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Thor Mining - Substantially higher tungsten recovery boosts Molyhil's economic prospects. Speculative Buy at 2.05p with a 3.5p target price.

Thor Mining, the Australia focused gold and base metals explorer, continues to make good progress towards the Definitive Feasibility Study (DFS) of its 100%-owned Molyhil tungsten and molybdenum project. The latest news is that new metallurgical testwork has significantly enhanced the economic prospects of the project. The completion of this testwork has led to the tungsten recovery to be estimated at 85%, compared to the 75% announced in January 2012 and 67% used in the previous feasibility study. This improvement has been achieved by adding a flotation step to the tungsten recovery process after the gravity separation. Each additional 1% improvement in the recovery rate of tungsten adds A\$900,000 in revenue per annum, so this improved recovery could have a substantial effect on the outcome of the DFS.

In addition, there has been a 25% increase in the resource estimate to 4.7 million tonnes. The overall tonnage figure is just down to a depth of 220 metres, with contained tungsten rising by 10% to 13,100 tonnes tungsten trioxide (WO₃) and contained molybdenum leaping by 46% to 10,400 tonnes MoS₂. The key input parameters into the DFS include: capital cost estimate of A\$69 million, operating cost of US\$115 per tonne of WO₃ and revenue of US\$360 per tonne of WO₃ sold. Annual throughput of 400,000 tonnes is expected, with tungsten and molybdenum recovery of 85% and 77.8% respectively. What has become obvious is that the very high near surface tungsten grades provide real confidence that this project could provide an early payback of project capital. In December 2011, the Northern Territory's government confirmed that the environmental regulatory process has been completed and the next process is for a Mining Management Plan to be prepared for approval.

Key Data	
EPIC	THR
Share Price	2.05p
Spread	2p - 2.1p
Total no of Shares	700,853,766
NMS	30,000
Market Cap	£14.37 million
12 Month Range	0.95p - 2.775p
Market	AIM
Website	www.thormining.com
Sector	Mining
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In the past, Molyhil has been brought to the point of production, but a collapse in metal prices during the global economic crisis saw such plans gather dust. The environment is more favourable now however, with improved tungsten and molybdenum prices, the DFS using a lower capital cost plant, contract mining and a larger resource model following a successful drilling programme. An independent metallurgical assessment of the proposed tungsten processing system for Molyhil has recommended that an additional stage be added in the mineral processing system to improve from the previous 67% recovery estimate to 85%. By adding a flotation step after the gravity recovery process allows the extraction of the very fine tungsten particles that do not respond well to gravity separation methods. This sort of improvement in the recovery of tungsten could lead to projected revenues at Molyhil improving by something like A\$16 million per year over the life of mine. Molyhil has a clear value in today's market, which will be demonstrated when the DFS is published. Once that has been completed, the next stage of activities will involve securing off-take agreements for the concentrates produced and finance for the development. This process has already started and the board hopes that these will be secured in time to allow project development to commence in the second half of 2012.

Gold

In recent years, the company has also moved into gold. The team is evaluating two projects, Spring Hill and Dundas, each of which has serious potential to become a multi-million ounce play. The more advanced Spring Hill Gold Project was acquired in January 2011. Spring Hill not only has a JORC resource (274,000 ounces - Indicated) but also a scoping study and metallurgical test work which were carried out in 2008. The deposit has been partially evaluated and the mineral processing circuit design and mill costings are already in place. The move into gold was accompanied by the appointment of Trevor Ireland as a Director, who was involved in both the discovery and development of Callie Project in Northern Territory, which has 5 million plus ounce gold resource. At Spring Hill, the mineralisation has only seen drilling to 150 metres deep at the most and in the coming season the potential for Callie-style mineralisation will be tested by drilling far deeper holes.

At Spring Hill, Thor has an earn-in deal which will allow its stake to rise to 80%. This project came with 274,000 ounces of gold JORC resource but the team is seeking a far greater prize at depth, where its experts believe there is the chance of Callie-style mineralisation. Ahead of the wet season, six holes out of a planned ten hole programme were completed where the highlights included hole SHDDD004 with 4.7 metres @ 5.75g/t from 25 metres down including 0.7 metres @ 36.2g/t as well as further gold assays at below the 100 metres level. The drilling results clearly showed potentially economic mineralisation extending at least 100 metres below the historical resource drilling. On top of that there was good correlation between diamond drill holes and the historical reverse circulation gold intersections found in the upper levels. Moving ahead at Spring Hill, this year the team will continue drill testing for depth extensions to the existing resource at Spring Hill along with drill testing known mineralisation to the north, south and west. Later this year, we are expecting to see deeper drilling in search of the Callie-style model. At the same time, further metallurgical testwork will be carried out, particularly to assess the potential for the economic recovery of the near surface material, along with progressing scoping and feasibility studies for development plus progressing regulatory and environmental approval activities.

The Dundas Gold Project lies within the Albany-Fraser Province, situated on the edge of the gold producing Yilgarn Province at Dundas in Western Australia. In the last ten years, investors have woken up to the gold potential of the Albany-Fraser Province following the discovery of the Tropicana gold deposit (5 million plus ounce gold resource). Dundas is enviably situated, lying within the general strike extension of the Wiluna-Kalgoorlie-Norseman green stone belt, thought to be the most gold rich part of the whole Yilgarn province. In the past the Albany-Fraser Province was written off by geologists for gold and remained under explored due to lack of outcrops. However, the discovery of Tropicana beneath younger sediments saw the majors rush to tie up most of the province. Dundas is a greenfield opportunity which may actually be within this new mineralised region that has seen little exploration attention to date – all due to being part of a nature reserve where exploration was banned. The board believe that Dundas shares the same geological environment as Tropicana. The similarities are startling as work carried out by Thor has led to discovery of carbonate soil geochemical anomalies of a similar size and intensity to those found at Tropicana in its early days. During 2012, it is expected that the calcrete sampling program over three tenements will be completed and a number of targets generated from this activity will be drill tested.

Valuation

The move into gold over the past two years has seen Thor acquiring stakes in two impressive projects which both seem to offer the potential to be multi-million ounce properties. The agreement concerning Spring Hill could give the company an 80% holding for a project that currently has a JORC Indicated Resource of 274,000 ounces of gold. A peer comparison analysis with exploration companies listed on AIM would suggest that Thor's 80% stake in that project could be valued at £6.3 million. However to get to that stage, the company would need to satisfy the full terms of the earn-in deal which requires to spend A\$3.0 million plus the issue of more shares to the vendor.

The board of Thor believes that there is the multi-million ounce potential at both Spring Hill and Dundas. A JORC resource of that order (one million ounces) of gold is being currently valued at £29 million using AIM peer comparisons. Exploration work over the coming season may allow the revaluation of both these gold assets to begin to be accelerated.

Molyhil is in the midst of being reappraised. The results of the old DFS were unveiled in December 2006, which confirmed the viability of a 300,000 tonnes per annum mine and mill operation. Financial modelling for the project demonstrated a pre-royalty earnings before interest and tax (EBIT) of A\$117 million over the first four years. The Net Present Value came out at A\$88 million using an 8% discount factor and an average AUD/USD exchange rate of 0.73%. This project looked highly robust economically with an IRR of 111%. This analysis was based on an earlier JORC compliant resource for Molyhil of 2.4 million tonnes grading 0.8% combined tungsten WO₃ and molybdenum MoS₂ down to a vertical depth of 150 metres. The estimated capital cost was put at A\$44.5 million. The base case sales prices for the project over the mine's initial 4-year life were US\$20 per pound molybdenum and US\$204/mtu for tungsten.

Our analysis shows that when the above elements are added together, it is not too difficult to place a valuation of £20-£25 million on the various elements of the business, which at the top of the range would equate to a target price of 3.5p. Our recommendation is **Speculative Buy** at 2.05p with a target price of 3.5p.

Financial records & forecasts table

Year to 30th June	Sales (£'000)	Pre-tax Profit (£'000)	Earnings per share (p)	Price Earnings Ratio (x)	Dividend (€)	Yield (%)
2009A	0	(1,230)	(0.77)	NA	0	0.0
2010A	0	(1,762)	(0.79)	NA	0	0.0
2011A	0	(2,852)	(0.65)	NA	0	0.0
2012E	0	(3,000)	(0.50)	NA	0	0.0

Source: Growth Equities & Company Research



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