

Leichhardt Production from July

Date

30 April 2007

ASX Code

MRX

Share Price

11cps

Valuation

15.1cps

Market Cap (fully diluted)

\$77.3m (\$77.5m)

Issued Capital (fully diluted)

702.7m shares (704.5m)

Cash (as at 31 March 2007)

\$18.5m

Board

David Humann (Chairman)
Shane McBride (Managing Director)
Clive Donner (Non-Exec Director)
Geoffrey Jones (Non-Exec Director)
Ronald Hing (Non-Exec Director)
Richard Procter (Non-Exec Director)

Top Three Shareholders

Independence Group NL (18.9%)
LinQ (9.4%)
Glencore (6.3%)

Resources Analyst

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Matrix Metals Limited's ("MRX", "Company") plans to commence production at the Leichhardt SX/EW copper operation from July 2007 at an initial production rate of 5,500tpa copper cathode. Mining activities have recently commenced at Leichhardt with ore cartage expected from May. Geotechnical and metallurgical studies are already underway to investigate the potential to increase this to 10,000tpa in the short term.

The development of the copper oxide deposits provides the Company with the cashflow to implement its strategy of focussing on the discovery of world class copper sulphide deposits within its 5,000km² tenement holding in the prospective Mt Isa region in Queensland.

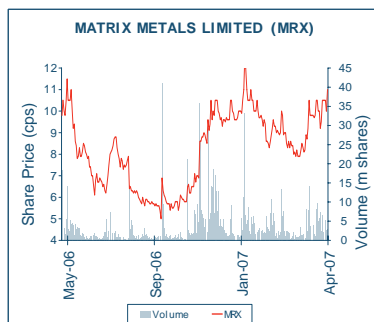
With MRX unhedged and the copper market expected to remain tight throughout 2007, we believe the Leichhardt operation has the potential to generate significant cashflows. In addition to the Company's copper projects, Matrix retains exposure to the booming uranium sector through its joint venture with Deep Yellow Limited.

We believe that MRX will be re-rated as the market recognises MRX's move to production, its leverage to the copper price and the exploration potential of its ground holding. We continue to rate **Matrix Metals Limited** as a **Speculative Buy**.

Investment Highlights

- Copper Production from September Quarter** – The Leichhardt Project will be developed in two stages. Stage 1 has low start-up costs and a short time frame to production (September quarter 2007) at the rate of ~5,500tpa copper cathode. In Stage 2, production is expected to increase to 10,000tpa based on geotechnical and metallurgical studies allowing a significant conversion of resources to reserves.
- Leveraged Copper Play** - Without mandatory hedging, MRX becomes a leveraged copper play that is fully exposed to copper price movements. Hartleys currently values MRX at 15.1cps, however, we recognise that MRX is extremely sensitive to copper prices. In order to highlight this, our valuation ranges from 4.4cps at US\$1.50/lb Cu to 50cps at the current spot price of ~US\$3.35/lb. Stage 1 of the Leichhardt project is robust at current copper prices with a breakeven point of ~US\$1.60/lb Cu. The development of Stage 2 is likely to have low capital costs and will reduce unit operating costs, thus providing an enhanced financial outcome.
- Glencore Offtake Agreement for Existing Deposits** – Glencore has secured the offtake rights to existing sulphide deposits and their extensions on MRX's tenements by providing the funding for production at the Leichhardt project. However, new sulphide deposits discovered in the area remain available for offtake negotiations.
- Xstrata JV and Deep Yellow Drill Programmes** – Xstrata has the right to earn up to 75% of primary sulphides around a small area (210km²) surrounding the large McCabe deposit. Drilling is expected to commence in the June quarter. In addition, Deep Yellow (earning up to 80%) is to target uranium anomalies in close proximity to the Mary Kathleen uranium mine and the large undeveloped Valhalla and Skäl uranium deposits. As part of the transaction, MRX was issued and subsequently sold 21.4m DYL shares raising \$9.56m.

Share Price Performance



Source: Iress

Principal Assets

Leichhardt Project

The Leichhardt project is located 90km north-west of Cloncurry in Queensland and was commissioned in 1996 by Murchison United NL (Figure 1). The project was a copper oxide heap leach, SX/EW operation and produced ~20kt of copper cathode to the end of 2002. At this time, the operation was placed on care and maintenance due to low copper prices and limited ore feed. In the short term, MRX aims to restart the Leichhardt SX/EW copper operation after funding was provided by metals trader Glencore and MRX's two major shareholders.

In Stage 1, MRX is targeting a 4 to 5 year mine life with production levels of around 5,500tpa of Grade A LME copper. Mining has commenced from two pits at the Mt Watson deposit and with ore planned to be hauled approximately 25km to the Mt Cuthbert plant. There it will be crushed, agglomerated and stacked in the existing leach pad area. We understand there is already ~3kt of copper oxide ore stockpiled that has not been included in the project economics and may support early cashflow.

Mt Watson has an initial mining inventory of 2.1Mt at 1.1% for 23.1kt Cu and mineralisation is exposed from surface. It is significant that only 2.1Mt of the existing 8Mt resource is utilised in the Stage 1 operation. A substantial portion of the remaining resources is expected to be converted to reserves based on positive geotechnical and metallurgical results.

Stage 1 will cost ~\$10m in upfront capital. Major items include the refurbishment of various parts of the plant, overhauling the power station, installation of a crushing circuit, upgrade of the accommodation village and leach pad earthworks. Additional work outside the direct Mt Cuthbert plant area involves construction of a 26km haul road to Mt Watson and minor upgrading of the access road to the project. Stage 1 production is expected to commence in the September quarter 2007.

In Stage 2, MRX plans to increase production to 10ktpa of Grade A LME Copper. Some of the equipment has already been secured to allow the plant to operate at these rates. MRX estimates that the upfront capital requirements are low and in the order of ~\$5m. Stage 2 production is possible within 9 months of the commencement of production at Leichhardt.

White Range

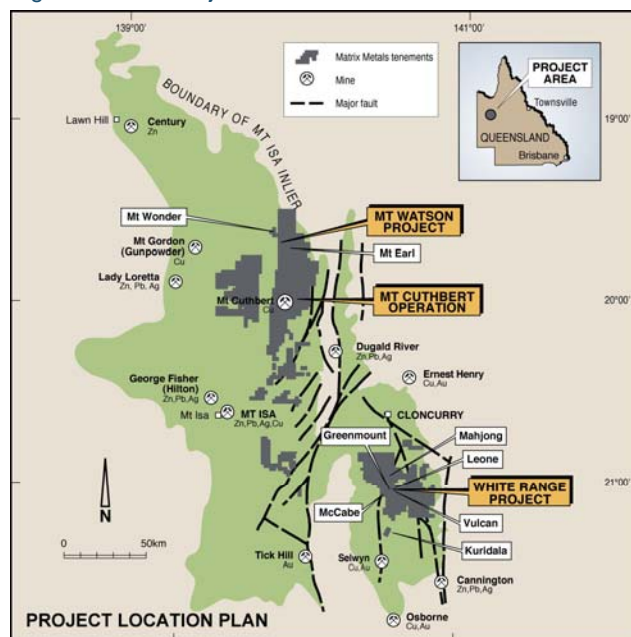
The White Range Project is located ~200km south of the Mt Cuthbert Plant. It is approximately 35km south of Cloncurry in western Queensland and covers ~1,500km².

The White Range project resource inventory is much larger than Mt Watson, with demonstrated exploration potential and thus appeared to offer a more attractive development option. MRX planned to relocate and upgrade the Mt Cuthbert SX/EW plant to the White Range Project area. The results of the feasibility study were released in early 2005. The project parameters were a 15ktpa copper cathode operation for 6.2years and upfront capital of \$39m and cash costs of US\$0.72/lb. At a flat copper price of US\$1.40/lb, this resulted in an NPV₅ of ~\$53m. While the economics were positive, project funding was considered difficult. At the time, the banks were using a long term copper price of ~US\$0.80/lb. Based on this price, the project was uneconomic.

An update to the feasibility study in 2006 indicated that, with higher copper prices, the project delivered a better result, albeit at higher capital and operating costs. Capital costs and operating costs have risen dramatically across the industry and have particularly impacted projects moving towards development. We now understand that the capital cost for the development of White Range has been revised to \$110m whilst operating costs are expected to be ~US\$1.30/lb Cu.

The White Range Project remains in play to be developed and could be funded at a later time, partially using cashflow from production at Leichhardt. The project go-ahead is highly dependent upon the success of the Leichhardt operation, industry cost pressures, and robust copper prices.

Figure 1: MRX Project Locations



Source: Matrix Metals Limited

Xstrata JV

In September 2006, Xstrata Copper entered into a JV agreement with MRX to earn an interest in the McCabe deposit and the surrounding exploration permit (EPM). Xstrata Copper has the right to earn a 55% JV interest by spending not less than A\$5m within a three year period. Xstrata Copper then has the right to earn a further 20% JV interest during a sole funding period, by spending a further A\$10m within a further five year period or by completing a feasibility study during the sole funding period. Matrix maintains 100% ownership of the tenements to a depth of 100m until a decision to mine is made, at which time the JV has the right to buy that part of the tenements at fair market value.

Historical exploration work by Matrix has confirmed the growth potential of the oxide zone of the deposit as well as demonstrated the sulphide potential at depth of the McCabe deposit. A drilling program in late 2005 reported significant copper sulphide mineralisation at depth. Drill hole MMXRD 01 returned 58m at 1.61% Cu from 211m (including 27m at 2.93% Cu from 235m, 3m at 6.10% Cu from 235m and 4m at 7.40% Cu from 245m).

Deep Yellow Uranium JV

In early 2006, MRX formed a JV with Deep Yellow Limited ("Deep Yellow", "DYL") to allow DYL access to the MRX tenement holdings to explore for uranium. Previous work by MRX had identified 15 occurrences of uranium mineralisation or anomalism. Many of the occurrences in the Ewen EPMA14916 are geologically similar to the Skäl and high grade Valhalla deposits, owned by Summit Resources Limited.

DYL has the right to earn a 51% interest in the uranium rights by spending \$3m over a 3 year period. As part of the JV, MRX was issued with and subsequently divested 21.4m ordinary shares in DYL for a consideration of \$9.56m. Deep Yellow must spend \$1m in the coming year and \$1.5m next year, to earn its 51% position. After earning the 51% position, Deep Yellow can acquire an additional 29% at any time up until the commencement of a bankable feasibility study ("BFS") on any specific resource, for an additional \$3m, indexed at CPI. After completion of a BFS on any particular resource, Deep Yellow may buy out Matrix's residual 20% position in that specific resource for a value equal to 15% of the in-ground value of Matrix's 20% holding in the resource (ie 3% of total in ground value).

This uranium JV allows MRX to focus on its copper developments, while participating in the upside of an economic uranium discovery. MRX maintains upside exposure to the uranium sector at no cost and no risk.

Resources

Table 1: MRX Oxide Copper Resource Inventory

Tenement Area	Measured		Indicated		Inferred		Total		
	Mt	Grade (%Cu)	Mt	Grade (%Cu)	Mt	Grade (%Cu)	Mt	Grade (% Cu)	Copper Metal (t)
Mt Cuthbert			1.73	1.1	0.24	0.9	1.97	1.1	21,670
Mt Watson	1.14	1.2	5.52	1.0	1.68	1.0	8.33	1.0	83,300
White Range	3.29	1.2	7.16	1.1	4.39	1.0	14.84	1.1	163,262
Total Resources	4.43	1.2	14.41	1.1	6.31	1.0	25.14	1.1	276,562

Source: Matrix Metals Limited

Base Case Valuation

In our MRX valuation, we have assumed that Leichhardt and White Range are developed. Our Base Case valuation considers the proposed Stage 1 and Stage 2 developments at Leichhardt, assumes the development of White Range from mid-2009, significant usable tax losses and a conservative exploration value. Stage 1 provides a low upfront capital option, albeit as a higher cost SX/EW operation, and will provide cashflow in the short term. Stage 2 provides good potential to reduce costs as the project increases in scale. The move into production is supported by an offtake arrangement for the produced copper, which provides direct exposure to the copper price without any hedging requirements.

Based on this analysis, we have updated our valuation for MRX to **15.1cps**. We note that MRX is extremely sensitive to the copper price due to the reasonably high operating costs relative to historical prices. If buoyant copper prices are maintained throughout CY2007, we would expect MRX to be significantly re-rated in H2. We rate **Matrix Metals Limited** as a **Speculative Buy**.

Matrix Metals Limited		Share Price				April 2007																													
MRX		\$0.110				SPECULATIVE BUY																													
Key Market Information						Directors					Company Information																								
Share Price						\$0.110					1131 Hay St.																								
Market Capitalisation						\$77m					West Perth WA 6005																								
52 Week High-Low						\$0.11-\$0.1					Tel: +61 8 9486 7100																								
Issued Capital						702.7m					Fax: +61 8 9486 7300																								
Issued Capital (fully diluted inc. ITM options)						704.5m					Web: www.matrixmetals.com.au																								
Options						15.5m@\$A0.16																													
Hedging																																			
Yearly Turnover/Volume						\$88.0m/978.3m shares																													
Liquidity Measure (Yearly Turnover/Issued Capital)						139%																													
Valuation						\$0.15																													
Financial Performance						Top 10 Shareholders					m shares					%																			
Net Revenue						A\$m					0.1					-					62.2					98.1									
Total Costs						A\$m					(2.5)					(1.6)					(37.3)					(56.3)									
EBITDA						A\$m					(2.4)					(1.6)					24.9					41.7									
Depreciation/Amort						A\$m					(0.1)					(0.1)					(2.4)					(4.4)									
EBIT						A\$m					(2.6)					(1.7)					22.5					37.3									
Net Interest						A\$m					0.6					0.1					(1.2)					(0.9)									
Pre-Tax Profit						A\$m					(2.0)					(1.6)					21.2					36.4									
Tax Expense						A\$m					-					-					(6.4)					(10.9)									
NPAT						A\$m					(2.0)					(1.6)					14.9					25.5									
Abnormal Items						A\$m					-					-					-					-									
Reported Profit						A\$m					(2.0)					(1.6)					14.9					25.5									
Financial Position						Reserves & Resources					Mt					%					000t					Attrib.									
Cash						A\$m					5.8					10.8					19.5					27.0									
Other Current Assets						A\$m					0.4					0.3					6.7					10.3									
Total Current Assets						A\$m					6.2					11.2					26.2					37.3									
Property, Plant & Equip.						A\$m					1.0					12.3					17.4					107.6									
Exploration						A\$m					26.6					26.5					28.9					30.1									
Investments/other						A\$m					0.8					0.8					0.8					0.8									
Tot Non-Curr. Assets						A\$m					28.3					39.5					47.1					138.5									
Total Assets						A\$m					34.5					50.7					73.3					175.8									
Short Term Borrowings						A\$m					-					-					-					3.3									
Other						A\$m					1.3					1.6					4.5					18.8									
Total Curr. Liabilities						A\$m					1.3					1.6					4.5					22.1									
Long Term Borrowings						A\$m					-					10.0					13.0					72.3									
Other						A\$m					0.6					0.6					0.6					0.6									
Total Non-Curr. Liabil.						A\$m					0.6					10.6					13.7					72.9									
Total Liabilities						A\$m					2.0					12.3					18.2					95.1									
Net Assets						A\$m					32.5					38.5					55.1					80.7									
Cashflow						Production Summary					Unit					FY2006A					FY2007F					FY2008F					FY2009F				
Operating Cashflow						A\$m					(2.0)					(2.1)					21.4					52.5									
Income Tax Paid						A\$m					-					-					-					-									
Interest & Other						A\$m					0.6					0.1					(1.2)					(0.9)									
Operating Activities						A\$m					(1.4)					(2.0)					20.2					51.6									
Property, Plant & Equip.						A\$m					(0.1)					(6.0)					(6.0)					(91.8)									
Exploration and Dev.						A\$m					(5.4)					(4.5)					(4.0)					(4.0)									
Investments						A\$m					0.0					0.0					-					-									
Investment Activities						A\$m					(5.5)					(10.5)					(10.0)					(95.8)									
Repayment of Borrowings						A\$m					-					-					(3.3)					(1.7)									
Equity						A\$m					-					17.9					1.8					53.5									
Dividends Paid						A\$m					-					-					-					-									
Financing Activities						A\$m					-					17.5					(1.5)					51.8									
Net Cashflow						A\$m					(6.9)					5.1					8.6					7.6									
Ratio Analysis						Sensitivity Analysis					Valuation (\$/s)					NPAT					EPS (¢)					CFPS (¢)									
Cashflow Per Share						A¢					(0.3)					(0.2)					2.4					4.2									
Cashflow Multiple						X					(34.0)					(49.7)					4.5					2.6									
Earnings Per Share						A¢					(0.3)					(0.2)					2.1					3.6									
Price to Earnings Ratio						X					(31.9)					(47.8)					5.2					3.1									
Dividends Per Share						A¢					-					-					-					-									
Dividend Yield						%					-					-					-					-									
Interest Cover						X					12.8					18.5					40.1					-									
Return on Equity						%					na					na					27%					32%									
Base Case						0.151					14.9					2.1					2.4														
Exchange Rate +10%						0.11					11.0					1.6					1.9														
Exchange Rate -10%						0.21					19.6					2.8					3.1														
Copper Price +10%						0.20					19.1					2.7					3.0														
Copper Price -10%						0.10					10.6					1.5					1.8														
Operating Costs +10%						0.12					12.5					1.8					2.1														
Operating Costs -10%						0.18					17.3					2.4					2.8														
*N.B. NPAT, EPS, CFPS forecasts are for FY2008																																			
Share Price Valuation (NAV)						Est. \$m					Est. cps																								
White Range (NPV @ 8%)						10.2					1.5																								
Leichhardt (NPV @ 8%)						61.0					8.7																								
Exploration - Uranium						0.0					0.0																								
Exploration - Copper						10.0					1.4																								
Cash						18.5					2.6																								
Forwards						0.0					0.0																								
Corporate Overheads						(3.9)					(0.6)																								
Total Debt						(4.0)					(0.6)																								
Tax Losses						14.2					2.0																								
Options & Other Equity						0.5					0.1																								
Total						106.6					15.1																								
Analyst: Andrew Rowell											Last Updated: 30/04/2007																								
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Sources: IRESS, Company Information, Hartleys Research																																			

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Hartleys Recommendation Categories

Strong Buy	Significant share price appreciation anticipated
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but is considered high risk
Accumulate	Buy in periods of weakness
Hold	Take no action
Reduce	Sell in periods of strength
Sell	Significant price depreciation anticipated

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Hartleys has completed capital raising in the past 12 months for Matrix Metals Limited ("Matrix"), for which it received fees. Hartleys has also provided corporate advice within the past 12 months and continues to provide corporate advice to Matrix, for which it has received and continues to receive fees.

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