Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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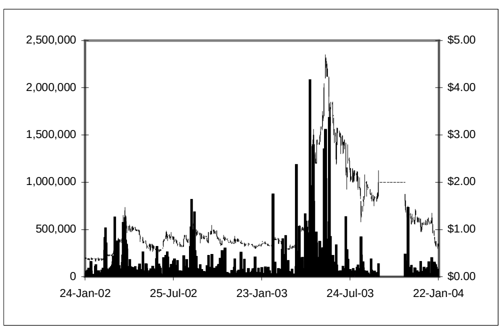
MBMI Resources Inc. (TSXV:MBR) –Production Delays and Cease Trade Order

Sector/Industry: Junior Mining **www.mbmiresources.com**

Market Data (as of January 24, 2008)

Current Price	C$0.70
Fair Value	C$1.03 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C$0.57 - C$4.70
Shares O/S	78,611,045
Market Cap	C$55.03 million
Current Yield	N/A
P/E (forward)	N/A
P/B	3.28
YoY Return	75.0%
YoY TSXV	-12.2%

*see back of report for rating and risk definitions



Investment Highlights

- The company's Alpha project has been in trial production since July 2007. A first shipment was made in January 2008.
- The company has secured contracts for the sale of approximately 140,000 tonnes of nickel material to four different end users in China, Australia, and Japan.
- The company has applied for full-scale production permits, which they hope to receive by the end of 2008. This will allow them to ship more than 150,000 tonnes/year.
- We have lowered our fair value estimate to $1.03 per share (down from $2.20 per share). Valuation dropped primarily because of lower production rates in the initial years and a higher discount rate, offset by an increase in resource estimates.

Risks

- The Philippines has had a recent history of strong anti mining movements that have shut down or delayed mining operations.
- One of MBMI's three small mine claims is subject to a "Status Quo Order" by the DENR, which has the potential to halt operations from that claim.
- The company has only secured 3 SSMO permits, which limits their yearly tonnage to 150,000 tonnes from the Alpha property.
- The company does not have any NI 43-101 compliant resource estimates.

Key Financial Data (FYE - January 31)

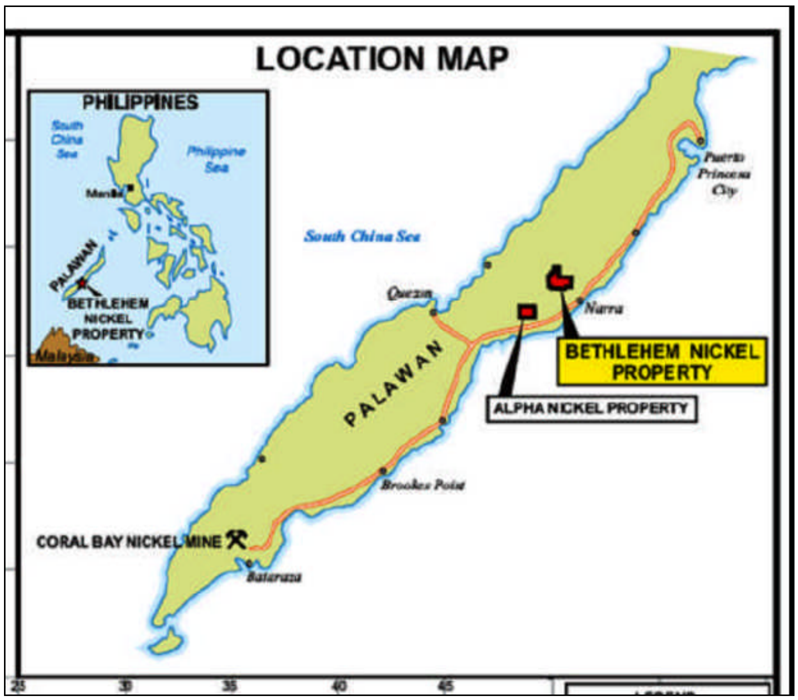
(in C$)	2007 12 months	Q3-2008 Oct-07
Cash	6,972,588	1,525,383
Working Capital	6,966,386	1,582,603
Mineral Assets	5,368,528	14,638,167
Assets	12,598,924	17,714,109
Net Income	(2,569,461)	(7,701,088)
EPS	(0.05)	(0.11)

MBMI Resources holds 8 nickel laterite properties totaling over 22,000 hectares in the Philippines. The Alpha project is in trial production and has a historic resource estimate of 6.3 million tonnes grading 1.5% nickel and 0.07% cobalt in the laterite as well as 0.5 million tonnes @ 2.35% nickel in the saprolite.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Company Overview

MBMI Resources is developing small-scale mining operations from nickel laterite deposits in the Philippines for the purpose of producing direct shipping ore (DSO). Nickel laterite material can be extracted and shipped to end users in China, Korea, and Japan who process the material. By producing DSO, the company does not have to process material on site, instead passing the material on to end users that process the material and reimburse MBMI for a percent of the LME price, depending on the amount of contained nickel. This process passes on the metallurgical risks associated with nickel laterite deposits to the end user. MBMI is currently developing the Alpha project, which has a historic, non NI 43-101 compliant resource estimate of 6.3 million tonnes grading 1.5% nickel and 0.07% cobalt in the laterite as well as 0.5 million tonnes @ 2.35% nickel in the saprolite.



Source: MBMI Resources Inc.

Mining Outlook

In our initial report, we discussed the mining outlook for the Philippines. Mining has been a controversial subject in the Philippines, and some projects have been delayed by protesting of environmental/social impacts, unclear political/permitting regulations, and other factors. While the highest level of government supports large mining projects to create jobs and strengthen the economy, there is dissent within members of the government that see large-scale mining as dangerous to the environment and to the livelihood of indigenous people. The political environment in the Philippines remains volatile with inconsistent messages from different members of the ruling party.

We are concerned about MBMI's operations on Palawan for the following reasons: slow, inconsistent messages regarding permitting, strong protest from environmental and non governmental groups, and the new regulations that restrict the operations of small scale mining operations. A recent article in the *Phillipines Daily Inquirer* suggests that Palawan is moving away from encouraging mining investment in the province.

Cease Trade Order: Sept 21, 2007 – Nov 15, 2007

Trading of MBMI Resources was halted on September 21, 2007. In the cease trade order issued by the British Columbia Securities Commission, the Executive Director ordered that "all trading in the securities of MBMI cease until 1: it files a current technical report(s) on the Philippines properties completed in accordance with the Act and the regulations and 2: the Executive Director makes an order under section 171 of the Act revoking this order." This cease trade order was triggered by MBMI's improper disclosure of historic resource estimates for the Alpha, Bethlehem, Rio Tuba, and Samar properties, which were not properly documented in an accompanying NI 43-101 compliant technical report. MBMI did not include a qualifying statement, and that triggered the requirement for a technical report. They would not be required to file a technical report if they had included cautionary language.

The company has retracted the Samar, Rio Tuba, and Bethlehem historic resource estimates. We had not previously assigned a value to these deposits, so this is not material to our valuation of the company. The company has filed a NI 43-101 compliant technical report on the Alpha Project detailing the historic resource estimate and the cease trade order was lifted on November 15, 2007.

Permitting Status

Permitting Status: Currently, the company holds three SSMO permits for the Alpha property, held by Narra Nickel, Palawan Alpha, and Patricia Louise Mining partners respectively. These permits cover the eastern and southern portion of the C and C1 blocks at Alpha. Each SSMO permit allows the extraction of 50,000 tonnes of material/year from a 20 hectare area for two years, renewable once for an additional two years. Small scale mining law restricts one SSMO per company within a municipality. Although there have been some rumblings that some companies having exceeded their SSMO limit without repercussions, it appears that the government is monitoring SSMO operators in the Philippines to ensure they stay within maximum limits. Therefore, we have revised our production estimates to 150,000 tonnes per year (down from 250,000 tonnes per year), and will assume the company can operate at a higher operating level after three years, dependent on receipt of a full-scale mining permit. According to management, the company has applied for a Financial and Technical Assistance Agreement (FTAA), essentially a full-scale mining permit that allows for over 40% foreign ownership, for their four projects in Palawan. We believe that FTAAs are crucial for the long-term success of the company's operations.

Litigation on Mining Claim

The company has received notice that one of their small claim mining permits is potentially subject to a "Status Quo Order", which is issued by the Department of Environmental and Natural Resource Panel of Arbitrators. The company believes this litigation is frivolous and has no merit. We believe this lawsuit has the potential to delay or halt production from this claim, but the company has two other SSMO areas that could be produced from.

Shipping Contracts

The company has established four sales agreements for direct shipping ore from the Alpha project. These contracts are outlined in the table below.

Company	Country of Operations	Tonnage	Minimum Grade Requirements
Sinosteel Raw Materials	China	35,000 – 40,000 dry metric tonnes	1.7% nickel, 17% iron
QNI Group (BHP Billiton)*	Australia	35,000 – 40,000 dry metric tonnes	1.6% nickel and 20% iron
Hubei Jin Hui*	China	35,000 – 40,000 dry metric tonnes	1.7% nickel and 17% iron
Nippon Yakin Kogyo Co. Ltd	Japan	6,000 – 8,000 dry metric tonnes	2.3% nickel and less than 12% iron
**trial agreements that are expected to convert to long term contracts*			

Alpha Nickel Property

Property Overview: The Alpha property has been explored since the 1970s and was drilled by BHP Billiton (NYSE: BHP) in 2001. It is a high-grade laterite system that is near water.

Ownership: The Alpha property is 100% owned by Narra Nickel Mining and Development corporation, in which MBMI holds a 60.4% effective interest (40% direct in the property and 20.4% indirect through a 34% ownership of Patricia Louise Mining and Development Corp). MBMI has the right to convert Palawan Alpha South Resource Development Corporation's 39.6% interest into a royalty, subject to government approval.

Accessibility and Infrastructure: The Alpha and Bethlehem properties are located on the eastern side of Palawan Island. The infrastructure for the project is fully developed. The company has built a haulage road from the Alpha project to the port. An ore stockyard and shipping pad are located directly adjacent to the coast, seven kilometers from the open pit area. The company has constructed an operations base that includes site offices, logistical support, staff accommodation, an independent assay laboratory, and a nursery to raise plants for reclamation purposes. A 265 meter pier at the Narra port has been constructed. Finished product will be transported in 1,000-4,000 tonne barges to an ocean going ship anchored approximately 3 kilometers offshore. The company employs approximately 400 people.

In the longer term, many DSO producers in the Philippines, including MBMI, are considering the economics of building a ferro-nickel processing facility in-country to capture more of the value of nickel laterite material. According to management, the company still intends to work towards this goal and is seeking a partner for the construction of such a facility, as they are quite costly.

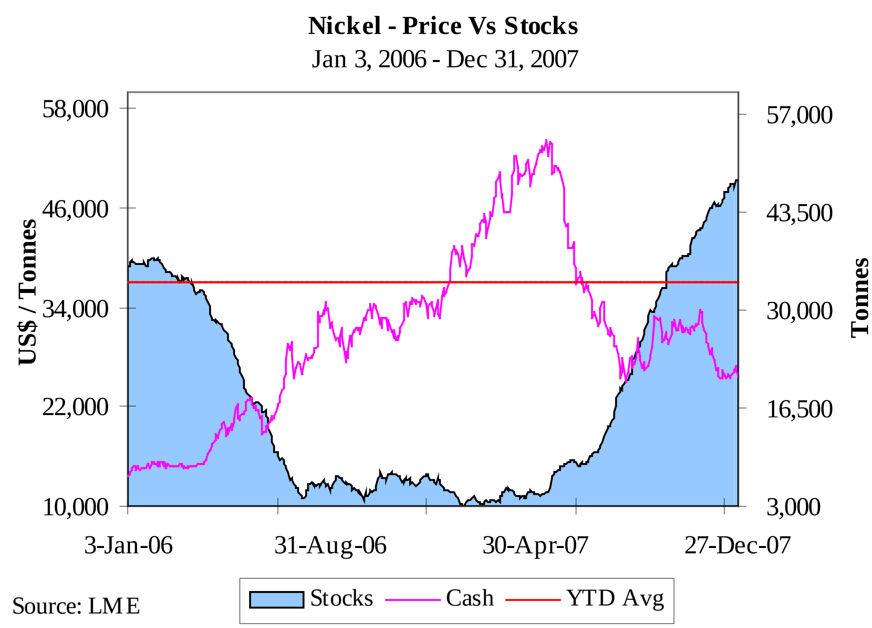
Exploration Status: The company has announced the results of approximately 600 drill holes on the Agata nickel laterite, which will help form the basis for a NI 43-101 compliant resource estimate. These results confirm historic resource estimates in grade and continuity. The company has completed 628 diamond drill holes totaling 7,678 meters in the C and C1 Blocks since they acquired the property in 2005.

Current Status: The Patricia Louise SSMP permitted area has been in trial production using open pit methods since July 2007, but no material has been sold yet. The company has stockpiled approximately 110,000 wet tonnes of laterite grading 1.8% nickel. The nickel material is segregated by grade and type at the stockyard so that it can be blended to meet the specifications of end users. Their first shipment was made in January 2008. Extraction of material during the rainy season is slow, and we expect production shipments to increase in frequency in the middle of 2008.

Resource Estimate: The Alpha project has a historic, non NI 43-101 compliant resource estimate of 6.3 million tonnes grading 1.5% nickel and 0.07% cobalt in the laterite, as well as 0.5 million tonnes @ 2.35% nickel in the saprolite. Cedarwood, the independent geological consulting firm who prepared the 2007 Alpha NI 43-101 technical report, has defined an exploration target of 8 million tonnes grading at least 2.0% nickel and 1.5% ferralite for a DSO operation. Significant drilling has been completed, however quality assurance/quality control procedures and data have not been collected sufficiently to allow the calculation of a NI 43-101 compliant resource. MBMI has implemented data collection, specifically the determination of specific gravity, to allow the calculation of a resource. A NI 43-101 compliant resource estimate is expected in Q2-2008.

Outlook on Nickel

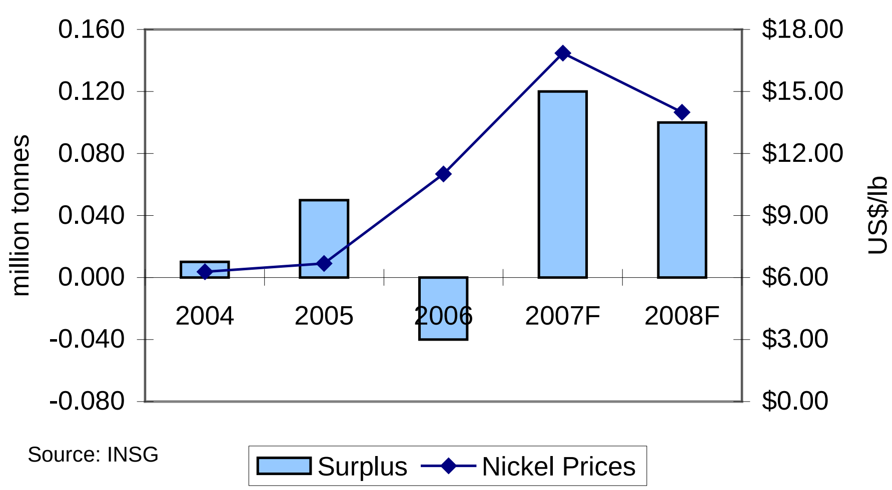
Nickel (prices) has been one of the most volatile commodities in the past 18 months. Nickel prices have dropped by 45% since achieving their record high of US$24.54/lb in May 2007. As of January 8, 2008, nickel was trading at US$13.43/lb, which reflects a YOY decline of 9.7%. However, prices are still up 119.2% since the beginning of 2006.



Nickel prices declined in the second half of 2007 primarily due to an increase in inventory levels (as shown in the chart above). LME stocks as of January 7, 2008, were 48,126 tonnes (compared to 6,648 as of January 8, 2007), a YOY increase of 619.4%. Based on global daily consumption of 3,600 tpd, current inventories will suffice for about 13 days.

We believe that surging demand from stainless steel will keep nickel prices at current levels in 2008. The chart below shows that the global nickel production surplus is expected to decrease to 0.1 million tonnes (down from 0.12 million tonnes in 2007) in 2008, as growth in consumption (8.9%) is expected to outpace production growth (6.8%).

Global Nickel Surplus / Deficit Vs Prices



The average forecasts for nickel prices are US$14/lb in 2008, and US$12/lb in 2009, which are significantly higher than the historical average price of nickel.

Over the long-term, we continue to expect prices to soften from current price levels based on slower growth in global GDP (compared to 2006 and 2007), and an increase in global production levels. The International Monetary Fund (IMF) recently revised their global GDP growth forecasts downward, by 0.5% each year during 2002-07, in response to a new purchasing power parity (PPP) estimate published by the International Comparison Program (ICP).

We have recently lowered our long-term nickel price forecasts to USS$8/lb (from U$12/lb), based on higher than expected increases in the production surplus in the long-term, as production growth exceeds consumption growth.

Financial Analysis

Operations: At the end of October 2007, the company had cash and working capital of $1.53 million and $1.58 million, respectively. The company had a net operating loss of $7.70 million (excluding mineral property related costs) for the 9-month period ended October 2007, compared to a net operating loss of $1.65 million during the same period in the previous year.

We estimate the company had a burn rate of $1.41 million per month during the first nine months of FY2007, versus $0.39 million per month in FY2006 (12-month period). In addition, as at July 31, 2007, all convertible debentures of the company had been converted to common shares. The table below shows the company's cash position and liquidity ratios.

Key Financial Data (FYE - January 31) (in C$)	**2007 12 months**	**Q3-2008 Oct-07**
Cash	6,972,588	1,525,383
Working Capital	6,966,386	1,582,603
Current Ratio	40.42	2.68
LT Debt / Assets	9.14%	-
Burn Rate	(393,835)	(1,413,371)
Cash from financing activities	11,019,640	7,273,134

Recent Financing: On December 5, 2007, the company announced it had completed a private placement financing of 8,285,218 units at $1.15 per unit. The gross proceeds are $9,528,000 and each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 2 years at exercise price of $1.40.

Options and Warrants: As at October 31, 2007, the company had about 5.50 million stock options outstanding (only $0.72 million are currently 'in-the-money') with exercise prices ranging from $0.15 to $0.3.60, and maturity periods between September 2008 to August 2012. The company also had 8.84 million outstanding warrants (only 0.44 million are currently 'in-the-money') with exercise prices ranging from $0.65 to $1.25, and maturity periods between March 2008 to March 2009.

Conclusion: According to management, the company has a budget of about $8 million for capital expenditures for the next 12 months. We believe the company is currently in a good cash position, but will have to raise an additional $1.5 million in the second half of 2008.

Valuation

Our Discounted Cash Flow (DCF) valuation on the company dropped from $1.74 per share to $1.08 per share. The table below shows our revised valuation model.

DCF Valuation	**Revised**	**Previous**
Resource (in tonnes)	6,800,000	3,910,000
Avg. Grade (%)	laterite - 1.80%; saprolite - 2.35%	2.0%
Contained Metal (in lbs)	275,908,518	172,401,487
Nickel Ore Shipped (per year)	2008 - 10 - 150 ktpa; 2011 - 12 - 500 ktpa; 2013+ - 700 kpta	250 ktpa
Mine Life (in years)	12	10
Nickel Price Forecasts	2008 - US$14/lb, 2009 - US$12/lb; 2010 - US$10/lb; 2011+ - US$8/lb	2008 - US$15/lb, 2009 - US$12/lb; 2010 - US$10/lb; 2011+ - US$7.70/lb
Shipping and Selling Costs	2.5% of revenues	2.5% of revenues
Operating Costs - extraction (US$/tonne)	$10	$10
Capital Costs	$2,000,000	$2,000,000
Discount Rate	15.63%	12.00%
Net Present Value	$78,040,426	$111,981,376
Working Capital - Debt	$7,519,956	$587,256
Net Value	$85,560,382	$112,568,632
No. of Shares (diluted)	79,155,570	64,672,134
Value per share	**$1.08**	**$1.74**

All the changes we made in the model are shown in the table above. The most noteworthy changes were:

- Based on our increased confidence in the size of the Alpha project's deposits, we now use the entire resource estimate of 6.8 million tonnes (with 1.8% Ni) instead of 3.91 million tonnes (with 2.0% Ni).
- In our previous model, we had assumed a production rate of 250,000 tpa for 10 years. However, as mentioned earlier in the report, we have now lowered our estimate to 150,000 tpa in the first 3 years, which will be increased to 500,000 tpa by 2011, and 700,000 tpa by 2013, assuming the company receives FTTA approval.
- Previously, we had used a discount rate of 12%, which we now believe did not accurately reflect the country risk premium of projects in the Philippines. Therefore, we have increased the discount rate from 12% to 15.63% (11.63% discount rate of a similar project in a relatively risk-free country + 4% country risk premium for the Philippines).

Our valuation dropped primarily because of lower production rates in the initial years and a higher discount rate, offset by an increase in resource estimates.

Since there are a lot of uncertainties and variable inputs in our valuation model, we also performed a sensitivity analysis in order to present a better understanding on how sensitive our valuation is to changes in our valuation inputs. This is shown below.

DCF valuation	
Base case	$1.08
Actual avg. grades are 1.5%	$0.92
Actual avg. grades are 2.0%	$1.19
(Base case assumes 1.8%)	
Operating costs increase by 20%	$1.05
Operating costs decrease by 20%	$1.10
Ni prices decrease by 20%	$0.86
Ni prices increase by 20%	$1.30
Does not receive FTTA (full scale mining permit)	$0.60
Receives FTTA in 2009	$1.32
(Base case assumes that MBR will receive approval in 2011)	
Receives only 20% of Ni value when shipping DSO	$0.86
(Base-case assumes 25%)	
Average DCF valuation	**$1.03**

As shown in the table above, our fair value estimate is most sensitive to the company's receipt of the FTTA approval. If the company is unable to receive the FTTA approval, our valuation would drop to $0.60 per share. However, our valuation would increase to $1.32 if the company receives the approval next year.

Conclusions and Rating

Our valuation assumes that the company will receive a full-scale production permit in three years, at the end of SSMO operations. The company hopes to receive an FTAA permit in 2008, but we have observed that permitting is very slow and uncertain in the Philippines. We believe upside catalysts for the stock includes the delineation of a NI 43-101 compliant resource and the receipt of permitting.

Based on our revised valuation models, we reiterate our BUY rating, but lower our fair value estimate to $1.03 per share. Our fair value estimate reflects an upside potential of 47% from current price levels.

Risks

This company is exposed to all of the risks inherent in a junior mining company. This risks include:

- In the short to medium term, MBMI only receives up to 25 % of the nickel value when shipping DSO.
- The risk profile increases if the decision is made to develop ferro-nickel processing facilities.
- The Philippines has had a recent history of strong anti-mining movements that have shut down or delayed mining operations.
- MBMI does not have a 43-101 compliant resource estimate and hasn't completed a feasibility study.
- The success of further development, exploration, and expansion is a significant factor in MBMI's success.
- Like other junior exploration companies, the value of the company depends heavily on nickel prices.

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC's ratings are as follows: BUY (80%), HOLD (7%), SELL (4%), SUSPEND (9%).
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