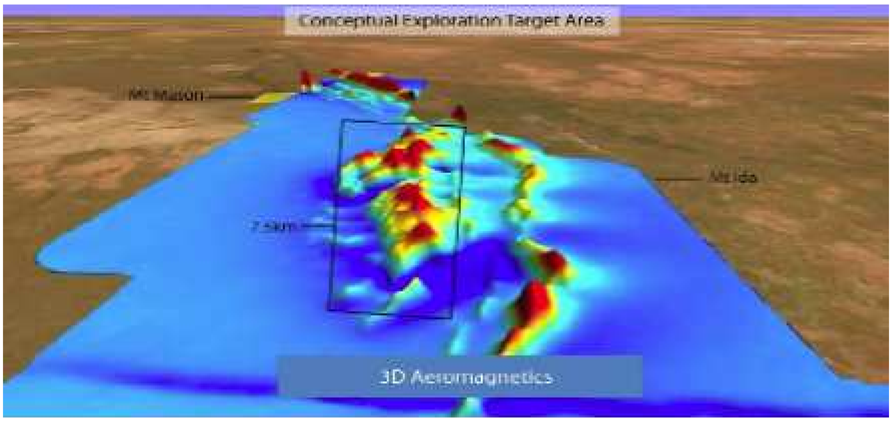
Figure 7: Central Yilgarn Project Location



Source: Jupiter Mines Ltd

- Cliffs Natural Resources (Portman) are currently producing 8.5Mtpa from the Mt Jackson and Koolyanobbing projects, located near Southern Cross and shipped from Esperance. We understand DSO resources remain at circa. 100-150Mt with planned infrastructure upgrades announced to enable increased rail infrastructure capacity to 11Mtpa from 2H2012.
- A maiden resource at the Mt Ida project is expected December 2010 post the completion of its Phase 1 exploration program of 12,000m RC drilling program to depths of 300m. We understand the drilling is now complete and anticipate the first batch of assay results by mid-December.
- We expect the maiden resource to be up to 400-500Mt of Inferred Resource which is a starting point for scoping studies to get underway and support discussions with Portman for infrastructure cooperation. JMS has announced a conceptual exploration target of 1.1 – 1.3Bt of magnetite at 30-40% Fe, sufficient to become the cornerstone of future bulk tonnage magnetite operations in the region. The exploration target assumes a strike length of 7.5km and depth of 200m.
- Mt Ida is characterised by a series of moderately dipping Banded Iron Formation (BIF) units, with mineralisation plunging between 10-20 degrees parallel to the axel plane. This is not typical of BIF structures in the Yigarn which are commonly vertical and steeply dipping. The flat lying structure will be amenable to open pit operations with a low strip ratio.

Figure 8: Mt Ida 3D Aeromagnetics and Conceptual Exploration Target Area



Source: Jupiter Mines Ltd

- Davis Tube Recovery (DTR) results have indicated that a high-grade 67-69% Fe concentrate with 50-55% weight recovery could be produced from a resource head grade of 33-35% Fe. Low impurities include: Silica 1.5-3.5% and no Alumina, Phosphorus or Sulphur.

Figure 9: Mt Ida Davis Tube Recovery Results

					DAVIS TUBE RECOVERY PRODUCT						
Hole ID	From	To	Thickness (m)	Fe Head (%)	Weight Recovery (%)	Fe Conc (%)	Al2O3 Conc (%)	P Conc (%)	S Conc (%)	SiO2 Conc (%)	LOI Conc (%)
10MIRC001	32	190	158.00	34.71	49.286	59.46	0.02	0.019	0.406	11.33	-2.34
10MIRC001	247	263	16.00	31.72	41.442	68.85	0.09	0.014	0.052	3.69	-2.95
10MIRC002	124	192	68.00	34.33	52.458	61.67	0.02	0.022	0.041	12.52	-1.47
10MIRC002	235	266	31.00	29.98	39.697	66.31	0.05	0.015	0.114	5.99	-1.57
10MIRC003	94	258	164.00	33.62	46.368	66.64	0.04	0.013	0.018	7.23	-3.04
10MIRC004	73	212	139.00	34.39	49.770	61.43	0.04	0.018	0.003	12.29	-2.82
10MIRC004	229	254	25.00	31.89	42.051	68.79	0.12	0.015	0.015	3.81	-3.01
10MIRC005	84	132	48.00	31.37	40.801	61.42	0.03	0.010	0.005	6.39	-2.77
10MIRC005	167	231	64.00	30.02	39.531	65.03	0.03	0.011	0.355	5.08	-3.03
10MIRC006	71	117	46.00	34.85	46.382	69.11	0.02	0.010	0.010	4.06	-3.20
10MIRC006	183	218	35.00	27.98	38.043	68.68	0.09	0.013	0.018	4.52	-3.25
10MIRC007	91	103	12.00	33.24	45.179	69.33	0.08	0.009	0.022	3.68	-3.30
10MIRC007	112	137	25.00	30.93	42.886	67.37	0.03	0.014	0.068	6.10	-3.07
10MIRC007	170	246	76.00	30.52	42.427	65.14	0.05	0.018	0.013	9.07	-2.87

Source: Jupiter Mines Ltd

- We note Gindalbie Metals' (GBG) weight recovery of 40% and low impurities are deemed to be the market leader for a low cost magnetite operation. The late Geoff Wedlock (previously Chairman of JMS and GBG) declared Mt Ida to be "*one of the best magnetite projects I have seen*".
- Upon completion of the Phase 1 drilling and a positive scoping study in early 2011, the Phase 2 exploration program in 2011 will include: 25,000m RC and DD drilling (targeting 750Mt JORC Inferred Resource); geotech drilling; metallurgical test work; water exploration to secure supply; and a completed Prefeasibility Study by year end.

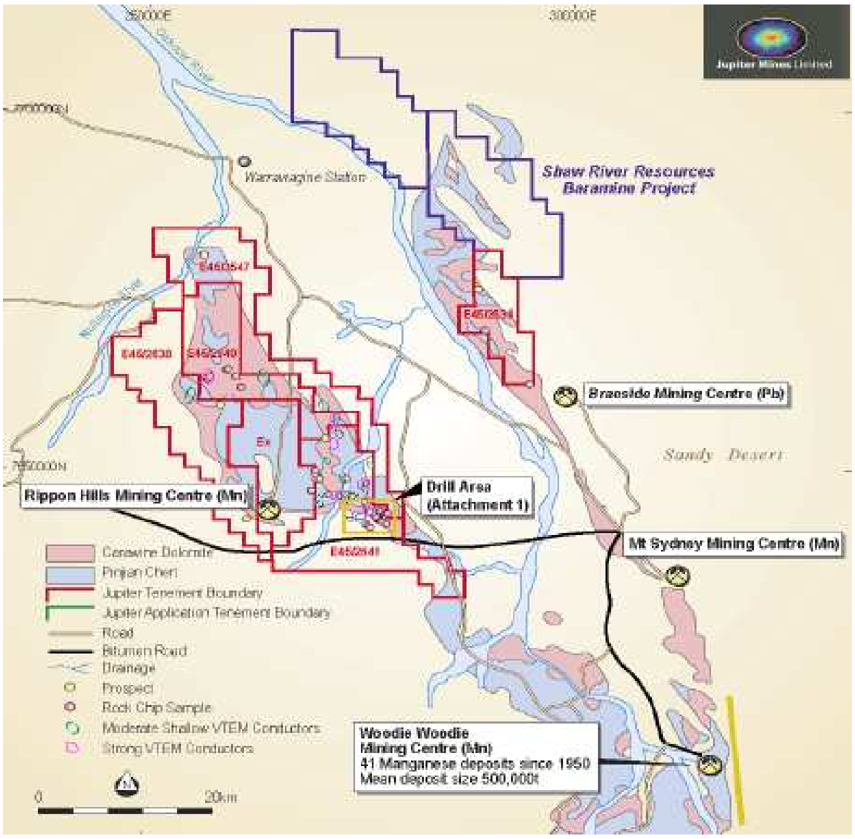
OAKOVER MANGANESE PROJECT (JMS - 100%)

Overview

Early indications from drilling at Oakover have confirmed Mn mineralisation.

- JMS' 100% owned Oakover Manganese Project (890km^2) is well positioned 60km north of the Woodie Woodie manganese mine in Western Australia (previously Consolidated Minerals). Oakover is also located ~20kms south of Shaw River Resource Ltd's (SRR.ASX) Baramine Project.
- The Company has completed a first pass drilling program which confirmed the presence of host rocks similar to Woodie Woodie. 19 intercepts with >15% Mn were encountered including:
  - 2m at 35.3% Mn from 17m;
  - 4m at 31.2% Mn from 33m;
  - 4m at 26.8% Mn from surface; &
  - 6m at 25.0% Mn from 12m.
- A gravity survey has been completed on VTEM anomalies (identified on the western tenements in late 2009) and a drill program will begin in December to test the anomalies.

Figure 10: Oakover Manganese Project Location



Source: Jupiter Mines Ltd

- Recent exploration activity by SRR has delivered new discoveries with mineralisation ranging 25-45% Mn. SRR are progressing an aggressive exploration program to support scoping studies in 1Q 2011. Stated exploration target is 10-15Mt at 18-25% Mn.
- We note the Woodie Woodie Mn project sold in 2008 for A$1.3B to Palmary Enterprises (in competition against the Pallinghurst Co-Investors) has recently announced a $40 million exploration budget to extend the resource inventory and support production of 1.2Mtpa beyond the current 5yr mine life.

VALUATION

Risked Discounted Cash Flow (DCF) - $0.55/share

- We have completed a DCF valuation of Tshipi and derive an unrisked NPV_8 of $1,466m for the Project on a 100% basis. This represents an EV/t resource of <$9, which remains an attractive discount to OMH which trades at >$20/t. Our risked valuation of JMS share of the Project is $731m.
- We model a ramp up in production starting mid 2012 at 0.5Mtpa to 2.4Mtpa by 2013, which remains for an initial planned period of 26 years (with significant ore resources remaining). US$200m capex is assumed to be incurred throughout 2011, of which JMS will be responsible for US$100m.
- We forecast an operating cost of US$3.28/dmtu. Our operating cost includes rail transport of US$60/t on the basis that the majority of the product will be transported to Durban rather than Elizabeth Port (which is closer to site).

Tshipi is expected to be a high margin operation with operating costs forecast to be in the lowest quartile.

Table 5: Key Operating Parameters

Starting inventory (Mt)	62.0
Throughput (Mtpa)	2.4
Strip ratio (x)	7.0
Mn grade (%)	37.0
Capex (US$m)	200.0
Mining cost (US$/t of material)	$2
Transport (US$/t of ore)	$60
Processing (US$/t of ore)	$8
Port (US$/t of ore)	$8
Shipping (US$/t of ore)	$30
Royalty rate	2.0%
Total operating costs (US$/dmtu)	$3.28
Tax rate	28%
Mine life (years)	26
Expected commercial production (Mtpa)	2.4
LOM Mn production (Mt)	60.5

Source: FSB Research

- Our projected financial returns for Tshipi are illustrated below.

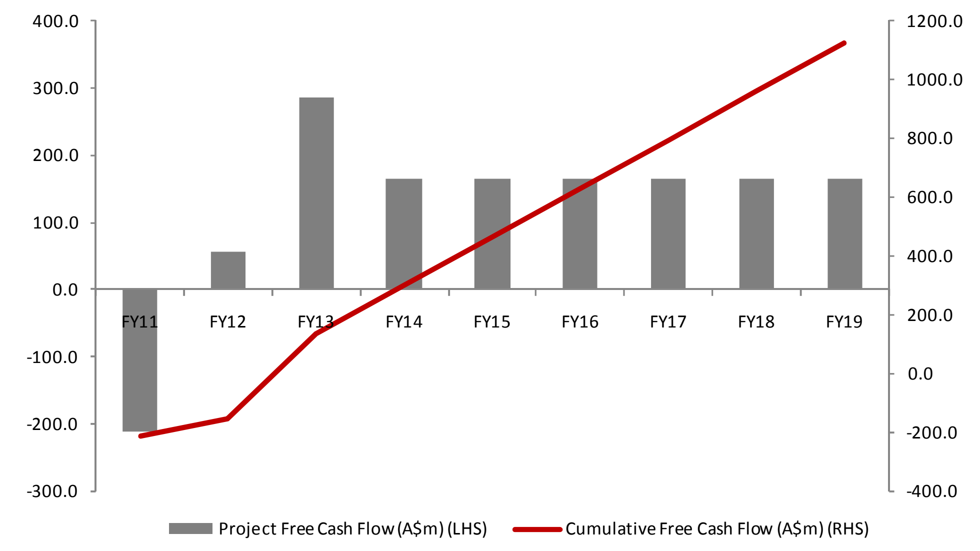
Table 6: Tshipi Project Financial Summary (100% basis)

Year Ending 31 December	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Mn Price (US$dmtu)	$7.50	$7.50	$7.50	$5.50	$5.50	$5.50	$5.50	$5.50	$5.50
Mn Price at 37% Mn (US$/t)	$277.50	$277.50	$277.50	$203.50	$203.50	$203.50	$203.50	$203.50	$203.50
AUD	$0.95	$0.90	$0.90	$0.80	$0.80	$0.80	$0.80	$0.80	$0.80
Mn Production (Mt)	**-**	**0.5**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**
Total operating costs (A$/dmtu)	**$0.00**	**$3.65**	**$3.65**	**$4.10**	**$4.10**	**$4.10**	**$4.10**	**$4.10**	**$4.10**
Total operating costs (US$/dmtu)	**$0.00**	**$3.28**	**$3.28**	**$3.28**	**$3.28**	**$3.28**	**$3.28**	**$3.28**	**$3.28**
Total Revenue (A$m)	**0.0**	**154.2**	**740.0**	**610.5**	**610.5**	**610.5**	**610.5**	**610.5**	**610.5**
Operating Costs (A$m)	0.0	70.6	338.8	376.7	376.7	376.7	376.7	376.7	376.7
EBITDA (A$m)	**0.0**	**83.6**	**401.2**	**233.8**	**233.8**	**233.8**	**233.8**	**233.8**	**233.8**
Depreciation (A$m)	0.0	8.0	8.2	8.2	8.2	8.2	8.2	8.2	8.2
EBIT (A$m)	**0.0**	**75.6**	**393.0**	**225.6**	**225.6**	**225.6**	**225.6**	**225.6**	**225.6**
Capex (A$m)	210.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Tax (A$m)	0.0	21.2	110.0	63.2	63.2	63.2	63.2	63.2	63.2
Project Free Cash Flow (A$m)	**-210.5**	**57.4**	**286.2**	**165.6**	**165.6**	**165.6**	**165.6**	**165.6**	**165.6**
Cumulative Free Cash Flow (A$m)	**-210.5**	**-153.1**	**133.1**	**298.7**	**464.3**	**629.9**	**795.6**	**961.2**	**1126.8**

Source: FSB Research

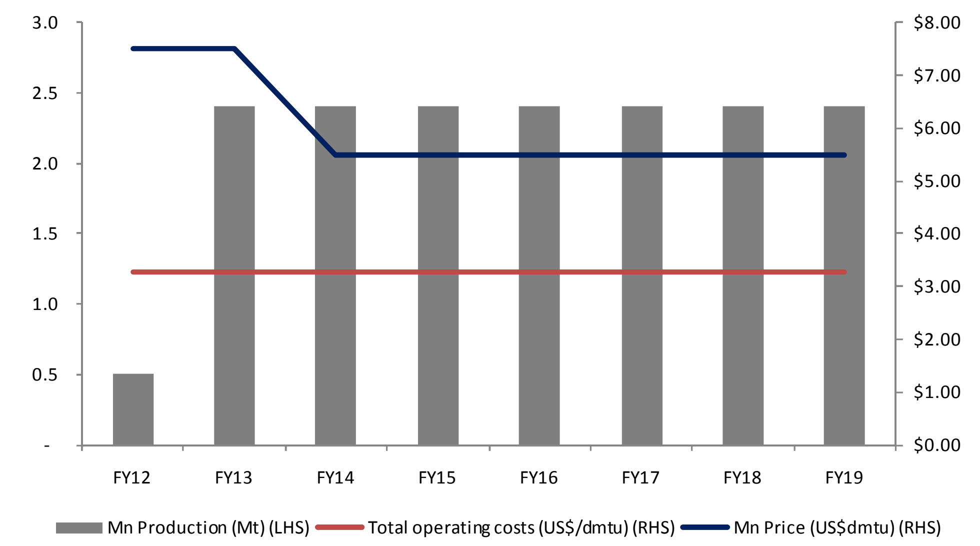
- Based on our assumptions, the payback period for Tshipi is 4 years and thereafter the project free cashflow is forecast to be >$160m which can be used for further exploration, acquisitions or dividends.
- Being open pit the operations can be easily expanded to cater for growth in world markets.

Figure 11: Free Cashflow Forecast



Source: FSB Research

Figure 12: Production and Cost Profile



Source: FSB Research

- Tshipi Borwa offers tremendous leverage to the Mn price as highlighted below. Our assumed long-term Mn price is US$5.50/dmtu.

Table 7: Sensitivity Analysis

LOM Mn Price (US$dmtu)	$4.50	$5.00	$5.50	$6.00	$6.50	$7.00
Project NPV (100%) basis	811	1,138	**1,466**	1,793	2,120	2,448
JMS valuation ($/share)	$0.34	$0.45	**$0.55**	$0.65	$0.76	$0.86
LOM AUD	**0.70**	**0.75**	**0.80**	**0.85**	**0.90**	**0.95**
Project NPV (100%) basis	1,667	1,560	**1,466**	1,383	1,309	1,244
JMS valuation ($/share)	$0.61	$0.58	**$0.55**	$0.52	$0.50	$0.48
Total operating cost (% movement)	**-10%**	**-5%**	**0%**	**5%**	**10%**	**15%**
Project NPV (100%) basis	1,708	1,587	**1,466**	1,345	1,224	1,103
JMS valuation ($/share)	$0.62	$0.59	**$0.55**	$0.51	$0.47	$0.43

Source: FSB Research

Our price target is $0.55/share, which represents 25% upside to the current share price.

- In respect of valuation, we ascribe a 20% premium to our risked NPV (i.e. P/NPV = 1.2x) given the Brian Gilberston-led Pallinghurst Co-Investors are expected to play a major role in the forecast aggressive growth of the Company. We have a great deal of confidence in their ability to source and secure NPV positive projects that have the potential to supply raw materials to the steel industry. We believe that JMS will quickly grow to >$1b through acquisitions, financings and share price growth.
- We value the Yilgarn assets through in-situ methodology based on a target resource size of 400Mt by the end of 2010. Based on an EV/t of $0.25, we derive a value of $100m for Mt Ida.
- Our risked DCF is $0.55/share and represents our initial target price, which is 25% above the current share price.

Table 8: JMS NPV_8 Valuation Summary

Valuation Summary	100% Project (A$m)	Ownership	JMS (A$m)	P/NPV (risk)	Risked A$/sh
Tshipi	1,466	49.9%	731	0.85	$0.39
Yilgarn (Mt Ida)	100	100.0%	100	1.00	$0.06
Oakover	25	100.0%	25	1.00	$0.02
Holdings in listed securities (GWR & MDX)	10	100.0%	10	1.00	$0.01
Net cash/(debt)	8	100.0%	8	1.00	$0.00
Proceeds from exercise of options	4	100.0%	4	1.00	$0.00
Corporate costs	-30	100.0%	-30	1.00	-$0.02
TOTAL NPV	**1,582**		**848**		**$0.46**
PRICE TARGET (P/NPV = 1.2x)					**$0.55**
				Current Price	**$0.44**
				Upside	**25%**

Source: FSB Research. Note: Fully diluted basis and adjusted for Investec's shares to be issued as consideration for the acquisition of Tshipi (262m).

BOARD & MANAGEMENT

Name	Title	Details
Brian Gilbertson	**Non Executive Chairman**	Brian has extensive experience in the global natural resources industry. Previously Chairman of Gencor Ltd and then BHP Billiton Plc, Brian established Pallinghurst Advisors LLP and Pallinghurst (Cayman) GP L.P. during 2006 and 2007, respectively, and is the Chairman of and a partner in both entities.
Greg Durack	**CEO**	Greg has over 25 years experience in the mining industry in Australia, Papua New Guinea and Greece - encompassing both operations and project development. Prior to joining JMS, he held the position as MD of ASX-listed Batavia Mining Limited, where he led the resource drilling programs and feasibility study for a copper-gold project in Western Australia
Paul Murray	**Non Executive Director**	With a business career spanning 50 years, Paul has been responsible for the successful listing on the ASX of a number of public companies, including resource exploration floats such as the oil and gas producers Basin Oil NL and Reef Oil NL.
Andrew Bell	**Non Executive Director**	Andrew is Chairman of Red Rock Resources plc, a company listed on the AIM market. He was a natural resources analyst in London in the 1970s, then specialised in investment banking covering the Asian region. He has been involved in the resource and mining sectors in Asia since the 1990s, and has served on the Boards of a number of listed resource companies. He is a Fellow of the Geological Society.
Priyank Thapliyal	**Non Executive Director**	Priyank has been charged with implementing the Pallinghurst Resources Steel Feed Consolidation strategy through JMS. He is a founding partner of Pallinghurst Advisors LLP and has previous experience in metals and mining investment banking with CIBCWM.
Sun Moon Woo	**Non Executive Director**	Sun Moon Woo has worked in the Raw Material Purchasing Division and Investment Division of POSCO for 26 years. He has extensive experience in the natural resources industry and has experience in the management of iron ore and coal projects in Australia as a Managing Director of POSCO Australia. Pty Ltd. Other current directorships include Cockatoo Coal Limited (COK.ASX) and Murchison Metals Limited (MMX.ASX) since 2007.
Charles Guy	**Exploration Manager**	Charles has over twenty years experience in the mining, exploration, and environmental industry with over 10 years working within consulting firms, providing technical and consultancy services to the mining industry.
Robert Benussi	**CFO/Company Secretary**	Rob has an extensive background in finance, corporate advisory and business development with companies such as Olin Corporation, Lend Lease, Dalgety and Lion Nathan.

RISKS

Risk	Details
Infrastructure	We assume rail and port capacity is increased by the time Tshipi comes online. Should there be delays or complications to the rail infrastructure, ore will need to be hauled by road which would materially impact the valuation. We have confidence in management's ability and connections in South Africa that an infrastructure solution will be achieved.
Funding	US$200m in capex is required to develop Tshipi, US$100m of which will be funded by JMS. Given the existing shareholder base and quality of the Project, we consider funding risk to be minimal.
Delays	Should there be any material delays to the development and first production of Tshipi, the valuation would be negatively impacted.
Acquisition	Given the Company's stated desire to grow by acquisition, an inherent risk will always be that an undesireable acquisition will be made.

SHARE REGISTER

- The JMS register has 6 substantial shareholders, which together account for 90% of issued capital. Red Rock Resources' holding of 5% was the only substantial shareholder prior to the Tshipi transaction whereby the Pallinghurst Co-Investors were issued with ~85% of the shares now on issue.

Key Shareholders:	
POSCO Australia	20%
Pallinghurst Steel Feed	18%
Investec	17%
AMCI	15%
EMG	15%
Red Rock Resources	5%
Other Shareholders	*10%*
Total	**100%**

Note: Fully diluted basis and adjusted for Investec's shares to be issued as consideration for the acquisition of Tshipi (262m).

Source: JMS, FSB Research.

RECOMMENDATION

- **We initiate on JMS with a BUY recommendation and price target of $0.55/share.**
- Tshipi is a world class Mn project making the transition to production and expected to be a low cost operation. The project has a new order mining right, FID is expected in coming months and it is envisaged that development will take ~12 months.
- We value JMS at $0.55/share which includes a premium for management on the expectation that ongoing positive NPV acquisitions will be sourced on attractive terms. We note that Tshipi was acquired on an EV/t resource at the time of just $4, which compares favourably to OM Holdings, the only other ASX listed Mn producer which currently trades at >$20/t. Tshipi represents ~70% of our valuation.
- Given the major shareholders will jointly consider and are likely to support investment proposals made by Brian Gilberston and the Pallinghurst investment team, we consider project development and acquisition risk to be lower than for other mid-cap resource companies.

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