

Company Review

Ord Minnett Research

Monday, 2 May, 2011

Kasbah Resources Limited

Tin: Out with the Pewter and in with the phone

Kasbah Resources Limited (KAS) is an advanced explorer and developer of a significant new tin discovery in Morocco. The Achmmach Tin Project is rapidly transforming into a prize asset with considerable potential for an underground mine to be developed.

Ord Minnett Ltd (OML) forecasts tin prices will continue to strengthen over 2011 and 2012 as the market remains tight due to supply deficit and increasing demand as an industrial metal which is now principally used as lead-free solder for electronics.

OML initiates coverage of Kasbah with a Buy recommendation and high risk rating. Kasbah's attractiveness as an investment is due to a number of reasons:

- The Achmmach Tin Project has an established underground resource with a completed scoping study highlighting robust economics. Drilling is likely to further expand this resource leading to a completed pre-feasibility study in Q4 2011 (calendar).
- Recent shallow drilling results have confirmed tin mineralisation is close to the surface and this has increased the likelihood of an open pit resource at Achmmach. An open pit would provide a step change to the economics of the project accelerating operating cashflow in any development scenario.
- Kasbah has built a reputable presence in Morocco over five years, purely focused on progressing the Achmmach Tin Project. In doing so the company has formed strong relationships with the country's mines department and the local community.

OML's base case valuation of Kasbah is \$0.48 per share with an upside valuation of \$0.64 per share. OML's 12-month price target is \$0.55 per share. We note, however, that the current political turmoil across the Middle East and parts of northern Africa has created an elevated sovereign risk environment. Although Morocco has not shown signs of political or civil unrest the climate across northern Africa is volatile and at least temporarily must be considered a key risk to an investment in Kasbah.

Key Financials

Year-end June (A\$)	FY10A	FY11E	FY12E	FY13E*	FY14E
Tin Price (\$US/t)	16,153	23,519	32,500	33,750	35,000
Sales Revenue (\$M)	0.0	0.0	0.0	48.0	155.7
Op. Profit Before Tax ¹ (\$M)	0.0	0.0	0.0	28.2	85.2
Reported NPAT (\$M)	(6.0)	(10.3)	(15.2)	18.3	67.1
Normalised NPAT (\$M)	(6.0)	(10.3)	(15.2)	18.3	67.1
Reported EPS (¢)	(2.7)	(2.7)	(3.7)	3.7	13.7
Normalised EPS (¢)	(2.7)	(2.7)	(3.7)	3.7	13.7
Op. Cash Flow Per Shr (¢)	(0.5)	(0.7)	(0.8)	4.9	15.8
Total Dividends (¢)					
Normalised P/E (x)	(9.7)	(9.5)	(7.1)	7.0	1.9
EV/EBITDA	na	na	na	6.1	1.2
Price/Op. Cash Flow (x)	na	na	na	4.0	1.2
Normalised ROE (%)	-129%	-42%	-73%	26%	49%

Source: Iress, Company Data, Ord Minnett Est. Share price: \$0.26, Apr 29 2011.

* OML estimate production to commence in late FY13

KAS \$0.26

Recommendation
Buy

Risk Assessment
High

Metals & Mining – Tin

Luke Smith

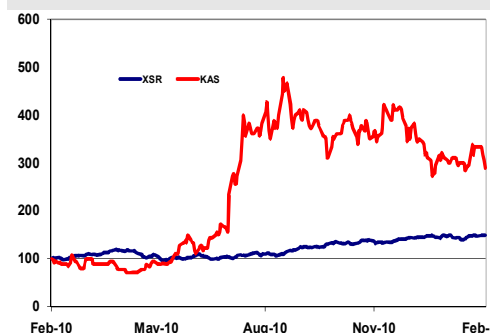
Senior Research Analyst

lsmith@ords.com.au

Kasbah Resources Limited

ASX Code	KAS
52 week range	\$0.05 - \$0.44
Market Cap (\$M)	95
Shares Outstanding (M)	364.3
Av Daily Turnover (\$M)	0.8
ASX All Ordinaries	4899
ASX Small Resources	6369
Net Cash Mar11 (\$M)	25

Relative price performance



Source: Iress

Consensus earnings

	FY11F	FY12F
NPAT (C)*	-	-
NPAT (OM)	-	-
EPS (C)	-	-
EPS (OM)	-	-

Source: Iress (Only 1 other estimate)

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Executive summary

Kasbah Resources Limited (KAS) is an advanced explorer and developer purely focused on tin. Kasbah has been advancing the Achmmach Tin Project in Morocco for the past five years, having established a robust underground JORC resource.

Achmmach is now rapidly transforming into a prize asset with recent drilling results indicating potential for open pit resources to complement the established underground resource. Any open pit resource and subsequent reserve would materially change the project economics, offering an opportunity for a considerable re-rating of Kasbah.

Ord Minnett Ltd (OML) forecast tin prices will continue to strengthen over 2011 and 2012 as the market remains tight due to supply deficit and increasing demand as an industrial metal which is now principally used in solder for electronics.

The Achmmach Tin Project is one of very few advanced tin projects which is likely to commence production within the next two years, placing Kasbah in an enviable position.

OML initiates coverage of KAS with a Buy recommendation and high risk rating, based on a discounted cashflow valuation in combination with a sum of the remaining parts. Our equity diluted base case valuation is \$0.48 per share with an upside valuation of \$0.64 and a 12-month price target of \$0.55 per share.

We note, however, that the current political turmoil across the Middle East and parts of northern Africa has created an elevated sovereign risk environment. Although Morocco has not shown signs of political or civil unrest the climate across northern Africa is volatile and at least temporarily must be considered a key risk to an investment in Kasbah.

Kasbah Resources Limited (KAS) is an advanced explorer and developer purely focused on tin in Morocco

OML initiates coverage of KAS with a Buy recommendation and price target of \$0.55 per share.

Figure 1: Project location

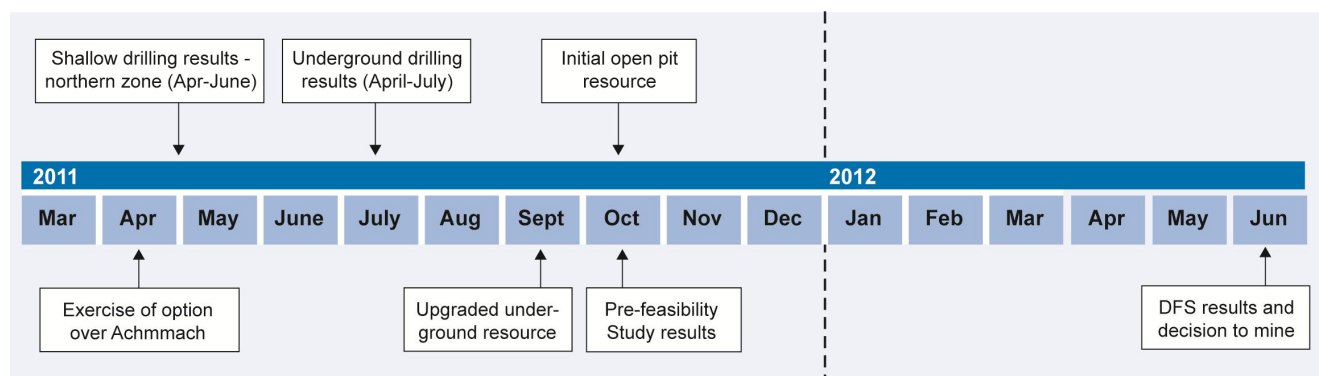


Source: OML

Competitive advantage

- Advanced tin asset:** The tin market is strong . demand is outstripping supply and the deficit is forecast to continue for at least the next two years. Kasbah has an advanced tin project which is on track to commence production in this time frame, one of the few tin projects worldwide expected to do so.
- Board with relevant experience:** The board is led by chairman Mike Spratt, widely recognised as a tin specialist having spent the last seven years of a 40-year industry career as the managing director of Thailand Smelting and Refining Company (Thaisarco), the world's fifth largest tin smelter. In addition MD Wayne Bramwell has significant experience, having previously led the acquisition and feasibility study of the Collingwood Tin project in Queensland between 2000. 2002. The addition of mining engineer Gary Davison (MiningOne and Renison Tin) again strengthens the tin expertise in this company.
- Organic growth:** Kasbah has been exploring the Achmmach Tin Project for five years yet the exploration story is still growing. Arguably the most recent drill results into the shallow northern zone are the best to date, adding a new dimension to the project and almost certainly a step change in the fundamental economics of the project. OML believes there remains further upside risk in the organic growth through ongoing exploration at Achmmach.
- Unparalleled share register:** For a junior resource company with a market capitalisation of approximately \$100 million, Kasbah's register is unique. **The International Finance Corporation (IFC), which is part of the World Bank, is the largest shareholder with 12.7%. The IFC is the world's largest development institution focused on private sector investment in developing countries. It invested more than \$10bn into developing economies during 2010. The IFC has spent more than \$600 million in Morocco over the past three decades in private investment and has an office in the capital, Rabat.** Alongside the IFC is African Lion (12.7%), a specialist resources fund, geographically focused on equity investments in junior resource companies. In addition there are two international tin and metal traders on the register, along with Thaisarco.
- The only advanced pure tin company on the ASX:** There are only a handful of tin explorers and developers listed on the ASX, yet Kasbah is the only company which has an advanced tin oxide asset and is entirely focused on tin. The two main comparables are Metals X (MLX \$0.29, not covered) which also has a number of investments in other listed companies and a nickel project, and Venture Minerals (VMS \$0.415, not covered) whose key asset is a polymetallic tin-tungsten-iron project.

Figure 2: Timeline



Source: OML estimates and KAS.

Valuation

A discounted (equity diluted) cashflow methodology was used to value the Achmmach Tin Project in conjunction with a sum-of-the-parts to compile a company valuation. For valuation purposes we have used a 10% capital hurdle rate (WACC or discount factor) for NPV calculations as well as escalated costs at a nominated Australian CPI rate. The basis for WACC is predicated on:

- the project being less than two years from commissioning and production
- the project being in a developing economy nation
- the project not being capital intensive compared to bulk commodity asset projects.

The majority of Kasbah's JORC resources are Indicated and Inferred with no reserves yet. Therefore a key risk to the valuation remains geological risk¹.

Table 1: Key assumptions

Assumptions	FY10A	FY11E	FY12E	FY13E	FY14E
Tin Price (US\$/t)	16,153	23,519	32,500	33,750	35,000
US\$/A\$	0.88	0.97	1.00	0.95	0.91

Tin Production (tonnes)	FY10A	FY11E	FY12E	FY13E	FY14E
Achmmach Tin (underground)	0	0	0	616	3,388
Achmmach Tin (open pit)	0	0	0	770	963
Total	0	0	0	1,386	4,351

Cash Cost incl royalty (US\$/t)	na	Na	na	11,144	13,000
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Source: OML

OML's base case valuation is modelled on no additional underground resources delineated and an 80% conversion of current resources to reserves through infill drilling and feasibility studies. We have estimated an initial small open pit resource could be delineated with a subsequent reserve of 1 million tonnes at an estimated head grade of 0.55% tin.

We have modelled a development scenario of construction commencing late 2012 for an 800,000 tonne per annum processing plant and initial production commencing in H2 of calendar 2013. We envisage open pit ore will be sourced for mill feed during the first six months of production while underground development is completed to access ore, at which point the underground will be the main source of feed.

The completed scoping study on Achmmach in October 2010 estimated capital costs of US\$85 million including underground development. We have assumed capital cost for the processing plant and other infrastructure of US\$70 million plus an additional US\$35 million for underground development, totalling US\$105 million. This is then escalated to dollars of the day over late 2012 and 2013. We estimate further capital requirements for Kasbah of \$80 million (beyond in the money option exercises over next 12 months), which we have modelled \$30 million additional equity and \$50 million debt financed. Our modelling is on a fully equity diluted basis.

¹ The JORC Inferred Resource category is where grade and mineral content can be estimated with a low level of confidence, whereas Measured and Indicated Resources can be estimated with greater confidence. Importantly, Measured and Indicated Resources can be used to determine Proven and Probable JORC Reserves; respectively, whereas Inferred Resources cannot be used to calculate reserves.

OML's base case valuation is modelled on no additional underground resources delineated and an 80% conversion of current resources to reserves

We have assumed capital cost for the processing plant and other infrastructure of US\$70 million plus an additional US\$35 million for underground development, totalling US\$105 million

Our upside valuation assumes an increase to the underground resource, taking total underground resources at Achmmach to 9 million tonnes with a reserve of 7.2 million tonnes at a head grade of 0.88% tin. In addition we increase our open pit reserve to 3 million tonnes.

The upside valuation also assumes an increase in plant capacity during 2014 to 1.2 million tonnes per annum and a corresponding additional capital expenditure of US\$20 million. With expanded processing capacity enabling 1.2 million tonnes per annum from FY15 along with an assumed increased reserve base, the upside valuation results in a 10-year mine life.

We have modelled underground operating cash costs ranging between US\$13,000/tonne and US\$15,500/tonne over the life of the project with an average life of mine cash cost of US\$14,000/tonne.

Table 2: OML valuation summary

Valuation	Base Case		Upside Case	
	\$M	\$ per share ²	\$M	\$ per share ²
Achmmach Tin (underground)	170	0.35	181	0.37
Achmmach Tin (openpit)	5	0.01	67	0.14
Tamlalt Gold Project	2	0.00	10	0.02
Corporate	(7)	(0.01)	(8)	(0.02)
Options	12	0.02	12	0.02
Cash / (debt)	51	0.10	51	0.10
Total	233	0.48	313	0.64

Source: OML

With the AUD:USD exchange rate currently trading well above \$1.00 OML highlights Kasbah and OML's valuation is sensitive to exchange rate movements. A 10% movement in exchange rate modelled over the life of mine results in a sensitivity to our valuation of \$0.04 per share.

OML envisages the tin market remaining in deficit for at least two years as demand outstrips supply both from mine production and secondary markets

Tin price and market

Along with geological risk the other standout risk to our valuation is the tin price and the tin market. OML's tin price assumptions are based upon forecasts that have a long-term (real dollar, 2010) price of US\$25,000 per tonne from FY15.

Our sensitivity analysis shows a 10% movement in the underlying tin price over the life of the Achmmach project results in a 12-cent (equity diluted) per share change in valuation for Kasbah. On our base case valuation of 48 cents per share this is significant and therefore a key risk to our recommendation.

OML envisages the tin market remaining in deficit for at least two years as demand outstrips supply both from mine production and secondary markets. Tin demand is heavily supported by the substantial increase in lead-free soldering used in electronics. Raw material for soldering in appliances ranging from mobile phones to laptops and iPads is now approximately 98% tin (traditionally tin-lead solders contained 60. 63% tin). OML has provided a more detailed summary of the tin market in Appendix 1.

Figure 3: Tin price (5 year)



Source: OML and Iress

Peer comparison

Kasbah is one of a small handful of ASX-listed companies with exposure to tin. The two most prominent peers are Metals X Ltd, a producer, and Venture Minerals Limited, an advanced explorer and developer. Both have their key projects in Tasmania.

Metals X Ltd (ASX:MLX \$0.29, not covered) is the largest and most advanced ASX-listed tin company with production from its 50%-owned Mt Bischoff and Renison tin operations collectively known as the Tasmanian Tin Operations. Metals X's joint venture partner is a subsidiary of Yunnan Tin, the world's largest producer of tin (see appendix 1). The Tasmanian operations are collectively producing approximately 8,000 tonnes per annum of tin with a near term growth aspirations of 13,000 tonnes per annum. Total JORC Resources are 8.6Mt at 1.64% Sn containing 140,814t of tin metal with a Reserve of 2.53Mt at 1.48% Sn containing 38,986t of tin metal (100% basis).

Metals X also has a large, undeveloped laterite nickel project in Western Australia as well as a number of strategic investments in other ASX-listed mining and exploration companies. The market value of the listed investments totals approximately \$75 million. In addition Metals X has \$105 million in cash and working capital. These other attributes make a peer comparison more complex but, more importantly, makes Metals X more of a diversified mining house and dilutes investors' exposure to tin.

Venture Minerals (ASX:VMS \$0.415, not covered) is exploring and developing the Mt Lindsay polymetallic tin/tungsten project in north-west Tasmania where it has recently completed a pre-feasibility study. This is a tin skarn resource of 10Mt @ 0.7% tin equivalent, (which is 0.4% tin, 0.2% Tungsten) and also takes into account a mass recovery of magnetite of 15%. This resource is at a cut off grade of 0.45% tin equivalent. Within this resource the contained tin is 38,000 tonnes. At a 0.2% cut off grade the resource is 43Mt @ 0.4% tin equivalent with a tin grade of 0.2% and contains 82,000 tonnes of tin.

Consolidated Tin Mines Limited (ASX:CSD \$0.14, not covered) is exploring and developing the Mt Garnet tin project 180kms from Cairns in Queensland. Mt Garnet is a tin skarn style project made up of three smaller projects that amalgamate to 7Mt of 0.6% Sn. The lower grade and lack of scale work against the project currently.

Table 3: Kasbah peer comparison

Company	Mkt Cap	Net Cash	EV	Contained Tin	EV/t tin
Kasbah Resources	\$95m	\$25m	\$70m	54,000	1280
Venture Minerals	\$92m	\$24m	\$68m	82,000	830
Metals X	\$396m	\$180m	\$216m	141,000	1530
Consolidated Tin Mines	\$18m	\$1m	\$17m	44,000	390

Source: company presentations, Iress

OML prefers Kasbah due to its 100% focus and exposure to tin whereas its two main peers have exposure to other commodities and in Metals X's case it has only 50% of the tin project. OML estimates that Kasbah's Achmmach project has the potential to be competitive on an operating cost perspective due to low input costs, labour in particular and likely low processing costs. The negative is that Morocco is perceived as having relatively higher sovereign risk compared to projects located in Tasmania.

SWOT analysis for Kasbah

Strengths

- Persistent and focussed on tin
- Tin oxide (SnO₂) resource . not polymetallic
- Advanced asset in a commodity with strong fundamentals.
- Current project economics are robust with production likely to commence in less than two years.
- Fiscal regime in Morocco is very favourable to mining investment.
- The local workforce is highly skilled and the area has long had a mining culture.
- Board of directors highly experienced in tin.
- Directors hold a significant but not majority shareholding in the company. (~4.7% diluted).
- Sufficient cash (no debt) to add significant value to assets and complete definitive feasibility study in 2012.

Weaknesses

- Does not have legal ownership of the Achmmach project but has an exclusive option to acquire 100%.
- Metallurgical test work completed to date is only on deeper Meknes / Fez zones and further testing is required.
- There is no completed feasibility study.
- Exploration success and turn around of drilling results has taken longer than expected in the past.
- Company's profile is not well known and tin as a commodity is not widely understood.
-

Opportunities

- Further exploration success materially changes economics of the Achmmach project, lifting its status amongst up-and-coming tin projects worldwide.
- Acquisition of another tin projects, both in Morocco and Internationally adds critical mass to company's project pipeline.
- Company's profile is increased through organic growth and marketing.
- Reputable engineering and finance capability added to the board, in turn adding value to project and company.
- As the project progress towards development, locking in favourable off-take agreements will significantly de-risk the company.

Threats

- North Africa and Middle East has a heightened level of sovereign risk currently and this may spread to Morocco.
- Further exploration doesn't add to JORC resources.
- Drilling and/or drilling results are delayed, delaying resource delineation.
- Project will require capital to develop and Kasbah may not be able to adequately source equity or debt finance commercially when required.
- Construction issues delay start of production beyond current timeframe.
- Tin prices fall significantly prior to financing and or production starting.

History

Kasbah Resources Limited (KAS) was incorporated in October 2005. In November 2005 Kasbah entered into an exclusive right to explore and acquire the Achmmach Tin Project from the Office National des Hydrocarbures et des Mines (ONHYM) of Morocco. ONHYM is the Moroccan government's department for exploration and the promotion of mineral and energy resources.

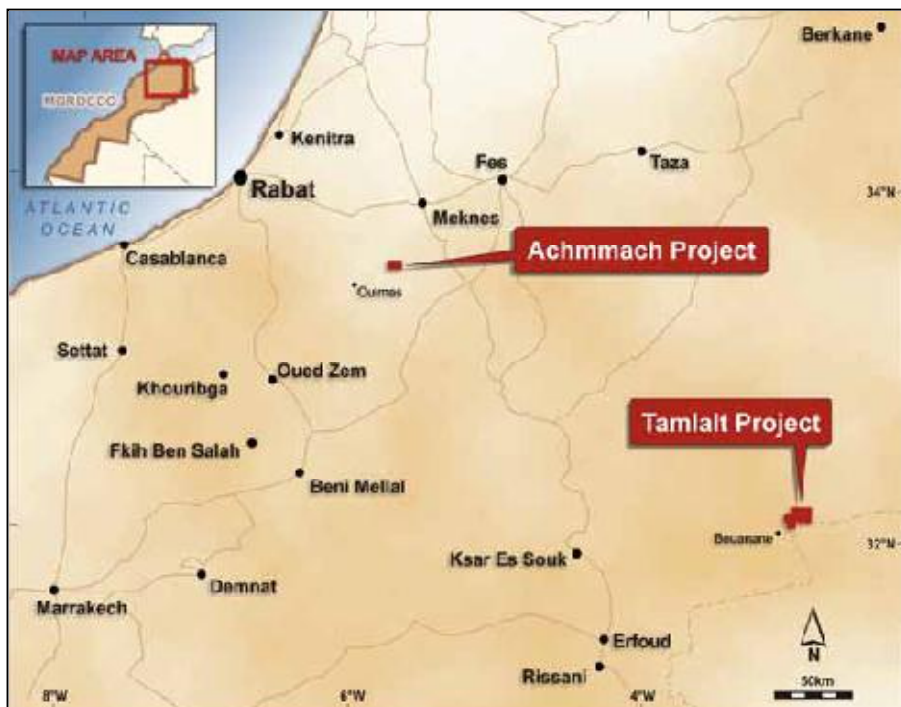
During 2006 Kasbah used historical geological and drill data to complete a JORC compliant resource for the Achmmach project which totalled 2 million tonnes at 1% tin. In addition early stage exploration was carried out on a second small tin project, El Karit, also in the middle of the Atlas mountains of Morocco.

Kasbah listed on the ASX in April 2007, raising \$10 million at 25 cents per share with Achmmach as the flagship project and El Karit as its second project of focus. At the time Kasbah was one of only two foreign-owned exploration companies operating in Morocco.

In May 2007 Kasbah acquired the Tamlalt Gold Project in eastern Morocco via an international tender process conducted by ONHYM. The total purchase price was approximately \$1.4 million paid in four instalments over three years for 100% of the project. The acquisition comprised eight exploration permits totalling 128km².

Kasbah listed on the ASX in April 2007 raising \$10 million at 25 cents per share with Achmmach as the flagship project

Figure 4: Kasbah project map



Source: KAS

Kasbah's first drill program across the 2km long tin system at Achmmach commenced in November 2007 and a tripling of the resource base to 6 million tonnes was announced in December 2008.

As a result of the depressed share market in early 2009, Kasbah was forced to complete a one-for-one rights issue at 3 cents per share in July raising \$2.6 million. This allowed drilling to recommence at Achmmach in August 2009.

Following a \$4 million drill and exploration program through FY10 Kasbah announced a further resource upgrade in August 2010 and for the first time included an Indicated Resource in addition to an Inferred Resource.

Kasbah's first drill program at Achmmach commenced in November 2007 and a tripling of the resource base to 6 million tonnes was announced in December 2008.

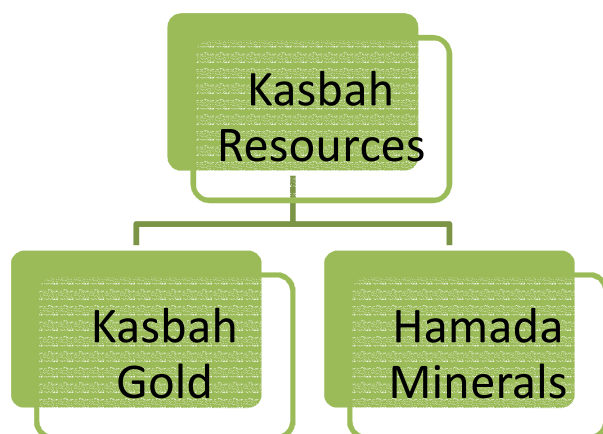
Subsequent to this resource upgrade Kasbah has continued drilling to extend and infill the current resource and in addition has commenced drilling shallow exploration targets adjacent to the resource.

Business structure and corporate strategy

- Kasbah's strategy is to organically grow through exploration and development of the Achmmach Tin Project in Morocco and is aiming to become a new generation producer of high quality tin concentrates. Kasbah is also looking to leverage off its established position in Morocco to acquire additional tin projects that would tie in with the development of Achmmach.

Kasbah's strategy is to organically grow through exploration and development of the Achmmach Tin Project

Figure 5: Corporate structure



Source: Kasbah

Table 4: Kasbah issued capital

	Number (million)
Issued Ordinary Shares	364.3
Options (expiring November 2011, exercise price 25c)	14.6
Options (expiring April to June 2012, exercise price 25c)	30.2
Options (various expiries and exercise prices, 10-35c)	6.8
Fully diluted	414.7

Source: Iress

Substantial shareholders

Kasbah's first class share register, which includes more than 30 institutional investors, is a standout for a company of this size and underscores the credentials of the Kasbah growth story.

The register includes an array of specialist investors which infers strength in a number of aspects of Kasbah including the investability of Morocco (via the IFC), prospectivity of reaching tin production (via Thaisarco), tin as a commodity (via Transamine and Traxys Projects) and Kasbah as a strong growth story in the junior resources sector (via African Lion, Macquarie Bank and Société Générale).

Table 5: Significant shareholders

Shareholder	Shares held (m)	% of issued capital
IFC (World Bank)	46.2	12.7%
African Lion	46.2	12.7%
Transamine	15.0	4.1%
Directors	11.9	3.3%
Thailand Smelting & Refining (Thaisarco)	8.0	2.2%
Traxys Projects	6.3	1.7%
Société Générale	6.0	1.7%
Total	151.5	35.2%

Source: Iress and Kasbah

- IFC, a member of the World Bank Group, focuses on fostering sustainable economic growth in developing countries by supporting private sector development. IFC has invested over US\$692 million in Morocco since 1962 and offers significant country expertise to Kasbah, in particular environmental permitting and social licensing along with the possibility of debt financing.
- African Lion is a specialist resources fund, geographically focused on equity investments in junior developing resource companies. It has \$100m+ under management specifically for African equity investment and has been a shareholder since listing 2007.
- Transamine is a global non-ferrous trading house and is one of the oldest, independent, privately held commodities trading companies in the world specialising in raw materials. Transamine's recent exposure to emerging mining companies includes strategic alliances, placements or off-take agreements with Discovery Metals Limited (ASX: DML, not covered), Citadel Resource Group Limited (ASX: CGG, not covered) and Terramin Australia Limited (ASX: TZN, not covered).
- Thailand Smelting and Refining (Thaisarco) has been a shareholder since Kasbah listed and is the fifth largest tin smelter in the world. It has been a leading producer of tin and tin product for over 40 years.
- Traxys is a major metal and concentrates marketer and trader with specialised experience in tin concentrates and tin metal. Traxys was formed in 2003 and has become a global leader in financing, investing, marketing, distribution and financial services for the mining, metals and minerals industries. The company has more than 20 global locations, and 260 employees.

Board

Mr Mike Spratt (Non-executive Director & Chairman) is widely recognised as a global tin specialist with more than 40 years of operations experience both in the mining and smelting industries. He joined the Kasbah board in August 2010 prior to which he was Managing Director of the Thailand Smelting and Refining Company for seven years. Mr Spratt has also held several technical roles overseeing feasibility studies and importantly an operating role as General Manager of the Renison Bell Tin Mine in Tasmania for Murchison United NL.

Mr Gary Davison (Non-executive Director) is a mining engineer with more than 30 years of experience in the mining industry. This included nine years at the Renison Tin Mine in Tasmania where he worked in operations, culminating in the position of underground manager.

Mr Ian McCubbing (Non-executive Director) is a chartered accountant with more than 25 years of experience including project finance and mergers and acquisitions. He has spent over a decade in executive roles for ASX-listed companies including positions of Finance Director and Chief Financial Officer, in particular CFO for GRD Limited.

Dr Rod Marston (Non-executive Director) is a geologist with over 35 years of experience in the mining industry. He has been a director since listing and is also a director of Independence Group NL (IGO, not covered)

Dr Rob Weinberg (Non-executive Director) is a geologist with over 35 years of experience including as a director of the investment banking division at Deutsche Bank and head of the global mining research at SG Warburg Securities. He has been a director since listing and is also a director of Medusa Mining Limited (MML, not covered).

A board led by a chairman with extensive practical experience within the tin industry.

Executives

Person	Role	Experience (yrs)
Wayne Bramwell	Managing Director	A metallurgist with a Masters degree in mineral economics and 20 years of experience in operations and project development and evaluation. Prior to joining Kasbah in 2005 he was responsible for the acquisition, feasibility study and environmental approvals for the Collingwood Tin Project in Queensland on behalf of Bluestone Nominees.
Mike Kitney	Chief Operating Officer	A metallurgist with over 40 years of experience in project operations, project and study management in Africa and the FSU.
Chris Bolger	Country Manager Commercial	A geologist with more than 30 years of experience in mine developments and operations both within Australia and overseas with extensive tin and tungsten experience.
Jeffrey Lindhorst	Exploration Manager	A geologist with more than 25 years of experience in exploration in Asia, Australia, South America and Morocco.

Source: OML research

Projects

Achmmach

Location

The Achmmach Tin Project is located on the western edge of the El Hajeb province, approximately 140 km southeast of the Moroccan capital, Rabat, and 40 km southwest of Meknes. The project consists of two Exploitation (mining) Permits for a total area of 32km² and is accessible by secondary roads (majority sealed) from Meknes. Achmmach is situated in the Middle Atlas Mountains where the climate varies. It could be described as similar to the temperatures of the Victorian alps, up to 30 degrees Celsius in summer to below zero in winter. The topography also varies with an average elevation of between 950m and 1,200m above sea level.

The Achmmach Tin Project was discovered by the BRPM in 1985

Figure 6: Achmmach Tin Project



Source: KAS

History

The Achmmach Tin Project was discovered by the Bureau de Recherches et de Participations Minières (BRPM), the predecessor to ONHYM, in 1985. In 1991 BRPM commenced exploration and evaluation work which included regional and project scale geological mapping, soil geochemistry, gravity surveying, surface trenching, and 33 diamond drill holes totalling 14,463 m. This was followed by an 85m deep exploratory shaft with 827 m of underground drives. A bulk sample was extracted and metallurgical test work undertaken. The work program was completed by 2000.

Kasbah entered into an exclusive agreement to purchase Achmmach in November 2005 for US\$5 million. In 2009 the agreement was extended to June 2011 by which time a completed Feasibility Study on the Achmmach Tin Project is to be submitted to ONHYM. The agreement also has provision for Kasbah, at its election, to use a further 12 months from June 2011 to optimise the study if required.

The consideration is to be paid in installments and triggered by the transfer of the Achmmach Tenements to Kasbah. The initial payment of US\$1 million is upon transfer of tenements and subsequent payments of US\$1 million on the first, second, third and fourth anniversaries of the transfer date. In addition a 3% net smelter return royalty is payable to ONHYM.

Kasbah entered into an exclusive agreement to purchase Achmmach in November 2005 for US\$5 million

Geology

Tin mineralisation at Achmmach occurs in a series of lodes trending northeast and typically subparallel. The mineralisation is hosted within metamorphosed shales, siltstones and sandstones of Upper Carboniferous age. It is thought to be related to hydrothermal fluids associated with nearby Hercynian alkaline granite intrusions, consistent with Hercynian-aged tin belts in mainland Europe. The lodes have undergone subsequent deformation during later orogenic events.

The tin is associated with stacked tourmaline alteration lodes that vary in widths by up to 30 metres. The tin occurs mainly as cassiterite the purest form of tin (SnO₂) that is oxidised and in millimetre to centimetre scale quartz-cassiterite veinlets and fractures.

The lodes can be traced over strike lengths of several hundred metres, and the total known mineralised system is about 2 km long, although it has not been closed off by drilling.

Exploration

Exploration programs at Achmmach until 2010 were focused almost entirely on the potential for underground resources and this may have been proliferated by the previous explorers of the property.

OML estimates that Kasbah has spent approximately A\$11 million on exploration, drilling and peripheral activities at Achmmach, the majority of which has been focused on delineating underground JORC resources. To that end Kasbah has been successful.

Yet in the past six months Kasbah has raised sufficient funds to continue adding high probability value through underground exploration but also branched out and begun to spend material dollars on near-surface exploration surrounding the current resource base. This was seen as a higher risk exploration but it has subsequently rewarded the company with the first pass drilling results announced in January 2011 a resounding success. These results included:

- AD066 5 m @ 1.08% Sn from 31m and 7 m @ 0.41% Sn from 41m.
- AD067 12 m @ 1.06% Sn from 43m (Includes 3 m @ 3.80% Sn from 46m).

JORC Resources

Since listing Kasbah has more than tripled the size of the underground resource. Further, approximately one-third of the current resource is in the Indicated category and Kasbah expects to move more of the resource into Measured and Indicated before the end of calendar 2011. The JORC Resource was last upgraded in August 2010 and is presented in table 6.

Table 6: Achmmach current resource

Category	Million Tonnes	Sn %	Sn k tonnes
Indicated	2.2	0.8	17
Inferred	4.8	0.8	37
Total	7.0	0.8	54

Source: KAS

The cut-off grade used for the resource estimate was 0.5% Sn. The resource was based upon data from 41 diamond drill holes drilled by Kasbah since 2007 in conjunction with 20 diamond drill holes by BRPM drilled in the early 1990s.

Exploration programs at Achmmach until 2010 were focused almost entirely on the potential for underground resources

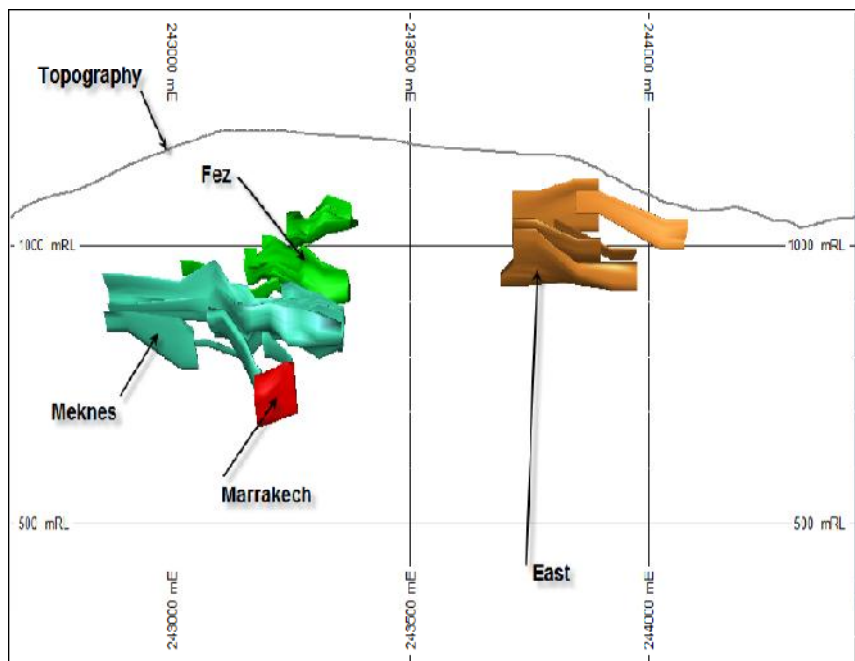
OML estimates that Kasbah has spent approximately A\$11 million on exploration, drilling and peripheral activities at Achmmach almost majority of which has been focussed on delineating underground JORC resources

Since listing Kasbah has more than tripled the size of the underground resource

The current underground resource is currently calculated from four discrete zones of mineralisation. The lodes within these zones can generally be traced over strike lengths of several hundred metres. A number of deeper holes below the East zone have intersected mineralisation and Kasbah believes there is potential to add significantly to the current resource base through further deeper drilling of this area. Kasbah's resource consultant has nominated an exploration target of 4 to 8 million tonnes grading between 0.5% and 1% for this deeper Eastern Zone mineralisation.

A number of deeper holes below the East zone have intersected mineralisation and Kasbah believes there is potential to add significantly to the current resource base

Figure 7: Achmmach underground resource schematic



Source: KAS

The resource of each of the four zones of mineralisation has been detailed in table 7. The Meknes zone was the first zone of mineralisation delineated by Kasbah and the principal focus of the first drill program in 2007/08 and therefore has received the most amount of attention to date. This larger amount of drilling is reflected in a significant portion of its resource classified as Indicated.

Table 7: Achmmach current resource by zone of mineralisation

	Zone	Million Tonnes	Sn %	Contained Sn k tonnes
Indicated	Meknes	1.6	0.8	13
	Fez	0.6	0.8	4
	Marrakech			
	East Zone			
	Total	2.2	0.8	17
Inferred	Meknes	2.1	0.7	16
	Fez	0.9	0.8	7
	Marrakech	0.3	1.0	3
	East Zone	1.4	0.7	10
	Total	4.8	0.8	37
Indicated + inferred	Total	7.0	0.8	54

Source: KAS

Processing

The metallurgy is relatively straightforward due to the vast majority of known mineralisation being tin oxide. Preliminary metallurgical test work was undertaken by consultants SGS Cornwall during 2009. The results, though preliminary in nature, indicated a saleable, high grade primary concentrate was readily achievable. Metallurgical recoveries were excellent with recoveries of 70. 75%, targeted using conventional gravity and flotation processes.

Studies

Following the updated resource in August 2010, Kasbah completed a scoping study on an underground mining scenario. The results of the scoping study provided a significantly positive NPV based on an 800,000tpa treatment plant and mine life of 7.5 years producing approximately 5,500 tonnes of tin-in-concentrate per annum. The estimated capital cost including mine development was US\$85 million with an NPV of US\$126 million using a tin price of US\$23,000/tonne.

Following the successful scoping study Kasbah has commenced a pre-feasibility study (PFS) which is due to be completed by October 2011. OML believes the eventual timing of this PFS is likely to be later in the third quarter or possibly fourth quarter as an open pit resource is defined and incorporated into the study.

Development scenario

Although too early to be definitive, OML believes a two-staged approach will be considered in developing Achmmach. With the possible firming of a small open pit resource the development strategy is likely to switch to bringing open pit production on first followed by underground, to bring forward cashflow. By moving to a two-staged development strategy the construction and commissioning of the process plant becomes the critical time constraint rather than a lengthy and relatively capital intensive underground development.

By allowing the underground development to be offset from the beginning of an open pit, the maximum drawdown quantum required by Kasbah is significantly reduced as cashflow from the open pit will supplement the underground development capital.

Once the underground development capital is completed and production commences it is quite possible that the underground operation will become the main ore supply for the mill and the open pit will be effectively top-up feed for the mill.

Marketing

Marketing of the tin concentrate and achieving a commercial off-take agreement will be a key milestone for Kasbah. To date Kasbah has been offered a number of off-take agreements but, rightfully so, has yet to commit to any agreement or partner. Kasbah's share register includes two tin commodity traders and a tin smelter and refiner which give a significant indication that there would be strong demand for tin concentrate from Achmmach.

As the project develops and probably closer to completion of the feasibility study it is likely an off-take agreement will be sought and it may be finalised in conjunction with financing of the project. We have assumed in our modelling that a commercial off-take agreement is reached and 93% of tin in concentrate is payable.

The metallurgy is relatively straightforward due to the vast majority of known mineralisation being tin oxide

Following the updated resource in August 2010, Kasbah completed a scoping study on an underground mining scenario in October.

Tamlalt Gold Project

The Tamlalt Gold Project is located in Eastern Morocco adjacent to the South Atlas fault, one of the major mineralising structures in Morocco. Kasbah acquired the project in May 2007 through an international tender process. The project consists of eight exploration permits totalling 128km². Kasbah paid approximately \$1.4 million over a three-year period to acquire 100% of the project.

Previously ONHYM had completed 33 diamond drill holes totalling 7,000 metres. The prospect is a multiple-veined quartz system with a current defined strike length of 400 metres with gold mineralisation intersected as shallow as 12 metres from surface. One of the better intersections recorded by ONHYM was 10.0m @ 10.1 g/t Au from 102.0m.

Kasbah completed a ground magnetic survey over three permits, completed quality assurance/quality control assay verification on a number of the ONHYM drill holes and commenced early stage exploration during 2009. In 2010 no work was carried out on the project as the focus was very much on the more advanced Achmmach Tin Project.

Financial forecasts

As at 31 March 2011, Kasbah had \$25.4 million in cash and no debt. OML estimates that gross cash outflows over the next 15 months to 30 June 2012 to be in order of \$16 million. Assuming the share price stays above 25 cents and all outstanding in-the-money options are exercised, gross cash inflows are likely to be approximately \$11 million. These estimates result in Kasbah remaining well funded through to any development decision and importantly, well funded to potentially add significant value without further shareholder dilution.

The current capital cost estimated by Kasbah for the Achmmach project is US\$85 million which includes underground capital development. We expect the capital shortfall at a decision to mine would be funded through equity and debt finance.

OML has modeled a modest 50%/50% debt to equity split with a total capital requirement of \$110 million. We have allowed for a \$30 million equity capital raising which would supplement the forecast cash position of more than \$22 million in mid 2012 and a debt financing package of \$50 million to be completed around the same time. Our modeling and valuations are on a fully equity diluted basis and estimate early cashflow from the open pit will supplement capital required for underground development.

We believe Kasbah has no need to raise equity earlier than mid 2012 and the board would want to add considerable value to the company through its current drilling program and studies and potential resource increases within the next twelve months.

Fiscal incentives for mining investment in Morocco

The Moroccan government has introduced the following incentives to attract and assist foreign mining investment in Morocco:

- Customs duty and VAT exemptions on imported equipment
- A 50% reduction on company tax or income tax for mining companies that export their mining products, whether directly or indirectly
- A mining company may set up a tax-exempt reserve fund for exploration and development investment equal to as much as 50% of fiscal profits, with a ceiling of 30% of turnover
- A state contribution to infrastructure requirements including roads, water supply and electricity distribution of between 50% and 70% of costs.
- In addition the Achmmach project and its holding company will receive a five-year tax holiday from commencement of production which provides a significant economic advantage for reaching a decision to mine. OML sees this as one of the strategic advantages of Kasbah's project compared to other prospective advanced tin projects around the world.

**As at 31 March 2011,
Kasbah had \$25.4 million
in cash and no debt**

**Our modelling and
valuations are on a fully
equity diluted basis and
estimate early cashflow
from the open pit will
supplement capital
required for underground
development**

Major share price risks and drivers

Share price risks

- OML identifies the major risks for Kasbah as follows:
- Political risk in northern Africa spills into Morocco causing civil unrest.
- A resource is not delineated from the current open pit drilling.
- Downgrades to existing resources through infill drilling would significantly lower the value of the underground project at Achmmach and put downward pressure on the share price.
- Timing delays could occur due to delays turning around assay results and metallurgical results.
- Transferring of the licence could take longer than anticipated which would cause possible delays to the development timeline and increase the perceived sovereign risk.
- Capital costs could be significantly underestimated by OML and KAS.
- Operating costs could be different to OML's forecasts.
- Further exploration is not successful, therefore limiting upside risk.
- Weather-related events causing delay and or damage to projects.
- Adverse exchange rate movements
- Mine life becomes less than OML forecasts.

Share price drivers

OML sees the following as the major drivers of the Kasbah share price over the next 18 months:

- A resource is delineated at the shallow northern zone, western zone or eastern zone.
- Upgrading of underground resources.
- JORC Reserves delineated.
- Positive Pre-Feasibility Study results.
- Tin price moves toward US\$40,000 per tonne from current level of US\$33,000 per tonne.
- Exploration success, regionally.
- Acquires another strategic tin asset in Morocco.
- Civil and political unrest in northern Africa and the Middle East subsides.

Financial summary

Kasbah Resources Limited (KAS)

Year ending June

Profit & Loss Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Operating Revenue	0	0	0	48	156
Operating Expenses	0	0	0	(20)	(70)
Mining Operating Profit Before Tax ¹	0	0	0	28	85
Other Income - Asset Sales & Rent	0	1	1	1	2
Other Expenses	(6)	(11)	(16)	(5)	(7)
EBITDA	(6)	(10)	(15)	24	80
Depreciation & Amortisation	0	0	0	(3)	(9)
EBIT	(6)	(10)	(15)	21	71
Net Interest Income	0	0	0	(2)	(4)
Pre-Tax Profit	(6)	(10)	(15)	18	67
Tax Expense	0	0	0	0	0
Reported NPAT	(6)	(10)	(15)	18	67
Adjustments (after-tax)	0	0	0	0	0
Normalised NPAT	(6)	(10)	(15)	18	67
EBITDA Margin (%)	na	na	na	43%	45%
Effective tax Rate (%)	0%	0%	0%	0%	0%
EPS Reported (cps)	(2.69)	(2.74)	(3.68)	3.73	13.70
EPS Normalised (cps)	(2.69)	(2.74)	(3.68)	3.73	13.70
EPS growth (%)	na	na	na	na	267%
DPS - Total (cps)	0	0	0	0	0
Payout Ratio - Ordinary Divs (%)	na	na	na	na	na
Franking - Total (%)	na	na	na	na	na

Cash Flow Statement (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Pre-Tax Operating Cash Flow	(1)	(3)	(3)	24	77
Tax Paid On Operating Activities	0	0	0	0	0
Operating Cash Flow	(1)	(3)	(3)	24	77
Exploration & Development	(4)	(7)	(12)	(2)	(2)
Property, Plant & Equipment	(0)	(1)	(1)	(90)	(24)
Tax Paid On Investment Activities	0	1	1	1	2
Other Investing Items	0	1	1	1	2
Investing Cash Flow	(4)	(8)	(12)	(91)	(25)
Inc/(Dec) in Equity	5	30	11	30	0
Dividends Paid	0	0	0	0	0
Financing Costs	0	(2)	0	0	0
Debt Draw down/(Repayment)	0	0	0	50	(35)
Financing Cash Flow	5	29	11	80	(35)
Inc/(Dec) in Cash	(1)	18	(4)	12	18

Balance Sheet (\$M)	FY10A	FY11E	FY12E	FY13E	FY14E
Cash & Deposits	4	22	18	30	48
Receivables	0	0	0	6	19
Other Current Assets	0	0	0	4	14
Property, Plant & Equipment	0	1	1	87	101
Exploration & Development	1	1	1	1	1
Investments	0	0	0	0	0
Other Non Current Assets	0	0	0	0	2
Total Assets	5	24	20	128	185
Payables and other current Liabilities	1	1	1	7	26
Short Term Debt	0	0	0	10	3
Long Term Debt	0	0	0	40	12
Other Non Current Liabilities	0	0	0	3	9
Total Liabilities	1	1	1	61	50
Total Equity	5	23	19	68	135
Net Debt (Cash)	(4)	(22)	(18)	20	(33)

Major Shareholders	Million	(%)	Date
African Lion	46.2	12.7%	Dec-10
IFC (World Bank)	46.3	12.7%	Dec-10
Transamine	15.0	4.1%	Nov-10

Source: Kasbah Resources Limited, Ord Minnett estimates.

Assumptions	FY10A	FY11E	FY12E	FY13E	FY14E
Tin Price (US\$/t)	16,153	23,519	32,500	33,750	35,000
US\$/A\$	0.88	0.97	1.00	0.95	0.91

Tin Production (tonnes)	FY10A	FY11E	FY12E	FY13E	FY14E
Achmmach Tin (underground)	0	0	0	616	3,388
Achmmach Tin (openpit)	0	0	0	770	963

Total	0	0	0	1,386	4,351
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Cash Cost incl royalty (US\$/t)	na	na	na	11,144	12,912
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JORC Resource Estimates	Status	kt	kt	kt	
Reserves		Proved	Probable	Total	
Achmmach Tin (underground)	Mine	na	na	na	
Resources (Includes Reserves)*		Measured	Indicated	Inferred	Total
Achmmach Tin (underground)	Mine	-	17	37	54
Achmmach Tin (openpit)	Explor.	-	-	-	-
Tamlalt Gold Project	Explor.	-	-	-	-
Total		-	17	37	54

*As at December 2010

Leverage	FY10A	FY11E	FY12E	FY13E	FY14E
Net Debt/Equity	-81%	-94%	-92%	29%	-24%
Net Debt/Total Assets	-70%	-91%	-87%	15%	-18%
Interest Cover (x)	na	na	na	9.0	19.2

Valuation Ratios (x)	FY10A	FY11E	FY12E	FY13E	FY14E
Normalised P/E	-9.7	-9.5	-7.1	7.0	1.9
Price/Op Cash Flow	na	na	na	4.0	1.2
EV*	na	73	89	146	94
EV/EBITDA	na	-7.1	-5.8	6.1	1.2
EV/EBIT	na	-7.1	-5.8	7.1	1.3

* Enterprise value forecasts for each financial period inclusive of any forecast issued capital increases

Valuation	Base Case		Upside Case	
	\$M	\$ per share ²	\$M	\$ per share ²
Achmmach Tin (underground)	170	0.35	181	0.37
Achmmach Tin (openpit)	5	0.01	67	0.14
Tamlalt Gold Project	2	0.00	10	0.02

Corporate	(7)	(0.01)	(8)	(0.02)
Options	12	0.02	12	0.02
Cash / (debt)	51	0.10	51	0.10
Total	233	0.48	313	0.64

Valuation	Base: \$0.48	Upside: \$0.64
Discount of share price to valuation	83%	146%

Per share valuation sensitivity to:

+/- 10% move in tin price	\$0.12
+/- 10% move in the \$US/\$A rate	\$0.04

Current price	\$0.26
Recommendation	Buy
Risk rating	High
12-month price target	\$0.55

Notes: 1. Mining operating profit before tax is the direct mining contribution.

2. May not add because of dilution effects.

Appendix 1 . Tin & the Tin Industry

Tin is a chemical element with the symbol **Sn**. Tin does not occur naturally as a metal but is obtained chiefly from the mineral cassiterite, where it occurs as tin dioxide, SnO₂. Tin is a relatively scarce metal compared to some other base metals such as copper, lead and zinc.

Tin is a silvery malleable, ductile metal and is not easily oxidised in air. It is used to coat other metals to prevent corrosion. Bronze, which is an alloy of tin and copper, is the first known alloy and has been used since 3000 BC. After 600 BC pure metallic tin was produced. Pewter, which is an alloy of 85% to 90% tin with the remainder commonly consisting of copper, antimony and lead, was used for flatware from the Bronze Age until the 20th century.

Tin resists corrosion from distilled, sea and soft tap water, but can be attacked by strong acids, alkalis and acid salts. Tin can be highly polished and is used as a protective coat for other metals in order to prevent corrosion or other chemical action.

Uses of tin

Tin principally during the 20th century was used to produce tinplate, or steel coated with tin, which is used for food packaging. **Yet tin and tin alloys are also used for solder, especially in the electronics industry and this has been the key driver behind tin demand over the past decade and looks set to continue. Now, over half of the world's tin produced each year goes into solder and is used for joining wires to circuit boards.** For example, your mobile phone contains about 7.8 grams of tin. It is also used in televisions, computers and microwave ovens. It is commonly used as an alloy for bearing metal and as an alloy in metallic coatings.

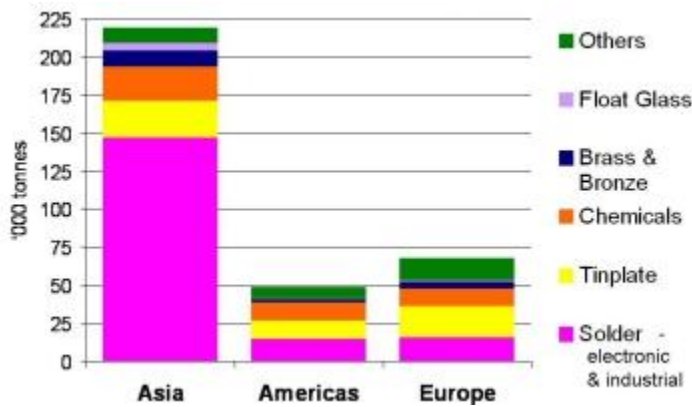
In 2006 a European Union directive came into effect prohibiting the intentional addition of lead to most consumer electronics produced in the EU due to health and environmental concerns over the effects of lead. China also has a similar policy. Producers of electronic goods now use solder with 97.5% tin. This policy change increased global tin demand by over 20%.

It is likely that the US could soon follow the same path, as the state of California has enacted law preventing the sale of items that don't pass the same European Restriction of Hazardous Substances standards. If all US states went for 98% tin solder as well, this would cause a far more pronounced supply demand imbalance.

Inorganic compounds of tin are used in ceramics and glazes. Organic compounds of tin are used in plastics, wood preservatives, pesticides and in fire retardants. Tin is rarely used in its pure form because of its softness; it is almost always used in combination with other metals, either as an alloying element or as a coating.

The leading resource and industry body for tin is the International Tin Research Institute (ITRI) which is a not for profit organisation. It represents the tin industry and is sponsored and supported by its members, principally miners and smelters.

Refined tin use data for main markets 2008



Source: ITRI

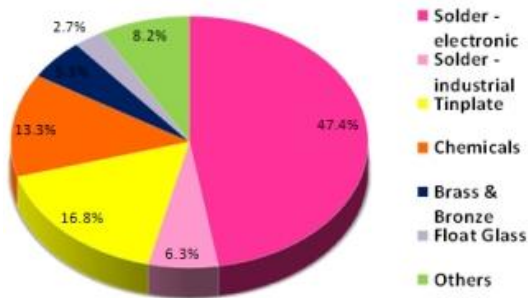
The main findings of the latest ITRI global Tin Use and Recycling Survey (released 25 January 2011) are:

- Tin use held up better than previously estimated following the global financial crisis and has recovered strongly in 2010.
- There has also been strong growth in secondary tin production in recent years. ITRI estimates that secondary refined tin production will have exceeded 60,000 tonnes in 2010, with China accounting for over 75% of the world total.
- World usage of refined tin in 2009, previously estimated a year ago at some 307,000 tonnes, is now considered to be just over 320,000 tonnes.
- In 2010, strong growth in all the main applications is indicated, resulting in an estimated 12.5% rise in refined tin to about 360,000 tonnes.
- China's tin use has reached a new record level of almost 147,000 tonnes, although consumption in the rest of the world is some 25,000 tonnes less than its 2006 peak.

Refined tin use in electronic and industrial solders was a little less than 54% of total use in 2009. The proportion has been greater than 50% since 2005.

In addition to 320,000 tonnes of refined tin metal, tin users are estimated to have utilised some 59,000 tonnes of tin contained in secondary alloys and other scrap during 2009.

World refined tin use by application, 2009



Source: ITRI, January 2011

Tin production

China is the world's biggest tin producer with about a third of total production but it is also the world's biggest user, and overall it is a net importer of tin. Yunnan Tin is the single largest producing company.

The other two major integrated producers are PT Timah in Indonesia and Minsur in Peru. The two large global custom smelters, Malaysia Smelting Corporation and Thaisarco, both reported increases in production (the latter is a shareholder of Kasbah). Thaisarco's production increases were achieved despite a drastic reduction in concentrate intake, more than offsetting this by stepping up its refining of tin from Indonesia and LME warehouses. PT Timah, Indonesia's state controlled tin producer and the world's largest integrated tin miner, produced 40,413 tonnes in 2010, down 10 percent from its 2009 totals. It was the fourth consecutive year that production was reduced. The Indonesian government recently stated that because of the high prices of the metal, in an effort to reduce artisan and illegal mining operations, it will limit annual output to a maximum of 100,000 tonnes if record high prices set off a scramble for the metal, according to Reuters. Indonesia has been cracking down on illegal mining operations since 2006, as well as reducing production from PT Timah. Indonesia produced about 105,000 tonnes last year, if it continues to limit production, the supply deficit may only grow.

Top tin producers in 2010



Leading Tin Companies: 2010 data			
Production, tonnes refined tin			
Company	2009	2010	% change
1 Yunnan Tin (China)	55,898	59,180	5.9%
2 PT Timah (Indonesia)	45,086	39,100	-13.3%
3 Malaysia Smelting Corp (Malaysia)	36,407	38,737	6.4%
4 Minsur (Peru)	33,920	36,052	6.3%
5 Thaisarco (Thailand)	19,300	23,505	21.8%
6 Liuzhou China Tin (China)	10,500	14,300	36.2%
7 Yunnan Chengfeng (China)	14,947	14,155	-5.3%
8 EM Vinto (Bolivia)	11,805	11,520	-2.4%
9 Metallo Chimique (Belgium)	8,690	9,945	14.4%
10 Geju Zi-Li (China)	5,600	9,000	60.7%
11 PT Koba Tin (Indonesia)	7,455	6,644	-10.9%
12 Jiangxi Nanshan Tin (China)	3,000	6,000	100.0%
<i>Data: ITRI PT Timah 2010 figure estimated</i>			
ITRI members highlighted	ITRI production	232,800	
	World	338,000	
	ITRI share	68.9%	
26/01/2010			

Source: ITRI

Tin producers responded to the higher tin prices in 2008 with tin mine and tin smelter openings and expansions, including ones in Australia, Bolivia, Canada, and Thailand. Tin exploration activity increased, especially in Australia and Canada.

China continued as the world's leading tin producer from both mine and smelter sources, but experienced sporadic difficulty in obtaining feedstock for its smelters. Indonesia, the world's second leading tin producer from both mine and smelter sources, continued to experience some production difficulties, some related to the government's shutdown of possibly illegal production sites.

US domestic production and use: Tin has not been mined or smelted in the United States since 1993 and 1989, respectively. Twenty-five firms used about 86% of the primary tin consumed domestically in 2008. Most major imports of tin, including unwrought metal, waste and scrap, and unwrought tin alloys, enter the United States duty free. US sourced its tin imports (2004-07) from: Peru, 46%; Bolivia, 14%; China, 14%; Indonesia, 10%; and other, 16%.

About 15,000 tonnes of tin from old and new scrap was recycled in the US in 2008. Of this, about 12,000 tonnes was recovered from old scrap at two detinning plants and 84 secondary nonferrous metal processing plants.

Industry analysts consider the US to be the world's leading producer of secondary, or scrap, tin. Most secondary tin is generated during manufacturing from various scrapped alloys of tin and recycled in the same alloy industries. Secondary tin from recycled fabricated parts has been used in many kinds of products and is a particularly important source of tin for the manufacture of brass, bronze and solder.

Australian resources and deposits

The Renison Bell and Mount Bischoff deposits in Tasmania are the only currently producing tin mines in Australia. Renison Bell is a primary carbonate replacement deposit which supports one of the world's largest underground tin mines. Australia's next most important mine is at Greenbushes in Western Australia, where tin is recovered as a co-product along with tantalite (a tantalum mineral) from a weathered primary deposit. Greenbushes is currently on care and maintenance and therefore not producing any tin.

Other areas where tin production has been important include Ardlethan and Cleveland, which are no longer operating. Gibsonvale, Moolyella, the Herberton/Mount Garnet and Emmaville districts have also been important producers of tin and remain prospective areas. Areas with minor production and/or possible important future sources of tin include Collingwood and Doradilla.

Australia in the world

The world's economic resources of tin total approximately seven million tonnes, of which Australia has approximately 1.3%. Eastern Asian countries, including China (27%), Malaysia (15%), Thailand (12%) and Indonesia (10%) possess the majority of the world's economic tin resources. Other countries with large tin resources include Brazil (16%), Bolivia (6%), Peru (4%) and Russia (4%).

Tin exploration

Exploration in the tin industry to confirm reserves for near-future use has, in particular, been limited by the historically low prices for the metal in the last two decades. Minimal profit margins at production operations were common, and reported reserves therefore also remained low due to a low level of exploration expenditure. It is important to realise that low reported reserve levels do not automatically equate to a shortage of supply in practice.

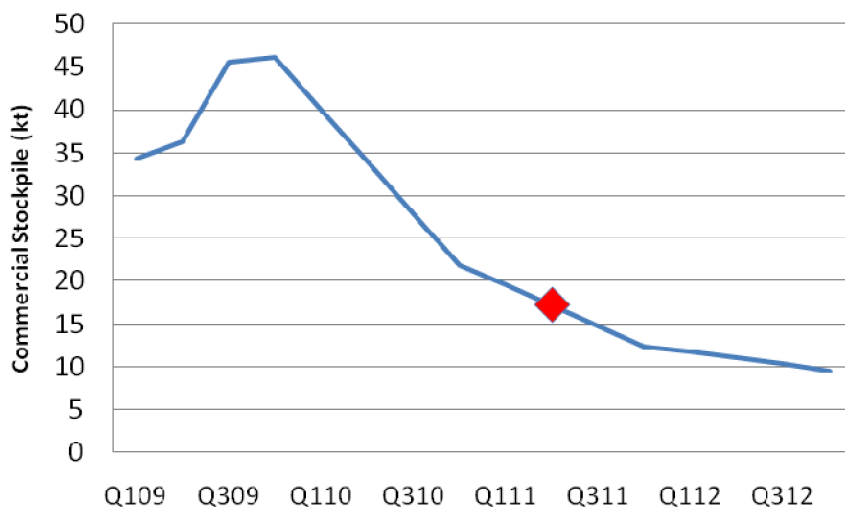
Although firm data on tin reserve levels is limited by the factors outlined above, it is not correct to believe that the level of tin resource is low. A study by the US Geological Survey, sparked by the first oil crisis in 1973, quoted a tin resource level of 37 million tons, the equivalent of around 130 years of current mine production. It is also interesting to note that this figure does not contain any reference to countries outside those producing tin at the time i.e. the study makes no mention of Peru, an area that has subsequently become the world's third largest tin supplier. As exploration picks up along with the tin price it is important to note that tin production doesn't quickly increase as mines can't be built quickly and existing operations take time to increase capacity. Bringing resource to development and production does take years in most instances and this creates the long lag time between increases in price and increases in production. Tin can be, and is, recycled to pure high grade metal, or re-used in the form of alloys or chemical products. Recycled material makes a significant contribution to the extension of resource life.

Tin price

The Kuala Lumpur Tin Market (KLTM) and the London Metal Exchange (LME) are the key benchmarks for global tin prices. The LME contract is the internationally accepted hedging tool in the tin market. However, the physical spot market is centred in Kuala Lumpur where the KLTM opened for trading in 1986.

Tin was the best performer on the London Metal Exchange in 2010. Stockpiles monitored by the London Metal Exchange dropped to 5.6 weeks of global consumption in January, from 8.2 weeks in late 2009. According to the Economist Intelligence stocks held on the London Metal Exchange (LME) fell from a six-year peak of almost 28,000 tonnes in January to end the year 38% lower, at 16,375 tonnes.

Refined tin: stockpiles



Sources: London Metal Exchange (LME); Economist Intelligence Unit.

Tin enters 2011 with low inventories and projections for market deficits. Where inventories are high and deficits are in place anticipated USD weakness and negative real interest rates will be powerful compounding effects.

Supply constraints are driving tin prices higher. The metal hit an all-time high at \$31,395 a tonne after Indonesia's state-owned PT Timah (TINS.JK), the world's largest integrated tin miner, said refined production fell 10 percent in 2010.

Tin Price (for 3 month delivery)



Source: Iress

During the latter half of the previous decade, the price of tin climbed dramatically due to increased demand, tightening supply, and investor interest in the commodities sector in general. In 2005, the tin price was around \$6,000 per tonne due in part to an oversupplied market. During 2008, it jumped 53 percent from \$16,000 per tonne to approximately \$26,000 per tonne. This dramatic rise in prices for commodities in general was not sustainable, and was followed by a sharp drop for tin prices to below \$10,000 per tonne for a short period during the depths of the Global Financial Crisis. Lower prices in 2009 were attributed to decreased demand worldwide owing to the global economic slowdown.

Overall, prices in 2009 were substantially lower than those in 2008 and apparent consumption of tin in the United States declined by 17 percent in 2009 compared with that of 2008.

However, many commodity specialists remain confident that the underlying fundamentals in the tin market will remain strong. Worldwide supply is expected to remain tight and demand is likely to rebound. Despite the 2009 decline in prices, tin producers continued to respond to the higher tin prices of recent years with tin mine and tin smelter openings and expansions, including ones in Canada, Bolivia, Australia and Thailand. Tin exploration activity increased, especially in Canada and Australia. In some countries, like Bolivia, old tin tailings were being evaluated for the reclamation of the metal. Developments have continued in major tin-consuming countries to move to new lead-free solders that usually contain greater amounts of tin than do leaded solders.

Ord Minnett expects tin to trade at US\$35,000 per tonne by the end of 2011 and has a forecast long term price of US\$25,000 per tonne. Supply deficits are expected to continue, estimated between 15. 20,000 tonnes. If Indonesia limits production, its deficits may be even higher. A price of \$35,000 to \$40,000 in the next five years is not impossible as demand climbs, new mines take longer than expected to start output, and ore quality drops,+said Mohd. Ajib Anuar , Chief Executive Officer for Malaysia Smelting Corp. Potential profit taking by those holding long positions in tin is a factor that should be taken seriously going forward. However, the macroeconomic outlook for the tin market is strong.

Tin supply and “conflict minerals”

Supply could be constrained by political pressure on companies involved in “conflict minerals”. Because tin is used in consumer electronics, there is growing political pressure on electronics companies to take responsibility for where they source their materials. Conflict minerals refer to minerals, including tin, that are mined in conditions of armed conflict and human rights abuses, most notably in the Democratic Republic of Congo (DRC) but also in surrounding regions. Profits from the sale of minerals continue to fund armed conflict and people in the region are often coerced into working in the mines.

US legislation passed in May 2010, referred to as the “Conflict Minerals Law”, requires certification of minerals from the DRC and neighbouring countries. Tin, tantalum, tungsten and gold are among metals covered by the law. On 21 July 2010 US President Barack Obama signed a “conflict minerals” amendment in the US financial reform bill that requires American companies that buy cassiterite, tantalum, tungsten and gold from the Democratic Republic of Congo and its nine neighbouring countries to receive certification that their purchases are “DRC conflict free”.

After mining the minerals often pass through many “middle men” as they are transported out of Congo and onto the world market. In their journey out of Congo, the minerals often pass through countries such as Rwanda and Burundi; therefore the US legislation applies to the nine countries that adjoin the DRC. There is generally not a desire to ban mining or trade, but a growing requirement for monitoring and accountability along the supply chain. The DRC was estimated to supply 5% of the world’s tin in 2010.

Substitutes for tin

Substitutes for tin (depending on end use): Aluminium, glass, paper, plastic, or tin-free steel substitute for tin in cans and containers. Other materials that substitute for tin are epoxy resins for solder; aluminium alloys, copper-base alloys, and plastics for bronze; plastics for bearing metals that contain tin; and compounds of lead and sodium for some tin chemicals.

Please contact your Ord Minnett Adviser for further information on our document.

Research			
Stephen Scott	Head of Research	Sydney	sscott@ords.com.au
Peter Arden	Senior Research Analyst	Melbourne	parden@ords.com.au
Richard Ivers	Senior Research Analyst	Melbourne	rivers@ords.com.au
James Lennon	Senior Research Analyst	Sydney	jlennon@ords.com.au
Luke Smith	Senior Research Analyst	Melbourne	lsmith@ords.com.au
Brad Dunn	Analyst	Sydney	bdunn@ords.com.au

Ord Minnett Branches

Sydney (Head office)

Level 8
NAB House
255 George Street
Sydney NSW 2000
Tel: (02) 8216 6300
Fax: (02) 8216 6311

Gold Coast

Level 7,
50 Appel St
Surfers Paradise QLD 4217
Tel: (07) 5557 3333
Fax: (07) 5574 0301

Mackay

45 Gordon Street
Mackay QLD 4740
Tel: (07) 4969 4888

Wollongong

3/55 Kembla Street
Cnr Market and
Kembla Streets
Wollongong NSW 2520
Tel: (02) 4226 1688
Fax: (02) 4226 1604

Adelaide

Level 11
11-19 Grenfell Street
Adelaide SA 5000
Tel: (08) 8203 2500
Fax: (08) 8203 2525

Caloundra, Sunshine Coast

79-81 Bulcock Street
Caloundra QLD 4551
Tel: (07) 5491 3100
Fax: (07) 5491 3222

Melbourne

Level 23
120 Collins Street
Melbourne VIC 3000
Tel: (03) 9608 4111
Fax: (03) 9608 4142

Brisbane

Level 10, Waterfront Place
1 Eagle St
Brisbane QLD 4000
Tel: (07) 3214 5555
Fax: (07) 3214 5550

Canberra

101 Northbourne Avenue
Canberra ACT 2600
Tel: (02) 6206 1700
Fax: (02) 6206 1720

Newcastle

41-45 Newcomen Street
Newcastle NSW 2300
Tel: (02) 4910 2400
Fax: (02) 4910 2424

Buderim

Sunshine Coast
84 Burnett Street
Buderim QLD 4556
Tel: (07) 5430 4444
Fax: (07) 5430 4400

Coffs Harbour

Suite 4
21 Park Avenue
Coffs Harbour NSW 2450
Tel: (02) 6652 7900
Fax: (02) 6652 5716

Tamworth

Suite 3
344-346 Peel Street
Tamworth NSW 2340
Tel: (02) 6761 3333
Fax: (02) 6761 3104

www.ords.com.au

Ord Minnett Limited

ABN 86 002 733 048

ASX Market Participant

AFS Licence Number 237121

www.ords.com.au

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BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over 12 months.
ACCUMULATE	The stock's total return is expected to be between 5% and 15%. Investors may add to existing holdings, or initiate holdings on share price weakness.
HOLD	The stock is fairly priced, and its total return is expected to be between 0% and 5%.
LIGHTEN	The stock's total return is expected to be less than 0% and possibly down 15%. Investors should consider selling into share price strength.
SELL	The stock's total return is expected to lose 15% or more.
RISK ASSESSMENT	Classified as High, Medium or Low, denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, volatility, nature of its operations and other relevant quantitative and qualitative criteria.

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