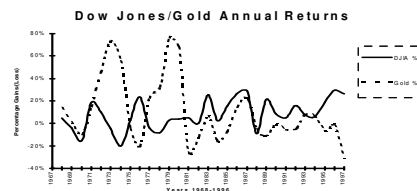




# Gold

## Energy & Tech Stocks



Weekly Hotline Message

(Now in our 27<sup>th</sup> Year)

December 4, 2009

Update/Stock Pick of the Week

### Midlands Minerals Corp.



**Business:** Exploration, development, and gold mine production in Ghana and Tanzania

Traded Toronto: MEX  
MDLXF

Shares Outstanding: 74.9 Million

Initial Recommendation

10/9/09: US\$0.2015

Price 12/4/09: US\$0.21

Market Capitalization: US\$15.7 million

Gold Resource: 400,000 oz.

Progress Rating: "B"

Telephone Number: 416-492-6992

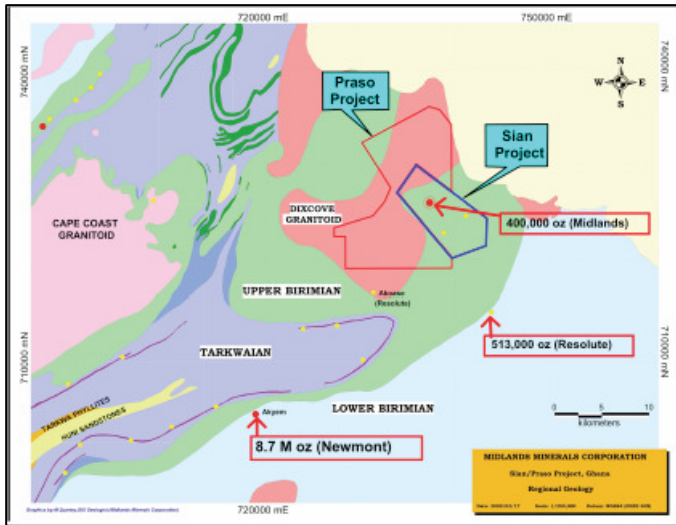
Web Site: [www.midlandsminerals.com](http://www.midlandsminerals.com)

This report should be read in conjunction with our initial buy recommendation of October 9, 2009.

Midlands Minerals Corp. (MMC) is, in my view, one of the most undervalued and unrecognized emerging gold mining companies in the world. I say that on the basis of its flagship property known as the Sian Mine, located in the Ashanti Gold Belt, 30 kilometers northeast of the 8.7-million-ounce Akyem Property owned and operated by Newmont. Here are some of the near-term factors that cause me to say that:

- Starting with the Sian Mine, MMC is expected to commence production in the very near term. It has a mill and all necessary infrastructure to begin production immediately, although it would need to raise \$19.2 million to get the mill running again.
- The immediate goal of the company is to establish an open-pit gold resource of at least 1 million ounces. That can be done mostly by infill drilling within the existing pit and to an extent by drilling both north and south of the existing pit on the Sian Mine. Given evidence of a nugget effect, management plans to bulk sample the deposit with the view that average grades are higher than the 2.3 grams per ton that are currently factored into the company's 400,000-oz. resource.
- Initially, given the current mill and assuming an increase in the resource to at least 1 million ounces (which I do think is likely), management believes it can produce 30,000 ounces per year at a cash cost of less than \$400. Assuming \$400/oz. cost and a \$1,000 gold price, the project would throw off \$18 million per year, which would more or less give a one-year return of capital required to get the mill back up and running.

- A tailings stockpile grading approximately 1 gram per ton containing an estimated 64,000 ounces would also likely be used in tuning up the mill when it is re-commissioned. Not knowing what the recovery rates might be on this material, it's hard to say how much cash flow this could bring to the company. However, assuming a 50% recovery, the project would generate another \$32 million in revenue with minimal costs associated with it since it has already been mined and is lying near the mill.



Longer term, there is reason to think this company's Sian and contiguous Praso projects could evolve into a multimillion-ounce open-pit gold target. So far, the 400,000 ounces of gold come from an area that represents just 5% of the entire soil anomaly that has been used in part to establish drill targets. And, as noted above, the

thinking is that this small area, denoted by the red dot on the map on your left, may well contain upward to 1 million ounces, subject to infill drilling that is now getting underway. We would also like to mention that the existing carbon in leach (CIL) mill could easily be ramped up to much larger levels of production if the remaining 95% of the favorable exploration acreage proves to contain large-scale gold mineralization.

The idea here is to generate cash flow from near-term production to explore and develop a world-class multimillion-ounce gold deposit both from surface and at depth where grades are running somewhat higher.

### Ghana Political Risk

No doubt part of the reason it is not getting a lot of respect from Americans is that it is operating in Africa. Even though Midland's primary interest is in English-speaking Ghana, which has a well established British legal system, Americans tend to ignore Africa by considering the whole continent to be undesirable. While I do not want to ignore political risks in Ghana, it isn't any riskier than many if not most of the countries in South America where Americans are much more willing to invest. In any event, our strategy has always been to diversify geographically and we think that some of the countries that are now considered to be the safest places to invest may in fact be at much more risk than most investors think. Take the U.S. for example. Given our financially destitute condition, who is to say what an Obama Administration might not do in terms of confiscating mining company wealth via the tax code? And beyond that we are seeing dangerous threats to the rule of law and the sanctity of the contract in the U.S. where the legislative and executive branches are pressuring courts to ignore contracts for the sake of political expediency.

### The Bottom Line

We believe MMC can outline up to 1 million ounces of gold within the next nine months from only 5% of its drill target. Potential for a massive lateral extension of gold mineralization not to mention prospects for underground mining gives MMC the potential to outline a world-class gold deposit. If the company were not more than an exploration company we believe it could easily deserve a market cap 4 times larger than its existing \$15 million market cap.

But MMC is much more than an exploration company. It estimates that it needs only about \$20 million to get into production, with its gold reserves being processed using its existing CIL plant. We believe a 43-101 open-pit resource should enable the company to fund itself via a debt funding, so that further shareholder dilution can be minimized. Prospects of early cash flow first from a tailings deposit containing an estimated 64,000 ounces plus early production from the existing pit, should enable a quick payback of capital, so that exploration in search of a world-class gold deposit can be funded from internal cash flow.

If we assume MMC can execute its business plan both in terms of outlining a 1-million-oz. deposit and successful production, we see this as at least a \$1.00 stock over the next 12 months. There are never any guarantees in the mining business. It is a tough, capital-intensive business, subject to many different kinds of risks. But in our view, the upside potential is so significant for MMC that an allocation of upward to 5% of one's portfolio to buy these shares is fully warranted, especially if you believe, as I do, that this gold bull market likely has at least several more years to run.

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