

BEACON ROCK RESEARCH

SEPTEMBER 29, 2008
UPDATE REPORT

Mercator Minerals Ltd.

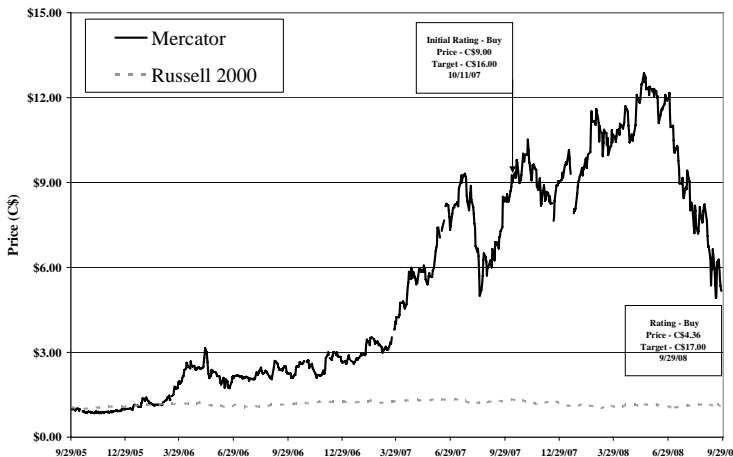
TSX: ML

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Price	C\$4.38	Shares (mils)	60.4
P/E Ratio (ttm)	NA	Market Cap (mils)	C\$264.7
Molybdenum Res. (lbs)	343.1M	52 Week Range	C\$4.76- 12.94
Copper Reserve (lbs.)	1,357.3M	Ave. Daily Vol.	290,091
		Gross Margin	NA
Cash/share	US\$1.02	Oper. Margin	NA
Current Ratio	29.4	Insider Ownership	2.5%
Debt to cap ratio	0.72%	Inst'l Ownership	40.0%

Price Target	C\$17.00
Rating	Buy
Risk	Low
Disclosures	1, 2, 3, 4



We attended Mercator Minerals Ltd.'s (TSX: ML) annual meeting in June. The meeting was conducted at its wholly owned Mineral Park Mine located near Kingman, in northwest Arizona. Management reports that construction of the first stage (25,000 tpd) of the 50,000 tpd copper-molybdenum project is on time and on budget. They have begun commissioning the operation, with mill startup in October, and potentially reaching breakeven on an operating basis by the end of 2008. There are a number of milestones passed since initiating coverage.

- Construction on budget and schedule.
- Sold silver production improving economics.
- Strong long-term copper and molybdenum price outlook.

Mercator's Mineral Park Mine may be among the lowest-risk mining projects advancing to production. As the company's stock price has retreated to levels below that at initiation, and construction has proceeded unimpeded with metal prices remain stable at historic levels, it would appear that shares of Mercator are even more attractive than at initiation of research coverage. We are increasing our target price to \$17 per share, retaining our Buy rating, and reducing our assessment for risk to Low.

Earnings Per Share (US\$)					
	Q1: Mar.	Q2: Jun.	Q3: Sep.	Q4: Dec.	Annual*
2009E	\$ 0.02	\$ 0.14	\$ 0.26	\$ 0.38	\$ 0.79
2008E	\$ (0.01)	\$ (0.09)	\$ (0.09)	\$ (0.09)	\$ (0.27)
2007E	\$ (0.06)	\$ (0.08)	\$ (0.00)	\$ (0.02)	\$ (0.16)
2006A	\$ 0.02	\$ 0.03	\$ 0.06	\$ 0.01	\$ 0.11

* numbers may not add up due to rounding

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Investment Thesis: Risk Profile Declines While Economics Improve

Metals and mining companies are exposed to a significant number of risks that increase the volatility of their share prices. During the period under coverage, it is apparent that Mercator's management has reduced the project's risk profile by advancing the project on time and on budget (Figure 1). In addition, Mercator has sold its production stream of silver, which immediately enhances the anticipated rate of return, while reducing financial risk and accelerating the second stage of construction at Mineral Park. This is important because it is typical for companies with projects under construction to have limited appreciation potential until production commences. Also, projects in the construction phase have defined limits for positive surprises (in addition to higher metal prices) while bearing the additional exposure of construction risk. In this case, management has maintained construction on time and on budget, and improved economics by monetizing silver production (which may not have been appreciated by investors) during a period of relatively stable metal prices.

We believe the price level of Mercator's stock since initiating coverage does not fully reflect the reduced risk profile and improving economics. However, we are of the opinion that the market is rational and should reward companies that increase profit potential while mitigating risk. Except for major mining companies enjoying production at record metal prices, the stock prices of emerging producers and exploration companies have been under significant pressure over the past year. The increased availability of capital during a sustained bull market in metals has stressed available infrastructure and human capital, increasing inflation of development and operating costs for mid-tier and junior mining companies. In general, costs have increased at a faster rate than the underlying metal prices, squeezing margins and reducing returns on investment. In addition, increasing anxiety over a U.S. or global economic slowdown, along with credit issues in the housing market, have further increased banker's aversion to risk. This has increased the volatility of metals and limited the availability of capital important for many inadequately capitalized companies to remain viable. Because many of these factors have a negligible impact on Mercator's Mineral Park Mine, taken together, it would appear to us that shares of Mercator may be even more attractive.



Figure 1 – Mineral Park Project Under Construction, June 2008

Source: Analyst

Construction Update Summary

We have had the opportunity to visit the Mineral Park Mine on several occasions during construction. The project began commissioning in September of 2008, benefiting from Mercator's management team having worked together in the past, constructing a mine in Nevada. This accounts for the decision to pre-order critical equipment as well as orchestration of site development, mine plan, and project scheduling. This likely has helped keep the project on time and on budget. Management is setting itself up for further success by completing up to 40% of the work necessary for the second stage of the expansion during the first stage of construction. This substantially reduces the risk in site preparation and foundation work. While project overruns and scheduling delays have become all too acceptable in the mining industry, Mercator has advanced their project without apparent complications. It is this steady progress that allows Mercator's construction progress to resemble that of a major mining company.

When we recently visited the Mineral Park Mine in June of 2008 (Figures 2 & 3), we found the concrete work, including ball mill foundations and reclaim tunnels, to be complete. The SAG mills and ball mill shells (for the first stage) were installed and in process of completing mechanical, electrical work and alignment. The rougher flotation tanks were completed, and the work to connect these components, including conveyors and piping, was ongoing. The tower crane, which will remain in place for the duration of the project, was fully operational. This should further accelerate progress at the site. The Molybdenum-Copper Concentration (MCC) building was framed and the siding was being installed. Additional work to be completed at the time of our visit included primary crusher foundations and conveyors to the ore pile, as well as molybdenum cells and reclaim conveyors.



Figure 2 – Mineral Park Mine Under Construction, June 2008
Source: Analyst

Mercator provided a construction update in August, subsequent to our project visit in June. Both ball and SAG mills for the first stage, with crusher frames, have been set with mechanical work underway. The mechanical work for the coarse ore pile and reclaim tunnel is complete with electrical work underway. The rougher flotation, copper cleaner and molybdenum flotation cells are complete with electrical work underway. The mechanical work on the thickeners and the lime and reagent tanks are complete. The tailings dam raise and upgraded water system is complete with piping underway. The new 69kv power line is nearing completion.

At the time of our visit, management had discontinued placing ore on the leach pad (for cathode copper production only) and was continuing to stockpile ore for the first stage of the copper-molybdenum circuits. Ore is being stockpiled for processing as well as being exposed in benches to provide a steady stream for production. We also noted significant work at the north end of the project, where they were clearing waste to expose ore for processing in the second stage of production, scheduled to commence in about a year. The advanced state of construction for the first and second stages, as well as stockpiling ore for the first stage and clearing waste for the second stage, inclines us to believe that production of both phases may proceed as scheduled.



Figure 3 – Mineral Park Mine Under Construction, June 2008
Source: Analyst

Construction Scheduling and Project Economics Enhanced by Sale of Silver Production

At commodity prices of US\$1.40 per pound for copper, US\$7.50 per pound for molybdenum, and US\$7.50 per ounce for silver, the Mineral Park Mine has total estimated proven and probable mineral reserves and contained metal of over one billion pounds of copper, 260 million pounds of molybdenum, and 12 million ounces of silver, and an estimated mine life of 25 years. In June of 2008, Mercator sold its life-of-mine silver production to Silver Wheaton Corp. (AMEX: SLW) and received an up-front payment US\$42 million in cash, to be recognized as deferred revenue. Upon delivery, Silver Wheaton will pay Mercator an additional payment of the lesser of the silver spot price or US\$3.90 per ounce of silver (escalating 1% per year commencing in year four). It is anticipated that the Mineral Park Mine, upon completion of its second stage, may process 50,000 tpd producing an average of 600,000 ounces of silver annually over the first ten years of production.

We view this transaction to be quite positive for shareholders. Silver is a by-product at Mineral Park, accounting for less than 2% of anticipated revenues. It is unlikely that investors give the silver component significant value when assessing Mercator's overall investment potential. Also, Mercator benefits from both the up-front cash payment and an established buyer for the silver over the life of the mine. The cash payment, along with cash on hand and cash flow from existing copper leaching, should fully fund remaining costs associated with the first stage nearing completion, and with cash flow from production from the first stage of milling operations will fully fund the second stage scheduled for completion in mid-2009. In addition to the added financial flexibility, the Mineral Park Mine remains unhedged and fully leveraged to higher metal prices, and is in position to pre-order remaining components critical for timely construction of the second stage.

The up-front cash payment prior to commencing production provides an immediate boost to the expected internal rate of return (IRR). Based on our model, as revised from earlier economic studies, the sale of the silver production may have increased the IRR by as much as 40%. Interestingly, this increase in return occurred while reducing the risk associated with construction. In addition, the ability to order ahead has been shown to keep the project on schedule and reduce construction risk. Also, the availability of funding may allow Mercator to retain key personnel for the seamless construction transition from stage one to stage two.

Financial Discussion

Mercator produced 3.2 million pounds of copper in 2Q08, up from 2.5 million pounds of copper in 1Q08 (Figure 4). Higher production and metal prices in the quarter generated revenues of \$11.2 million in 2Q08 compared to \$10.5 million in 2Q07. They increased construction activities in 2Q08 and expensed previously capitalized costs incurred in connection with the in-process copper inventories on the leach pad which were reduced during the period. As a result of Mercator ceasing to place ore on the leach pad, commencing the end of May, this led to an increase in operating expenses in the quarter. Consequently, Mercator reported an after-tax loss of \$0.09 per share in 2Q08 compared to a gain of \$0.02 per share in 1Q08. Mercator reported cash balances of \$62.0 million, and positive working capital of \$77.9 million as of the end of 2Q08. This reflects the closing the sale of silver production to Silver Wheaton. It would appear that Mercator has adequate cash on hand with cash flow for sales of cathode copper to complete both the first and the second stages.



Figure 4 – Cathode Copper Production

Source: Analyst

Metal Price Comments

We remain bullish on metal prices in the mid to long term. Copper, molybdenum, and silver prices have remained stable, showing strength during seasonally weaker summer months. Many anticipate potential for weakness in metal prices in the near term due to temporary reduction in demand and/or increasing supply. While we anticipate increased volatility in these metals in the near term, in our opinion this may be short lived. While anxiety in the housing market and U.S. economy has reduced a traditional source of demand, higher metal prices are driven by growth in Asia, South America, and the Middle East. Despite the potential for increased production, operating mines are being depleted or operating at progressively lesser grades. In addition, it remains a challenge to locate new deposits and rapidly construct new mines. There are increasing political pressures for nationalization of constraining exports, which should impact supply.

These factors lead us to conclude that metal prices should remain stable during the early years of operation of the Mineral Park Mine. Considering the ongoing rates of global economic growth with the potential for supply disruption, from an inflation-adjusted point of view, metal prices may move even higher. Our long-term outlook for copper is at \$4.00 per pound, or within the range of \$3.00 to \$5.00 per pound. This was the range for copper on an inflation-adjusted basis for the early part of the 20th century, when a significant amount of infrastructure and economic development took place (Figure 5).

We are more uncertain regarding molybdenum prices relative to copper only because of the extensive history of copper and well defined markets. We see the opportunity for molybdenum to be an important metal in the 21st century, much like copper was in the 20th century, but this is our opinion. Certainly, our assumptions in our model for molybdenum prices at US\$20 per pound and the assumptions in the Mercator model at a life of mine average of US\$10.16 per pound are well below current molybdenum prices of \$30 to \$35 per pound, and are considered conservative in the near term.

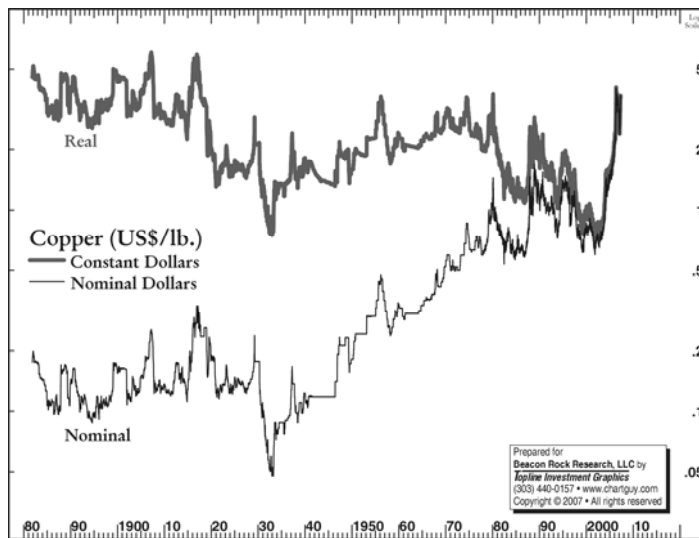


Figure 5 – Real Copper Price Chart
Source: Mercator

Overall Lower Risk Profile

Companies operating in the metals and mining industry face uncertainties ranging from the minutia of project development and operation, to global economic factors well outside the influence of management. While investing in shares of Mercator Minerals Ltd. should not be considered risk free, Mercator is arguably at the lower end of the risk continuum for companies in the mining sector. In many ways, management has been successful advancing the Mineral Park Mine to production by “making its own luck” which may be passed through to shareholders via a lower risk profile. It is beneficial in this update report to revisit general risk exposure to Mercator, as well as our opinion as to how these risks may be mitigated relative to other companies in the metals and mining sector.

Risk: Mining projects may be adversely impacted by the political risk and regulatory risk to permit, construct, and operate a mine.

Mitigation: The Mineral Park Mine has been continuously operated as a mine since 1963 in Arizona, a political jurisdiction friendly to mining. Additionally, there was a flotation mill on site from 1965 through 1981. The Mineral Park Mine is fully permitted, has no ownership issues (or royalties), and retains water used in processing on site.

Risk: Mining projects may be costly and difficult to finance.

Mitigation: The first stage of the Mineral Park Mine has been fully financed without hedging metal production. It is expected that cash balances, cash flow from production of cathode copper, and cash flow from stage one should be sufficient to fund the second phase. Both stages to complete the 50,000 tpd facility are budgeted at about \$200 million, which relative to other projects constructed in more challenging locales, is relatively modest for the level of scheduled production.

Risk: Mining projects while under construction are exposed to a large number of risks which may cause delays and cost overruns. Currently, projects under construction are competing for equipment and labor and incurring significant cost inflation and/or timely delivery and availability of essential components.

Mitigation: The Mineral Park Mine is nearing completion along with a significant portion of the second stage. The project benefits from previous and existing mining operations with advanced level of infrastructure and availability of labor and equipment. Management has previous construction experience as a team, which has been demonstrated by keeping to the construction schedule.

Risk: Mining projects may have difficulty achieving scheduled production levels and intended profitability due to operating issues.

Mitigation: The Mineral Park Mine benefits from having prior production of copper and molybdenum, which provides a history of successful metallurgy and production. In addition, the Mineral Park Mine benefits from having excellent availability of infrastructure and labor, as well as a well-conceived site plan with a very low strip ratio of 0.18 to one.

Risk: Mining projects profitability is impacted by metal prices.

Mitigation: The Mineral Park Mine should generate cash flow at metal prices significantly below current levels. Investment bankers and investors have gradually raised their assessment of long-term metal prices since the production of economic studies developed for the Mineral Park Mine. In addition, at current levels it is anticipated that the current payback of capital could be completed within two years, well short of the anticipated 25-year mine life. In addition, by selling the silver production, Mercator has off-loaded metal price risk for silver, by receiving an up-front partial payment for silver production even prior to completion of construction.

The successful advancement of the Mineral Park Mine leads us to conclude that management has successfully reduced the risk profile for Mercator. While this conclusion in no way presumes shares of Mercator are without risk, we do argue that Mercator does maintain an attractive risk profile relative to other junior or mid-tier mining companies advancing to production.

Conclusion and Valuation

We are comfortable with the progress management has made in the construction of a 50,000 tpd facility at the Mineral Park Mine. Though there still remains potential for delays in the schedule, or for issues to arise in commissioning, we believe management has good potential to meet earlier guidance for production and reaching operating profitability. It is apparent that conditions in the industry or general market have overshadowed the opportunity for management's progress and near-term potential to be reflected in the price of Mercator's shares. It would appear that, should metal prices remain at this level, it may result in an update of the potential resource at Mineral Park and lead to consideration for a third stage of construction to expand production. While this may enhance economics by increasing production in the mid-term, it is unlikely that this will be considered until the completion of the second stage.

We have revised our model to account for the US\$42 million cash payment by Silver Wheaton. With copper at US\$2.15 per pound (the average real price of copper over the prior 130 years) and molybdenum at US\$20 per pound, receipt of the Silver Wheaton payment increases the IRR to 131% from 93%. The NPV at an 8% discount rate increases slightly to US\$16 per share. Interestingly, with assumptions reflective of current market conditions of US\$3.00 per pound copper and US\$30 per pound molybdenum, the IRR increases to 189% and NPV at 8% increases to US\$27.95 per share. For this reason we feel obliged to increase our 12-month price target to C\$17 per share, retain our Buy rating, and are reducing the risk assessment to Low.

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This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Chartered Financial Analyst Institute (CFAI). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. In this instance, a comparison of financial strength, a bottom-up earnings projection based on the U.S. economy, and relative multiples, were employed. The target price was calculated on comparative EPS, sales and book value multiples, and our knowledge of small-cap markets when enjoying both a sector and a cyclical rebound. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

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3. The research analyst principally responsible for preparing this research report received compensation based upon various factors, including SLB Equity Research, LLC total revenue.
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- Buy** Immediate purchase is recommended. The security expected to outperform the market over the next 12 to 18 months.
- Hold** Holding the stock is recommended because the share price's appreciation potential is less than or equal to the market.
- Sell** The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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- High** The security is more volatile than the market and/or the company is more leveraged than its peer group.
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- Low** The security is less volatile than the market and/or the company is less leveraged than its peer group.

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