

## Thor Mining PLC THR

### The cheapest tungsten/molybdenum stock in the market

#### Trading Data

|                     |                      |
|---------------------|----------------------|
| Share Price         | 11.5c                |
| 12 Mth High/Low     | 9c-42.5c             |
| Market Cap'n        | \$17.3m              |
| Issued Shares       | 150 mill. ordinary   |
| Listed Warrants     | 65 mill. 15/6/09, 8p |
| Other Warrants      | 22mill. various      |
| Cash Balance        | \$3.3m (31/3/08)     |
| Largest Shareholder | Western Desert 17.7% |
| Top 20              | 44%                  |

#### Investment Perspective

The introduction of a new controlling shareholding group with mining and related industrial experience opens a new chapter for THR. It should now be seen as a more focused company intent on developing, rather than promoting, one of the more attractive molybdenum/tungsten projects in Australia. It is more than twice the size of Queensland Ore's modest operation, but not so large as to be capital expenditure intimidating, as is the case with Moly Mines' Sphinfex Ridge project.

The market doesn't seem to have appreciated the corporate changes and financing plans yet, with the result being that the shares are still trading around the depressed levels emanating from the bear market in the first few months of the year. We see room for considerable upwards movement in the near term.

THR shares are selling at half the price that we think would be reasonable at this juncture, with room to appreciate even further as project finance and development become more visual.

#### The Tungsten/Moly Sector

We have been following the sector closely for the last two years, providing comparative analysis of the sector on an intermittent basis. Not much has happened since our last review in October 2007, apart from the volatility in the equity markets making it more difficult to raise equity funds. The largest casualty of this was Moly Mines, which has had to defer its capital raising plans for the +\$1bn Spinifex Ridge project.

Heemskirk has been commissioning its project in Spain and the 85%-owner of the most advanced Australian project at Wolfram Camp, Queensland Ores, has had to undertake a sizeable \$12m placement, at the very low price of 12¢, to cover a shortfall in finances as it approaches the commissioning phase over the next month or two.

Vital Metals has continued with good exploration success as it is progressing with a project that could supply up to 5% of the world market for tungsten.

A company that has always looked attractive on the spreadsheet is Thor Mining, with the Molyhil mine in the Northern Territory. Given that its shares are still near the lows it is appropriate to have a quick look to assess the relative value.

#### Corporate Changes at Thor Mining

There has been a changing of the guard at Thor. Both Mark Smyth and John Barr have resigned from the board and sold down their holdings. Western Desert Resources Ltd ("WDR") has acquired a 16.7% stake and it has appointed three directors to the board. The acquisition comprised a placement of 9 mill. shares at 8¢ in April, injecting \$720,000, and a purchase of 6 mill. shares from retiring directors. WDR and associates lodged a substantial shareholder notice on 6th May, disclosing a 17.7% interest.

The new directors are Mick Billings, Norman Gardner and Michael Ashton. All have previous management experience in mining operations. John Young continues in his position as Managing Director.

#### Molyhil Project Description

The Molyhil tungsten-molybdenum project is located in the Northern Territory, about 200 km ENE of Alice Springs. The leases cover the same orebody that was mined in the early 1980s by Nicron(Petrocarb), but that company operated with limited capital budgets and it never really got into large scale production.

Molyhil has a open pittable JORC compliant measured and indicated mining reserve of 2.15 mill. tonnes of 0.47% WO<sub>3</sub> and 0.21% MoS<sub>2</sub> from a 3.7 mill. tonnes resource base.

There is a two-stage open pit mining plan covering a 5.7 year mine life, with potential for underground extensions below the planned 155m depth of the pit.

The 400,000 tpa treatment plant and infrastructure is estimated to cost \$65m and operating costs are estimated at \$78 pt. Using net prices of A\$203/mtu, which is a discount on the quoted tungsten ATP price of US\$240/mtu, and molybdenum at A\$33/lb, which is a discount on the current US\$32/lb, THR would generate revenue of \$147 pt, amounting a healthy \$54 pt margin.

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Revenue would be split 60% from tungsten and 40% from molybdenum, though the ratio would be greater in favour of tungsten in the higher levels of the mine.

#### Development Timetable

THR hopes to have financing arranged by October 2008, which would enable commissioning in late 2009. This is about a year later than the Company was quoting in 2007 (but we did caution that we thought its timetable was unrealistic at the time).

#### Offtake Agreement With CITIC

THR has signed a life-of-mine off-take agreement with CITIC Australia Pty Ltd for the sale of scheelite and molybdenum concentrates. The net price that Thor expects to receive is approximately \$203/mtu, which is a discount to the Metals Bulletin quote of US\$250/mtu.

#### BOOT Now a Finance Option

The specialty metals markets are known for their limited volumes compared to base metals and marketing arrangements are more specialised. The dominance of Chinese producers limits the transparency of these markets, particularly in the case of tungsten. This tends to limit the options available for the debt financing of projects as off-take agreements are traditionally not firm enough with respect to price and volume to be bankable.

Recognising these issues, THR is pursuing a BOOT (Build Own Operate Transfer) strategy that could account for at least \$40m of the \$65m required for the development of Molyhil. A third party would take on this responsibility with the major impact for THR shareholders being a minimisation of dilution at this point that would otherwise come through heavy equity issues. Operating costs would be higher as there would be an element of financing charges built into the transaction, but the net result should be substantially beneficial to shareholders. A \$40m contract would add another \$20-25 pt operating cost for the duration of the contract, and could involve a transfer payment of \$10-15m at the end of year three.

THR is also considering BOOT contracts for the camp and power supply, which could reduce its upfront capital requirement to something between \$10-20m.

#### Commodity Price Steady to Firmer

Both tungsten and molybdenum prices have been maintaining levels seen late last year, with some improvement. However, the continued strength of the A\$ has been having a net negative impact. There are expectations that the tungsten price will be up around US\$300/mtu by the end of 2008.

#### Opes Prime Has Been an Overhang

THR was affected by the Opes Prime debacle, with 4.5% of the issued shares and 3.9% of the issued warrants in the equation. These have now all been sold on market.

#### Potential Earnings

We can see the project generating cash flows of \$11m p.a. or 7.4¢ per share based on the assumptions below. The prospective cash generation multiple of 1.5x is significantly more attractive than King Islands Scheelite's 3x, and Queensland Ore's 7.1x. The attached spreadsheet provides a snapshot of key parameters for other prospective tungsten producers.

|                       |              |
|-----------------------|--------------|
| Capital Expenditure   | \$65m        |
| Boot Finance          | \$45m        |
| Net Capex Required    | \$20         |
| Operating Costs       | \$78 pt      |
| BOOT Costs            | \$20 pt      |
| Net Tungsten Price    | US\$200/mtu  |
| Net Moly Price        | US\$26.80/lb |
| Unit Cost (net of Mo) | US\$114/mtu  |

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|  | HEEMSKIRK                  | KING ISLAND SCHEELITE                          | QUEENSLAND ORES         |              | THOR MINING          |                    | VITAL METALS                 |
|--|----------------------------|--|-------------------------|--------------|----------------------|--------------------|------------------------------|
|  | HSK                        | KIS  | QOL                     |              | THR                  |                    | VML                          |
| <b>FINANCE</b>                                   |                            |  |                         |              |                      |                    |                              |
| Market Cap'n                                     | \$138m                     | \$37m  | \$41m                   |              | \$17m                |                    | \$75m                        |
| Price (23/5/08)                                  | 148¢                       | 60.0¢  | 17.0¢                   |              | 11¢                  |                    | 70¢                          |
| Shares (fully paid)                              | 75.9 mill                  | 60.5 mill                                      | 240 mill                |              | 150.0 mill           |                    | 107.6 mill                   |
| Options + CNs                                    | 21.9 mill                  | 0.99 mill                                      | 36.33 mill              |              | 87.0 mill            |                    | 11.3 mill                    |
| Cash Balance (31/3/08)                           | \$28.0m                    | \$1.1m   | \$7.6m                  |              | \$3.3m               |                    | \$6.1m                       |
| Expenditure in 2008/09                           | n/a                        | n/a  | n/a                     |              | n/a                  |                    | \$4-5m                       |
| Main Project                                     | Los Santos, Spain<br>100%  | King Island 50%                                | Wolfram Camp            | 85%          | Molyhil              | 100%               | Watershed 100%               |
| Products   | scheelite conc.            | scheelite conc.                                | wolframite +            | moly conc.   | scheelite conc.      | moly conc.         | scheelite conc.              |
| Status   | Commissioning              | Feas. Oct '06                                  | commissioning           |              | Financing            |                    | Drilling                     |
| First Production                                 | March '08                  | Dec-08   | June Qtr                | 2008         | Dec-08               |                    | Jul-09                       |
| Mine Life  | 12 years                   | 10 years                                       | 4 years                 |              | 5-6 years            |                    | > 10 years                   |
| Resource Size/Status                             | 3.5 mt Meas/<br>Indic JORC | 6.8 mt Ind/Inf<br>JORC                         | 0.71mt                  | Meas/Ind. JC | 2.215                | Prov/Prob. JC      | 15.8 mt Ind/Infer.<br>JORC   |
| Resource Grade W03/Mo                            | 0.30%                      | 0.55%  | 0.42%                   | 0.17%        | 0.49%                | 0.13%              | 0.31%                        |
| <b>PRODUCTION</b>                                |                            |  |                         |              |                      |                    |                              |
| Ore Throughput                                   | 300,000 tpa                | 600,000 tpa                                    | 150,000 tpa             |              | 400,000 tpa          |                    | 1,300,000 tpa                |
| Waste: Ore                                       | 4                          | 8  | 8                       |              | 7.0                  |                    | 3.0                          |
| Process  | gravity only               | flotation                                      | flotation/gravity       |              | flotation/gravity    |                    | X-ray sorting/flot.          |
| Product Split                                    |                            |  | WO <sub>3</sub>         | Mo           | WO <sub>3</sub>      | Mo                 |                              |
| Saleable WO <sub>3</sub> /Mo Prod'n              | 81,030 mtu                 | 298,800 mtu                                    | 49,200 mtu              | 286,630 lbs  | 122,952 mtu          | 893,942 lbs        | 350,350 mtu                  |
| Head Grades (WO <sub>3</sub> ,MoS <sub>2</sub> ) | 0.37%                      | 0.60%  | 0.41%                   | 0.10%        | 0.47%                | 0.13%              | 0.35%                        |
| Recovery Rates                                   | 73%                        | 83%  | 80%                     | 85%          | 65.4%                | 78%                | 77%                          |
| Concentrate Prod'n                               | 1,158 tpa                  | 4,597 tpa                                      | 757 tpa                 | 260 tpa      | 1,684 tpa            | 811 tpa            | 5,390 tpa                    |
| Conc. Grade                                      | 70%                        | 65%  | 65%                     | 50%          | 73%                  | 51%                | 65%                          |
| Revenue (Co Equity)                              | A\$17.1m                   | A\$31.5m                                       | A\$8.8m                 | A\$6.9m      | A\$23.3m             | A\$27.7m           | A\$73.8m                     |
| Commodity Price                                  | US\$250/mtu                | US\$250/mtu                                    | US\$250/mtu             | US\$33.5/lb  | US\$250/mtu          | US\$33.50/lb       | US\$250/mtu                  |
| Net Price to Co. (80%)                           | US\$200/mtu                | US\$200/mtu                                    | US\$200/mtu             | US\$26.8/lb  | US\$180/mtu          | US\$29.48/lb       | US\$200/mtu                  |
| <b>VALUE MEASURES</b>                            |                            |  |                         |              |                      |                    |                              |
| Mine Payback                                     | 4.4 years                  | 4.2 years                                      | 4.7 years               |              | 1.7 years            |                    | 7.6 years                    |
| Op. Cash Flow (company)                          | A\$5.0m                    | A\$12.0m                                       | A\$6.1m                 |              | A\$11.8m             |                    | A\$15.8m                     |
| Per Share (undiluted)                            | 6.5¢                       | 19.8¢  | 2.5¢                    |              | 7.9¢                 |                    | 14.7¢                        |
| PCF Multiple                                     | 22.6x                      | 3.0x   | 6.7x                    |              | 1.4x                 |                    | 4.8x                         |
| Assumption                                       | Fully funded               | Pre Funding, 50%                               | Post \$12m<br>placement |              | BOOT Finance assumed |                    | Pre Finance                  |
| <b>ECONOMICS</b>                                 |                            |  |                         |              |                      |                    |                              |
| Capital Expenditure                              | \$22m                      | \$100m   | \$29m                   |              | \$20m                | +\$40m for BOOT    | \$120m                       |
| - Mining - Ore pt                                | \$8.00                     | \$8.00   | \$9.00                  |              | \$8.00               |                    | \$8.00                       |
| - Mining Waste pt                                | \$2.30                     | \$2.30   | \$2.50                  |              | \$2.30               |                    | \$2.30                       |
| - Total Mining                                   | \$17.20                    | \$26.40  | \$29.00                 |              | \$24.10              |                    | \$14.90                      |
| - Treatment                                      | \$16.50                    | \$27.50  | \$28.00                 |              | \$48.00              |                    | \$27.50                      |
| - Overheads                                      | \$6.60                     | \$11.00  | \$18.00                 |              | \$26.00              | incl. \$20 pt BOOT | \$2.20                       |
| - Total Op. Costs                                | \$40.30                    | \$64.90  | \$75.00                 |              | \$98.10              |                    | \$44.60                      |
| Cash Costs (net of credits)                      | \$142/mtu                  | \$124/mtu                                      | \$85/mtu                |              | \$89/mtu             |                    | \$157/mtu                    |
| <b>OTHER</b>                                     |                            |  |                         |              |                      |                    |                              |
| Major Issues                                     | Nil                        | Saleability of<br>product Seawall<br>viability | Ministerial signing     |              | Finance              |                    | Resource<br>upgrade expected |
| Option ex.                                       |                            | 1  | 35                      |              | 20                   |                    | 80                           |

Notes: 1) Heemskirk - need to consider industrial minerals, gold and investment earnings 2) King Island - Hunan Nonferrous Metals Corp. has signed a POA for 50% equity and finance 3) Qld Ores - includes recent placement of 100 mill. shares at 12¢ 5) Paradigm - coarse grained, up to 30% magnetite that could be sold as a by-product. NB. Estimates assume minimum 500,000 tonnes i.e. additional 350,000 t found.

**Disclosure** The author does not own any shares in THR.

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