

Montezuma Mining Company Ltd. (ASX:MZM)

Gold stock with a difference...

Peak Hill gold mine edging closer to company target. The Peak Hill mine currently has a resource of approximately 263,000 ounces of gold at a cut-off of 0.5g/t plus 29,000 oz in stockpiles. Montezuma has recently completed a 28 hole drilling program for 3,700m and acquired an additional 40km² in addition to the 2,162ha tenement. A total of 5 areas are under review to increase to resource to a target of 500,000 ounces. Once the target is reached Montezuma will begin to plan for production.

Midwest may inject another \$4m into Montezuma in the near future. Montezuma have made an agreement with Midwest Corporation in regards to the iron ore rights at their Mt. Padbury tenement. Midwest are to pay Montezuma \$6m in cash after the achievement of different milestones. \$2m has already been paid with the remaining amount to be issued if Midwest can prove up a minimum 10mt haematite resource grading 50% Fe or greater. Montezuma will also receive a royalty of 0.5% on all iron ore production grading 30-50% and a 1% royalty grading above 50%.

Manganese rights at Mt. Padbury adding further value. Montezuma sold the manganese rights at Mt. Padbury to private company Auvex Resources Limited. In exchange Montezuma received 10m shares in Auvex and will also receive a royalty of \$2/dmt (dry metric tonnes) once sales begin. Auvex is looking to IPO this year and produce 300,000tpa from next year. At the proposed IPO price of 50 cents Montezuma's stake would be worth \$5m.

Montezuma may be looking to offload non-core holdings. Montezuma has a large portfolio of tenements with most of them in their early exploration and/or green field phases. It is likely Montezuma will be looking to offload or 'farm out' some of these tenements while concentrating mainly on the gold projects at Peak Hill, Wood Creek and the copper/manganese at Butcher Bird.

Montezuma trading below potential value of cash and assets. Montezuma has \$2.2m cash on hand and a potential \$4m coming their way from Midwest. A potential Auvex IPO at 50 cents would give Montezuma an investment worth \$5m. On top of this are royalty payments valued at \$372,553 over 5 years at a 10% discount. The Peak Hill mine we valued at \$2m based on acquisition cost, the Jubilee upgrade and appreciation in the gold price. Total valuation of 32.5c/share based on 41.693m shares outstanding. On a diluted basis the valuation drops to 20c/share.

Valuation **\$0.325**
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SPEC BUY

Analyst: **Sven Restel**
svenr@wise-owl.com
1 300 306 308

Website: www.montezumamining.com.au

Management Team

Chairman	Denis O'Meara
Managing Director	Justin Brown
Director	Ian Cornelius

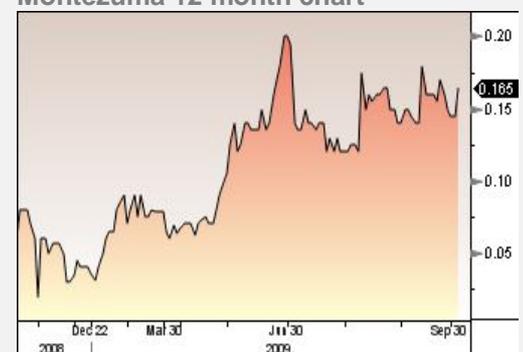
Major Shareholders

South Boulder Mines	9.95%
Marcel Mandanici	9.53%
Duketon Consolidated Ltd	7.50%

Share Data

Sector	Materials
Market Cap	\$6.88m
Fully Diluted M.Cap	\$10.1m
Shares on issue	41.693m
Options on issue	25.5m
Avg. Daily Value Traded	\$10,200
Current share price	\$0.165

Montezuma 12 month chart



Source: Bloomberg

Background

Montezuma listed in November 2006 at 20 cents, which raised \$4m. At listing Montezuma had a portfolio of 8 projects covering 1,286km². Since listing the company has undertaken two capital raisings of \$963,180 and \$655,750.

The Projects

Montezuma Mines has a large portfolio of projects of which the majority are in their early stages. Their flagship projects is the Peak Hill gold mine with the diversification of the Mt Padbury iron ore and manganese rights adding value.

Project	MZM Interest	Metal
Peak Hill	100%	Gold
Mt. Padbury	100%	Gold, Manganese, Iron Ore
Durack	Earning 85%	Gold
Egerton	100%	Gold
Butcher Bird	100%	Manganese, Copper
Pilgangoora	10%	Gold, Nickel
Leonora/Weebo	80%	Gold

The tenements are all located in Western Australia. Except for the once listed, Montezuma has divested other smaller projects for joint ventures or liquidation of the tenement.

Peak Hill

The Peak Hill mine is Montezuma's main project. It is located north of Meekatharra in Western Australia, north-east of Geraldton. It consists of five areas which will be targeted for exploration, the Main Pit, Mt Pleasant Pit, Harmony Pit, Jubilee and Enigma. The Harmony and Main pit have produced more than 900,000 ounces from previous production. Montezuma acquired the mine from a Barrick/Rio Tinto joint venture for \$1m in cash and \$600,000 worth of corporate bonds. The tenement stretches a total of 2,162 hectares and previous production was from four open cut pits, down to 100m, in addition to some underground mining.

When Montezuma acquired the mine it already had a maiden resource which, at that time, stood at:

- 3.17mt at 1.81g/t Au for 184,000 ounces of gold at a cut off of 0.58g/t

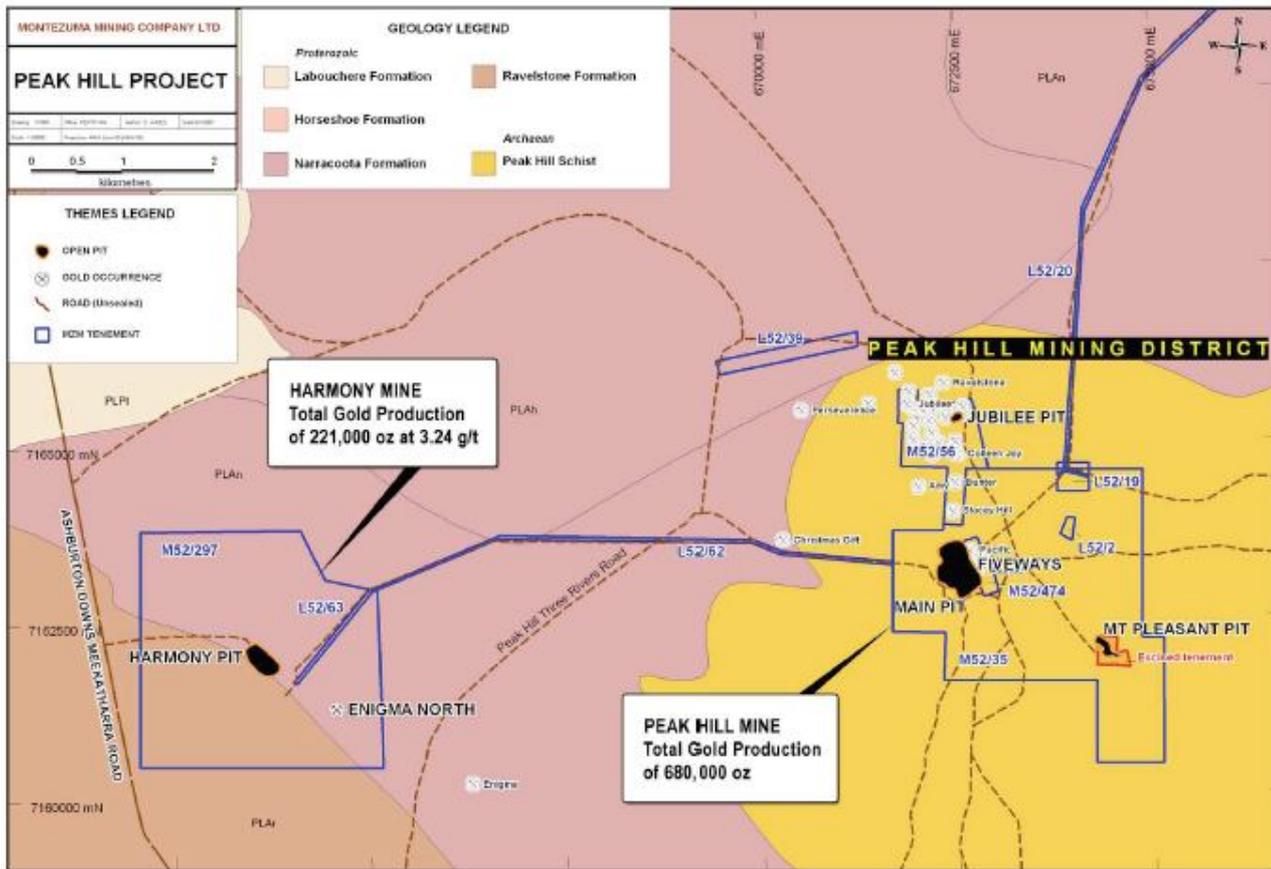
“Nearly 263,000 ounces of gold at Peak Hill within a maiden resource”

Figure 1: Peak Hill Mine



Source: MZM

Figure 2: The Peak Hill tenement and its various mining pits



Source: MZM

After acquiring the project Montezuma initiated a 3,000m RC drilling program to test extensions at the Jubilee prospect. The drilling found a new zone at depth which hit some high grade gold intercepts at depth including

- 6m at 27.43g/t Au from 87m
- 2m at 13.29g/t Au from 138m
- 3m at 13.96g/t Au from 119m

Montezuma is currently undertaking another RC drilling program comprising 31 holes for at least 3,600m. Currently 28 holes for 3,721m have been completed, with some notable results showing

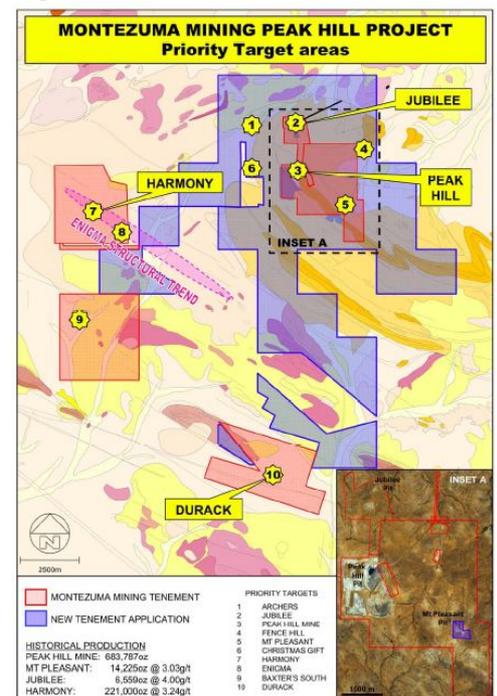
- 4m at 8.62g/t Au from 172m including 1m at 31.6g/t AU
- 6m at 21.2 g/t Au from 27m
- 1m at 7.6g/t Au from 155m

The drilling campaigns helped to upgrade the resource at Jubilee, from previous 9,291 ounces, by 400% to 605,000t at 2.41g/t Au for 46,800 ounces based on a 1g/t cut-off. There is scope for additional upgrade as Jubilee is the first of five areas under review.

These results, combined with the previous RC drilling campaign, continues to show the mineralisation likely extends at depth, beyond the current Jubilee resource upgrade.

Montezuma has added to its ground holding at Peak Hill by acquiring another 40km² of ground adjacent to the Main pit, Jubilee, Harmony areas and also the Enigma trend. The immediate areas for further

Figure 3: New tenements in blue



Source: MZM

exploration, which the acquisition adds, is testing extension to the main pit.

The target for the Peak Hill project is to prove up a resource of at least 500,000 ounces and then begin planning for production.

Mt Padbury

Mt Padbury is a gold, manganese and iron ore project. We see the main short term value coming from this project.

Montezuma acquired the iron ore rights on the Mt Padbury tenement from Independence Group. The license contains 23km of strike within known haematite mineralisation. The iron ore rights on the property, along with the manganese rights, are not part of the core holdings within the Montezuma portfolio. A deal has been agreed with Midwest for the iron ore rights. Midwest has agreed to pay \$6m in cash plus royalty on possible future iron ore production. The breakdown is as follows.

- \$1m paid on settlement of the deal (paid)
- \$1m on 12 month extension (paid)
- \$4m if at least 10mt of haematite iron ore, at 50% Fe or greater, is proven

The royalty amounts to 0.5% on the gross sale of all iron ore grading between 30%-50% and a 1% royalty on all sale of iron ore grading over 50%. Midwest has commenced a 6,000m RC drilling program at Mt Padbury. The data from the drilling campaign will be used to prove up an initial resource.

A similar arrangement, for the manganese rights, has been struck with private company Auvex Resources Limited. Auvex has an extensive portfolio of manganese projects and is looking to list on the Australian Stock Exchange toward the end of this year. In exchange for the manganese rights Montezuma received 10m shares in Auvex, representing approximately a 14% stake. Once production starts Montezuma will also receive a US\$2/dmt royalty. Auvex is targeting production of 300,000tpa from early next year from their flagship project 'Ant Hill'. An initial shipment of approximately 20-30,000t of ore has sent to its stockyard in Port Hedland.

Auvex' main project is the 'Ant Hill' manganese mine in Western Australia with a resource of 4.9mt at 20.3% Mn and 25.4% Fe. They also have a smaller resource at nearby Sunday Hill of 4.7mt at 18.4% Mn. This compares favorably to OMH Holding Limited Bootu Creek mine which has a proven and probable resource of 22.4mt at 22.1% Mn. On the back of these projects Auvex is looking to list on the market at the end of this year. Auvex has 71.5m shares outstanding and at a possible IPO price of 50 cents would be valued at \$35.75m. Montezuma's 14% stake would then be worth \$5m.

Within the Mt Padbury is the Wood Creek gold project, located 40km east of the Peak Hill Mine. The area has been underexplored and in the previous year Montezuma drilled 4 holes for 399m. Notable results include

- 16m at `1.63g/t Au
- 2m at 4.26g/t Au
- 16m at 1.04g/t Au

Figure 4: Peak Hill pit



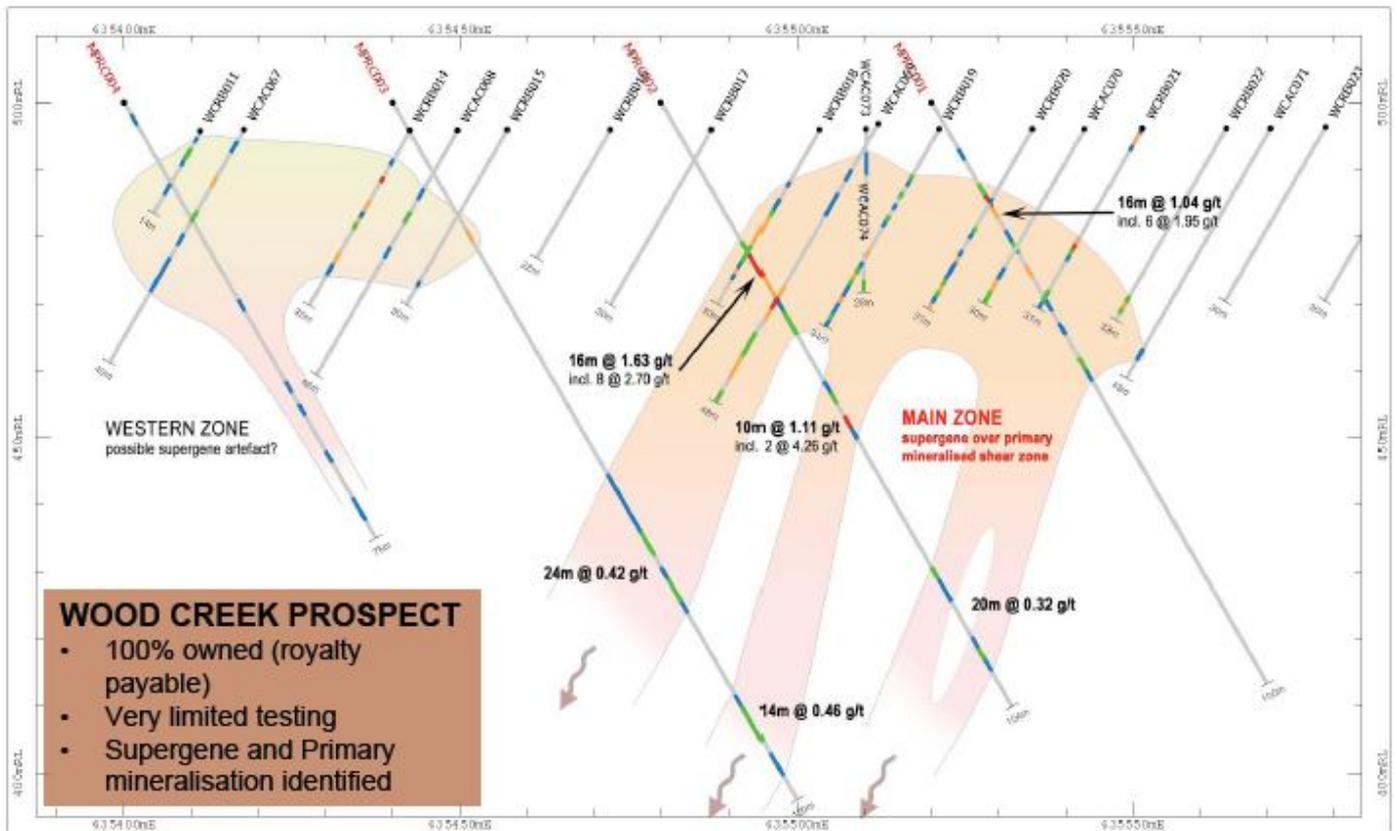
Source: MZM

“Successful drilling results from Midwest will inject \$4m into Montezuma”

“Montezuma received a 14% stake in manganese producer Auvex, potentially worth more than \$5m”

The project is still in its early stages and will likely take a backseat to exploring and further proving up the Peak Hill project.

Figure 4: Cross section drilling results from Wood Creek



Source: MZM

Butcher Bird

Butcher Bird is a copper/manganese project north-east of Meekatharra. It comprises three exploration licenses within EL 52/2350, E52/2463 and E52/2467 with the copper and manganese anomalies occurring in different areas to the south and north. The tenement lies right besides the Great Northern Highway. It is an early stage exploration where Montezuma has recently conducted rock chip sampling. These samples, along an 8km strike, returned up to 44.4% manganese with low amount of iron. A total of 50 rock chip samples were taken within the manganese prone area. Within the copper zone rock chip samples returned results up to 21.7% Cu in the oxidized zone and 6.07% in the primary zone.

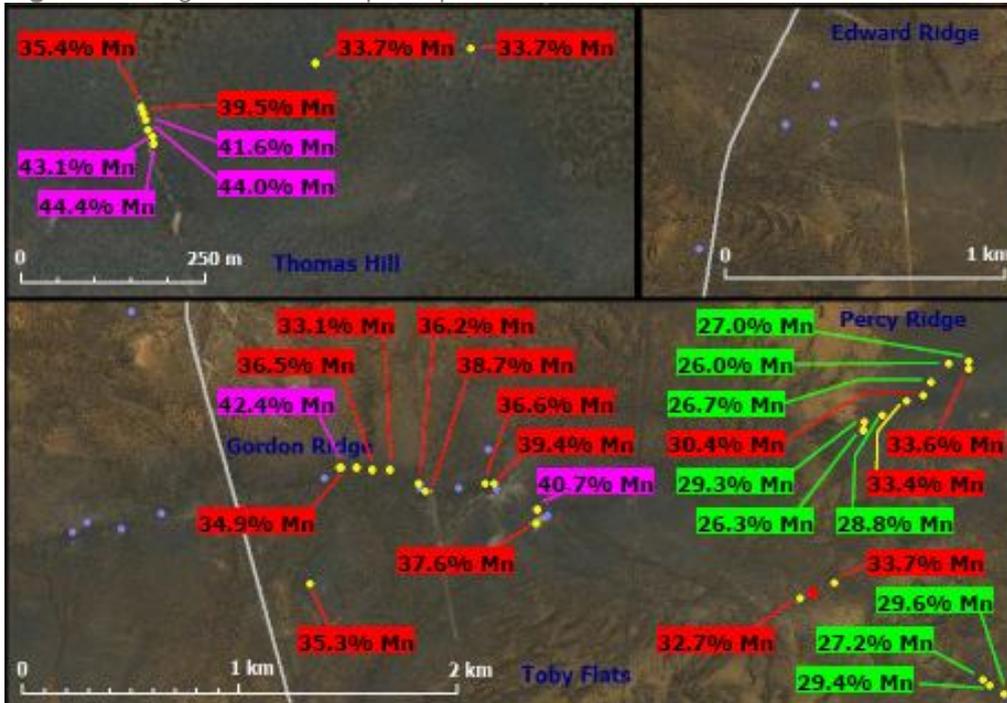
“Good early stage results have been seen at the Butcher Bird project”

Figure 5: Butcher Bird Manganese Outcrop



Source: MZM

Figure 6: Manganese rock chip sample results at Butcher Bird



Source: MZM

Figure 7: The Butcher Bird manganese to the north and copper to the south



Source: MZM

Durack (earning 85%)

The Durack deposit lies 12km south of the Peak Hill project. Montezuma sees this as a strategic tenement for a potential operation out of Peak Hill. Montezuma is currently earning 85% from Grange Resources by spending \$500,000 on exploration over the next 4 years.

The deposit has a small maiden resource of 567,679t at 3.33g/t Au for 60,836 ounces. Montezuma sees potential to upgrade this resource and potentially tie it in with Peak Hill and a drilling program has been planned for the coming quarter.

Pilgangoora (10% free carried)

Pilgangoora has shown previous gold intercepts with previous drilling intercepting

- 9m at 11.4g/t Au from 3m, and
- 6m at 4.72g/t Au from 27m

Trafford Resources holds 10 prospective licenses adjacent to Montezuma's tenement and some of this is prospective for nickel sulphide mineralization which also extends into Montezuma's tenement. Montezuma and Trafford have entered into an agreement where Montezuma can earn 70% in the nickel rights while Trafford can earn 70% in the gold rights of each others tenements. Each can finalise the agreement by completing a bankable feasibility study.

Valuation

As a relatively early stage exploration company, Montezuma does not have any cash flow. Thus, we have taken the approach of valuing the company based on current and potential future cash on hand and current assets. A possible \$4m cash injection from Midwest and a proposed IPO of Auvex gives the highest immediate valuation upside. With 41.693m shares outstanding, a valuation of \$0.325 has been reached. This is based on the following cash and assets.

“Cash and asset valuation provides upside to current share price”

Cash/Asset	Value
Cash in bank	5.3c/share
Midwest injection	9.6c/share
Auvex stake	12c/share
\$2/dmt royalty, NPV, 5 years @ 10%	1c/share
Peak Hill	4.8c/share
Total	32.7c/share

The Bulls & The Bears



The Bulls Say

- Further increases at the Peak Hill mine can be highly value adding with current gold prices close to all time highs.
- With a 14% stake in Auvex, Montezuma can start to earn royalty with production already commencing.
- Auvex is looking to list on the stock exchange later this year which could value Montezuma's stake at \$5m, which is essentially Montezuma's current market capitalisation.
- Midwest has started drilling at the iron ore strike at Mt. Padbury and a successful resource definition would inject another \$4m into Montezuma.
- The added funds can be used to continue drilling at Peak Hill which has the potential to be a 500,000+oz mine.
- The company has acquired more land around Peak Hill which adds to the likelihood of defining a minimum 500,000oz resource when further drilling is conducted.
- Company is running on a small budget with a small board of three including two non-executive directors.
- Asset and cash valuation sits well above current share price.



The Bears Say

- Has had difficult raising capital in the past.
- All projects are in their early stages, with many yet to achieve a defined resource base.
- Midwest could fail to identify the minimum required resource.
- Many projects are in remote locations.
- Stock has had low correlation to the rise in gold price.
- Failure to continue proving up the current resource at Peak Hill could significantly hurt the share price.

Board of Directors

Denis O'Meara – Chairman

Denis O'Meara is a Prospector and founder of De Grey Mining Ltd. Denis has a lifelong involvement in mining, prospecting and exploration. He has been involved in several major resource and exploratory discoveries in Western Australia including Miralga Creek, Sulphur Springs, Gorge Range, Indee (Wingina and Orchard Tank Well) (Pilbara) Horans Dam (Kalgoorlie), Triangle Bore (Mt Magnet) and Weld Range (Murchison).

His activities have supported several corporate fund raisings/listings since 1969. His prospecting has also led to joint ventures with 17 companies. Denis is the discoverer of the Beyondie Bluff gold and base metal anomalies and originally sampled for gold at the Indee Turner River Gold Belt in 1987. He was awarded AMEC Prospector of the Year in 2004, jointly with Geoff Blackburn.

Denis has served as an Executive Councillor of AMEC, a board member of AGIC (Australian Gold Industry Council) for its 10-year duration and board member of the Port Hedland Port Authority from 1972 to 1985. He also received a National Outstanding Achievement Award - Greening Australia, 1991 and served as a board member of the Kings Park and Botanical Gardens, Perth, 1994 - 1996.

Justin Brown – Managing Director

Justin Brown is a geologist with extensive experience in minerals exploration in Australia and New Zealand. He has a strong technical background with experience in the full spectrum of mineral exploration and mining from grass roots target generation through to resource mining and mine production.

Justin's successful career in the mining industry culminated in a position managing exploration for a large multinational company in the Leonora, Edjudina and Marvel Loch regions of Western Australia. Since leaving mineral exploration to pursue other business interests, Justin has founded and operated a successful internet services consultancy, developing and enhancing his management expertise which he now brings to the Company.

Ian (Inky) Cornelius - Non-Executive Director

Mr Cornelius has had over 40 years experience in the minerals and petroleum industry. He spent the first nine years of his career with the Western Australian Department of Mines before leaving to manage his own tenement consulting business. Since 1976 he has held senior executive positions in a number of public exploration and mining companies.

In this capacity he has had extensive experience and success in the selection, management and development of deposits of many commodities. Inky is a non-executive director of Pancontinental Oil and Gas NL, New World Alloys Ltd, and Alkane Exploration Ltd.

Wise-owl.com recommendation system

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Spec Buy

We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.

Buy

Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.

Hold

A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.

Sell

Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

Contact wise-owl.com

Level 6
233 Castlereagh St
Sydney NSW 2000
Phone: 1300 306 308
Fax: 1300 304 306
www.wise-owl.com

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