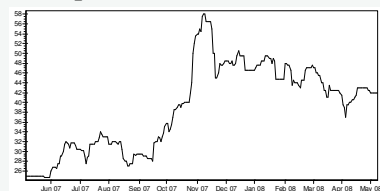


9 May 2008

<b>Code</b>	FND LN / FND AU
<b>Bid Price</b>	40p
<b>Market Cap</b>	£32.4 million
<b>Year End</b>	30 June
<b>Net Cash</b>	A\$5.9 million
<b>Shares in Issue</b>	74.7 million

## Share price Performance



Source: Thompson

## Company Description

Near term copper producer

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## Initiation of coverage

## BUY

**Finders Resources will shortly be producing its first copper from its mine on Wetar Island, Indonesia. The pilot plant should be operational in July and initial production from the heap leach of 2,000 tonnes of copper cathode will follow. We expect commercial production of a minimum of 20,000 tonnes per year to start 18 months from now.**

► **A low, low cost producer.** With capital and operating costs spiralling in the mining sector, we believe the plan to open pit and heap leach the high grade copper will make Finders Resources one of the cheapest producers. Capital and operating costs are estimated to be US\$65 million and 75 cents per lb of copper respectively. This is less than half of the average operating cost for our AIM peer group of 164 cents per lb.

► **Management know the territory.** Normally we would be extremely cautious about an investment in Indonesia. But the provenance of the management team, in our view, mitigates the risk of permitting and commissioning the mine.

► **A twofold increase in valuation over the next 18 months is realistic.** We believe that Finders Resources will be trading at about 81 pence per share by the time production starts at the end of 2009. The methodology behind this valuation, set out in Figure 2 on page 8, suggests that upside of about 100 per cent is possible over the next 18 months. The stock is currently trading at a discount of about 70 per cent to our NAV.

**Table 1: Forecasts (A\$000s)**

Year end	2008	2009	2010	2011
<b>Data</b>				
Revenue	8,333	2,500*	122,222	124,028
EBITDA	(2,660)	(7,664)	82,084	88,189
PTP	(4,860)	(11,963)	66,140	72,244
Tax Rate	N/A	N/A	30%	30%
EPS (cents)	(6.2)	(21.0)	63.7	70.8
DPS	0	0	0	0
<b>Ratios</b>				
EV/sales	7.0	24.9	0.5	0.5
EV/EBITDA	-17.1	-7.1	0.8	0.7
P/e	-11.8	-3.9	1.4	1.3
Yield	0	0	0	0
EPS growth				11%

\*fall in revenue due to gap between pilot plant production and commercial production

## Investment Summary

**Our investment case for Finders Resources is based on the potential of its copper project on Wetar Island, Indonesia. We believe that, over the next 18 months, the 70 per cent discount to NAV will reduce to zero as the market realises that the metallurgy of the deposits does not present an obstacle to project economics. The project benefits from quick payback and we estimate positive cash flow inside 2 years.**

### A raw deal?

Since listing on AIM in March, Finders Resources appears to have failed to capture the imagination of the London investment community. We find this somewhat surprising, since commercial production of at least 20,000 tonnes of refined copper is set to begin in 18 months time, at the end of 2009.

The market in London appears to have recently developed a nervous disposition whenever a mining project reaches its 'commissioning phase'. This is understandable as the trail of broken promises, left by a number of AIM listed mining companies, suggests that caution is, at times, advisable. But not, we stress, in all cases.

To be fair to the market, the metallurgy of the Kali Kuning and Lerokis copper deposits, at the time of listing, had yet to be understood. But the market's response to the low cost heap leach alternative, announced earlier this year has, so far, been lukewarm. We believe that this lukewarm response will change once the results of the pilot heap leach project are released in October this year.

To simplify the investment case, we are assuming that the two open pitable copper deposits on Wetar Island, Indonesia, are the company's sole asset of significant value. We have arrived at an NAV of US\$173 million for the copper deposits using conservative, inflation adjusted parameters. **The shares are currently trading at a 70 per cent discount to our NAV, which we think reflects the perceived metallurgical and geopolitical risk.**

### ASX leads price discovery

The subsequent ASX listing, in June 2007, has allowed Finders Resources to escape from AIM's liquidity problems. About 90 per cent of the stock has now been transferred over to the ASX and is now held mostly by Australian investors. This should come as no surprise as Australia is a mining nation and its people generally have a better understanding of the sector.

### Geopolitical risk offset by prior management knowledge of region

Indonesia is generally perceived by the market as having a high, but not extreme, level of geopolitical risk. It is not necessary to look far to find the possible underlying causes. The recent government protectionism, aimed at the direct shipping of bauxite, tin and nickel, has sent ripples through the respective commodity markets.

The reason behind this protectionism is understandable. The direct shipment of an unrefined commodity fetches a fraction of the value the finished product would realise had it been refined in Indonesia. The Kali Kuning and Lerokis mines will produce copper cathode which is a finished product. As no smelter is involved in the process, the copper will fetch undiscounted LME spot prices

assuming, of course, that no hedging agreement exists as a result of any debt facility.

Receiving an Environmental Permit for a mine in Indonesia can be a long winded process, an experience undergone in the recent past by Archipelago Resources. But the ease with which the management of Finders Resources applied and obtained the permit for the Wetar pilot project, in less than a month, suggests that Chris Farmer's decision to base himself in Jakarta, rather than commuting from Australia, is paying dividends.

The island of Wetar has its origins in Christianity and, as a result, enjoys greater stability than some of its neighbours. The population, some of which were employed by Billiton in the 1990s when the mine was last worked, understand the social and economic benefits a mine can bring. Longstanding relationships exist between the local population and the management of Finders Resources, some of whom worked at the mine during the Billiton years. We believe that these relationships will prove instrumental in preventing NGOs from stalling the project on pseudo environmental grounds.

#### Pre-existing infrastructure reduces overall capex spend

Constructing a mine from scratch in a remote location can be an engineering and logistical challenge. But the task is made somewhat easier when mining has already occurred in the recent past. The Billiton legacy on Wetar Island means that haul roads, a 250 man camp and, most importantly, a port, are already in place. Rehabilitation of these facilities to make them operational is largely complete.

Both open pits are located within 5km from the sea making access straightforward. Although Finders Resources has yet to decide whether an airstrip will be constructed, we have factored the additional earthworks cost into our capex estimate.

The other significant capital item, other than the plant, is the cost of earthworks to construct the heap leach pads. The company has identified some waste in part of the high wall of the existing pit that could be used to build these pads. Scheduling the mining of this high wall in 2009 before mining the main orebody in 2010 will require an increase in operating costs which we have allowed for in our model.

#### Favourable geology and mining conditions should result in consistent head grade for heap leaching

One of the key risks of a heap leach operation is the length of time it takes to reconcile the head grade of the ore placed on the pad with that mined from the pit. Grade control can help reduce the amount of accidental waste mined with the ore but the reconciliation process can only start once the leach cycle time, in this case about 360 days, is complete and the recovered percentage of copper from the ore is known.

The risk of ore dilution, in this case, is minimal because the waste to ore strip ratio, at 0.6:1, is low. Further, the orebody is fairly forgiving as the average annual grade of run of mine copper, ranging between 2.3 per cent and 3.1 per cent is unusually high, especially in the initial years of production. We believe that our estimated cost of mining a tonne of ore (included waste), at A\$5, is a fair

assumption to make. Our model factors in an annual rise and fall inflation cost of 3 per cent from 2010 onwards.

According to our estimates, combined life of mine for Kali Kuning and Lerokis, is approximately 7.5 years. Although investors may prefer longer life, unhedged mining operations that enjoy greater earnings visibility a few junior mining companies, and we believe Finders Resources to be one of them, have relatively small, high grade mines with quick payback, leaving substantial residual cash to either return to shareholders or finance acquisitions.

#### Global cost inflation raises copper price over the long term

As discussed later in this note, the long term price for copper is currently the subject of much debate among analysts. We take the view that the energy needs of the developing economies of China, India and, to a lesser extent, Brazil, in addition to those of the developed West, will continue to keep energy prices high over the long term.

High energy prices are the primary driver of our long term copper price of US\$5,000 per tonne. We are assuming that it will cost more to mine copper in the future than in the past and that a return to historical price levels is no longer an economic possibility. A sustained fall in the copper price to, say \$2,000 per tonne, would render a substantial number of the world's copper mines uneconomic.

Table 2 shows our peer group of AIM listed producers and near-term producers of copper. We have included EMED despite the company not yet knowing whether its bid for Minas de Rio Tinto will be successful.

**Table 2: Cost per tonne for AIM copper producers in 2010**

Company	Flagship Mine	Country	Production cost (US\$ / lb Cu)	Production cost (US\$ / tonne Cu)
Weatherly Int	Otjihase	Namabia	1.45	3197
Finders Resources	Wetar	Indonesia	0.75	1653
EMED Mining	Rio Tinto	Spain	1.44	3175
African Copper	Mowana	Botswana	2.48	5467

Source: Company information

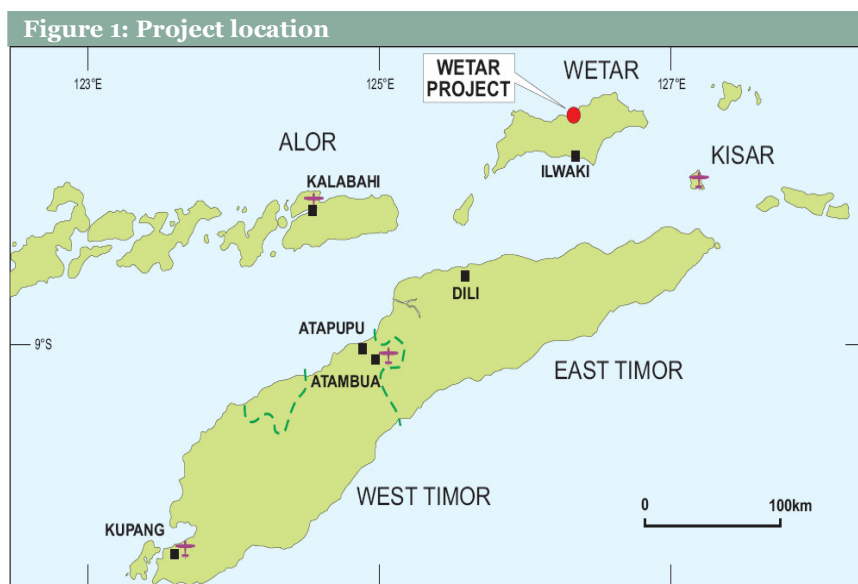
We expect that Finders Resources will have its first full year of production in 2010, when it plans to produce a minimum of 20,000 tonnes of copper at a cost of \$1,650 per tonne. For comparison's sake, we have included estimates for production costs in 2010 across the peer group.

The low cost of production at \$1,650 per tonne (75 cents per lb), adjusted to include inflation at 3 per cent, makes Finders Resources potentially one of the industry's lowest cost producers of copper. The costs are low because the grade is high and there is very little waste in the orebody, relative to ore. Truck haulage distances are short and, although the SX/EW (leach solvent extraction electrowinning) process is energy intensive, capital and operating costs are considerably cheaper than conventional grinding and flotation.

## Company Profile

### History

The company was founded in March 2004 when the current management team decided to leverage their combined experience in the mining industry to acquire and develop the Kali Kuning and Lerokis copper deposits on Wetar Island, Indonesia (Figure 1).



Source: Company

To date, the company has earned a 72 per cent interest in the Wetar project from a local partner. Under the terms of the earn-in agreement, Finders Resources can earn close to 100 per cent interest in the project. As such, we have elected to value Finders Resources' interest in the project on a 100 per cent basis. The local partner retains a 4 per cent royalty on gross revenue.

The 14.6 per cent investment in fellow ASX-listed Geopacific Resources, acquired in 2005, is considered by us to be peripheral to FR's core focus on Indonesia. The investment had a carrying value on the balance sheet of A\$2.3 million but the current market value is only A\$430,000. We would expect the difference to be impaired on the income statement in due course. We will not comment further on Geopacific Resources, other than to say that the company is focussed on exploration in Fiji and that Russell Fountain is non executive Chairman.

We believe that the decision by management to initially list on AIM, instead of the ASX in 2005, was driven by relative levels of shareholder dilution. By 2006, the investment climate in Australia had changed sufficiently for FR to be dual listed on the ASX. Since inception the company has raised \$A28 million.

### Key Management

Aside from the members of the board, all of whom we consider competent to administer good corporate governance, the most important non-board member of the team is arguably Grant Harding, the operations manager and qualified metallurgist.

Russell Fountain (Exec. Chairman)  
Chris Farmer (Managing Director)  
Ian Neuss (Alternative Chairman)  
Stephen de Belle (Non Exec. Director)  
Steve Lonergan (Non Exec. Director)  
Grant Harding (Operations Manager)

Although not a board member, it is important not to understate the importance of having the guidance of Mr Harding, a metallurgist with 25 years experience in and around Australia and the Pacific Rim. Having previously had key involvement in the successful commissioning of several large heap leach projects, we believe he will prove critical in attenuating the risk involved in commissioning the heap leach component of the Wetar projects. Like Chris Farmer, Mr Harding lives in Jakarta.

Chris Farmer and Russell Fountain both hold doctorates in geology and both held senior management positions with Phelps Dodge during the late 1990s. In our opinion, the fact that both men have prior knowledge of the Wetar Island deposits significantly contributes towards reducing overall project risk. Dr Fountain was Chief Geologist of the CSR team that made the initial discovery and Dr Farmer worked as senior geologist for Billiton during the first mine life in the early 1990s.

#### Key Investors

Since listing on AIM, Finders Resources has retained a core institutional Australian based following. The company's secondary ASX listing helped increase distribution to the retail sector via Southern Cross Equities, which holds about 20 per cent through nominee accounts.

Key Australian institutions include Tennant Metals and Trafigura, two metals trading houses, which hold 7 per cent and 4 per cent respectively. London and Johannesburg based Craton Capital, recently acquired by Macquarie, holds 6 per cent and Investec holds about 2 per cent.

We gain considerable comfort, particularly in the case of companies not yet in production, when management holds a large stake. The board of Finders Resources collectively holds 25 per cent of the company.

We understand from management that, due perhaps to AIM's illiquidity, most of the stock currently resides in Australia. Only about 10 per cent is thought to be held in London. We believe that London needs to hold more of the shares in this company.

**Table 3: Major shareholders**

	%
Management	25
Tennent Metals	7
Trafigura	4
Craton Capital	6
Investec	2

Source: Company

## Valuation

News flow set to drive valuation higher by end of year

The relative approach, shown in Table 4, serves as a useful check on how Finders Resources squares up against its AIM listed peers.

**Table 4: Finders Resources valuation relative to AIM peer group**

Company	Reserves (Tonnes CU)	M & I Resources (Tonnes Cu)	Share Price (pence)	Market Cap (£m)	Cash less debt (£m)	Enterprise value (US\$m)	EV/M&I Resource Tonne (US\$)	EV/Reserve Tonne (US\$)	2008 Production (Tonnes)	EV/2008 Annual Production (US\$/tonne)
Weatherly Int.	N/A	634,192	0.22	92.1	6.58	168.9	266	N/A	14,400	11,729
Finders Resources	N/A	224,020	0.40	31.4	3.04	56.0	250	N/A	N/A	N/A
EMED Mining	N/A	N/A	0.24	36.2	2.43	66.6	N/A	N/A	N/A	N/A
African Copper	162,800	209,263	0.39	57.3	22.43	68.8	329	423	5,500	12,517
						Average	282			12,123

M&I: Measured and Indicated JORC compliant resources

Exchange rate: £1 = US\$1.97

Source: FinnCap

We see two key news flow events, within the next 12 months, which should have a positive impact on the share price. The first event is the results of the pilot heap bioleach project which should be released to the market by the end of October this year at the latest. Management believes that these results should also satisfy the criteria for bankable status.

The second key news flow event, scheduled for release at the end of this year, is the result of the feasibility study. If the study turns out to be bankable, we anticipate funding to be a mixture of debt and equity.

Peer group production metric suggests a minimum twofold increase in valuation

The 70 per cent discount to NAV currently applied to Finders Resources suggests that an 18 month wait until production is too far in the future for the market to get excited about. But we disagree.

At its current enterprise value, the market is paying about \$2,800 for every tonne of copper Finders Resources expects to produce in 2010. Compared with the peer group average of US\$12,123 in Table 2, this is a discount of about 77 per cent.

By the end of 2009, when annual production of 20,000 tonnes of copper is scheduled to start, we would expect the market to have removed much of this discount.

If we then take the average annual production metric of \$12,123 per tonne, the enterprise value of Finders Resources, assuming no further shares were issued and cash levels stay the constant, would be about US\$243 million. The calculation for this is shown in Figure 2.

If we assume that the US\$65 million fundraising will be on a 100 per cent equity basis at the current share price, the number of shares outstanding will approximately double and the share price, at the end of 2009, should be 81 pence.

**Figure 2: Illustrative value derived from peer group**

Current enterprise value (EV) of FND	\$56 million
Annual production in 2010	20,000 tonnes
EV/Annual production	\$2,800 per tonne
EV/Annual production peer group average	\$12,123 per tonne
FND discount to sector average	77 %
FND EV at \$12,123 per tonne	\$243 million
Shares in issue	75 million
exchange rate	0.5 £ per US\$
FND current share price	40 pence
FND unadjusted share price at end of 2009	162 pence
Dilutive effect of raising US\$65 million on 100% equity	100%
<b>FND adjusted share price at end of 2009</b>	<b>81 pence</b>
Uplift	103 %

Source: FinnCap

**Robust economics based on conservative assumptions**

Our forecasts are based on the project cash flows shown in Table 6. Although a trickle of revenue will come from the pilot operation in 2008 and 2009, we expect the first revenue from commercial production to start at the beginning of 2010.

**Table 6: Project cash flows (A\$000s)**

	2008	2009	2010	2011	2012
Revenue	8,333	2,500	122,222	124,028	116,363
Operating Costs	(4,323)	(5,883)	(40,138)	(35,839)	(35,454)
Change in Working Capital	(1,100)	111	(7,736)	279	347
Capex	(7,222)	(65,000)	(1,500)	(1,500)	(1,500)
Pre-tax cash flow	(4,312)	(68,272)	72,849	86,968	79,756
Tax	0	0	(17,530)	(21,673)	(19,489)
After tax cash flow	(4,312)	(68,272)	55,319	65,294	60,267
After tax cumulative cash flow	(4,715)	(72,987)	(17,668)	47,627	107,893

Source: FinnCap

What emerges is a robust picture where, despite our choice of a reasonably conservative long term copper price of \$5,000 per tonne, project payback should occur inside two years.

#### Discounted cash flow sensitivities

Our absolute valuation approach consists of a range of net present values and discount rates from our model shown in Table 5. Rather than applying (what we consider to be) the anachronistic method of discounting the future copper price to historical levels, we have chosen to apply a range of constant prices over the life of mine.

**Table 5: NAV project sensitivities (US\$ million)**

		Copper Price (\$/t)								
		\$2,000	\$3,000	\$4,000	\$5,000	\$6,000	\$7,000	\$8,000	\$9,000	\$10,000
Discount Rate (%)	7.5%	-19	57	130	204	277	351	424	498	571
	10.0%	-22	45	109	173	238	302	366	431	495
	12.5%	-24	34	91	148	204	261	318	374	431

Source: FinnCap

The advantage of this method is that it offers some visibility over how low the copper price would have to fall to render the mine uneconomic. The above table shows that the mine would be profitable above \$3,000 per tonne.

A list of our assumptions made in our DCF is shown in Table 7 below.

**Table 7: DCF Assumptions**

Parameter	
Mining cost per tonne ore	A\$5
Crushing and stacking cost per tonne ore	A\$5
SX/EW cost per tonne copper	A\$150
Reagents per tonne copper	A\$300
Admin and freight cost per tonne copper	A\$150
Gov royalty on revenue	4%
Annual Inflation adjustment	3%

Source: FinnCap

#### Zero value for exploration but significant upside potential

We have chosen to assign 100 per cent of the market capitalisation of Finders Resources to the Wetar Island copper project. While we acknowledge that the company's earlier stage gold and silver exploration projects are not without potential, we do not believe that it is appropriate to assign any value to these projects at this time.

Most companies in the mining sector not yet in production trade on news flow. We believe the lack of movement in Finder Resources share price, following the release of seemingly positive drilling results from the Jambi gold and silver project in Ojolali, supports our decision to assign zero value to these projects. We are, of course, prepared to review our zero valuation of these projects on the basis on future news flow.

## The case for copper heap bioleaching

### Higher mining costs are here to stay

We believe that the mining industry, while enjoying the fruits of substantially higher commodity prices in recent years, is struggling to control the rise in associated costs. Until recently, the market has taken the view that costs were cyclical and would return to normal historical levels in time. We believe that market sentiment is changing and no longer subscribe to this view. Instead, we see both capital and operating costs staying high over the long term.

### Future profit margins depend on developing lower cost, energy efficient processing methods

We see a long term trend of rising costs and falling in situ copper grades as reserves from the world's richest mines are depleted. What remains are lower grade copper resources, 80 per cent of which are hosted by chalcopyrite. The composition of chalcopyrite ore means that, in the past, it has been usually more cost effective to produce a concentrate, instead of refined copper cathode. But this usually means building a grinding and flotation mill which is becoming increasingly expensive to both build and operate.

Open pit truck and shovel mining continues to dominate world copper production. But the rising oil price means that, as these mines get deeper and haulage distances increase, mining often becomes prohibitively expensive. The extraction of waste and sub-economic ore (known as mineralised waste) is an unavoidable part of open pit mining.

The processing of mineralised waste has long been a quandary for many open pit copper operations. The grade of this waste, stockpiled separately, is often too low for it to be economically processed using conventional grinding and flotation. But one of the main drawbacks of heap leaching the chalcopyrite is the long leach cycle times (often more than 400 days) to achieve what are often low copper recoveries (no more than 50 per cent).

At least two large copper mines, Escondida in Chile and Sarcheshmeh in Iran, have had successful trials with heap bioleaching low grade chalcopyrite-rich mineralised waste and have recovered copper at a cost significantly lower than conventional grinding and flotation. According to a report by mineral consultants Mintek, the pilot heap bioleach project at Sarcheshmeh recovered between 60-70 per cent of copper in a leach cycle time of 200-300 days. The pilot was deemed sufficiently successful for plans to be drawn up for a commercial scale operation.

### The hotter, the better – key learnings from Sarcheshmeh

One of the key learning points from the Sarcheshmeh project was that there is a direct correlation between the recovery of copper from the refractory chalcopyrite ore and the internal temperature of the heap. The higher the internal temperature, the more copper was recovered. The highest recovery, at 50 per cent, was achieved from an internal heap temperature of 65°C.

To increase the internal temperature of the heap, there must be a sufficiently high concentration of sulphur containing rocks such as pyrite. While the ore at Sarcheshmeh has a low sulphur content at 4 per cent, the ore at Wetar has a very high sulphur content of about 90 per cent. This makes the task of raising the internal temperature of the heaps at Wetar much easier, compared to Sarcheshmeh, potentially resulting in higher copper recoveries.

But the chalcopyrite ore comprises only 15 per cent of the Wetar deposits. The majority of the copper bearing ore consists of covellite and chalcocite, at about 55 per cent with the remaining ore consisting of water soluble copper (10 per cent), which are ready leachable under standard heap leach conditions. The remaining 15 per cent of the copper ore is contained in the more-inert enargite.

#### Metallurgical test work at Wetar encouraging

The many derivations of heap bioleaching mean that extensive metallurgical test work is being conducted to customise the process to the Wetar deposits. According to an article in a recent edition of Mining Magazine, the most common causes of failure for heap leach projects are inadequate metallurgical test work resulting in poor percolation due to the presence of clays, destabilisation of the heap during leaching and lower than predicted leach cycle times.

Finders Resources plans to reduce the commissioning risk by developing a pilot heap prior to building the full scale operation. About half of all heap leach projects start off with a pilot heap, as it effectively reduces the learning curve during final commissioning. The pilot heap is now scheduled to start in July, factoring in a delay of 6 weeks. The company expects sufficient data to be collected from the pilot plant to demonstrate bankability after 3 months operation. The expected cost of the pilot, at approximately US\$6.5 million, will be met out of existing funds.

The absence of clay in either of the two deposits on Wetar Island reduces the risk that the heap will clog up and not percolate properly. Laboratory test work suggests that 65 per cent of contained copper can be recovered within a leach cycle time of 200 days.

But actual leach cycle times, as one would expect, will not be known until the pilot plant has been in operation for a period of three months, which is the period the company expects 65 per cent of the copper will be recovered. 65 per cent is seen as the critical point of inflection. Copper recovery will continue at a slower rate beyond this point, as successive levels are added to the original heap. The company believe that final recoveries around 80 per cent are realistic. We have used more conservative recoveries in our model of 65 per cent for Kali Kuning and 60 per cent for Lerokis.

## The road to production

A number of important stages must be reached before commercial production can start. We believe this will be at the end of the Indonesian wet season in March 2010.

### Wetar projects appear to be aligned with new mining code

The new Indonesian mining code, set to be introduced a month or so from now, will not make happy reading for many exploration and development companies operating in the country. The objective of the new mining code is to make it easier for Indonesia to realise the full value of its mineral wealth instead of the refinement being carried out overseas, as is often the case.

The operations that will, arguably, suffer the most are those that direct-ship unprocessed ore overseas. This applies in particular to the nickel sector where unprocessed ore shipped to China only fetches about \$200 per tonne. Weighing this against the price of refined nickel, currently at \$30,000 per tonne, it is easy to see the logic in the new mining code. Apart from losing much needed tax revenue, the refined product is often repurchased by Indonesia from overseas at the full market price.

Finders Resources is in the enviable position of having the ability to produce refined copper cathode which can be sold at an undiscounted spot price. We believe that this is the type of project the new mining code is looking to support, as the full value of the commodity is realised inside Indonesia's border, resulting in higher tax revenue.

### Permit for pilot plant approved inside one month from submission

Living in Jakarta and, having worked on the Wetar Mine for Billiton, has given Chris Farmer a decent overview on how to get a mine permitted in Indonesia.

The country has acquired a reputation for delaying mining projects for months, if not years, before granting the necessary permits. Perhaps THE most important question we have asked is why this shouldn't happen to Finders Resources.

The answer is relatively straightforward. The permitting process requires a period of consultation with the relevant authorities, most of who are based in Maluku. A CEO living overseas is, in our view, unlikely to be on top of the process.

The basic rule is that a company should not submit an application for a permit unless it has completed all the required work required by the authorities. Finders Resources submitted the application for the pilot plant permit on 12 December 2007. It is a great source of comfort to us that the permit was approved by 4 January 2008.

### Environmental permit scheduled for submission in December 2008

While we acknowledge that an environmental permit is not the easiest of permits to be awarded, there are, in Finders Resources' case, a number of mitigating factors.

There are no forestry issues on Wetar Island and little commercial activity. Many of local population, only 500 of who live within 20km of the legacy mine, worked for Billiton during the gold mining phase in the 1990s, and know well the economic and social benefits a mine can bring.

It is to Finders Resources' benefit that most aspects of Billiton's rehabilitation effort were to a high standard after it abandoned the mine. This has made it considerably easier for an application for a fresh environmental permit to be lodged. While Baseline studies have identified some impact caused by Billiton, Finders Resources will not be responsible for this. The only new ground to be disturbed will be the leach pads.

A further mitigating factor is that heap leaching is a friendlier alternative to conventional copper smelting. We see the most significant risk as being the failure to capture all of the sulphuric acid produced by the heap leach process. The company tells us that it plans to implement a proven method for sulphide entrapment.

## Financial forecasts

### Maiden net profit achievable in first year of production

Even in the current high commodity price environment, it is still comparatively rare for a mine to make a profit on its first year of production. We believe that Finders Resources can achieve this because of the high copper grades and relatively low cost base. While commissioning any mine is not without risk, the lack of short cuts being taken now should enable the mine to survive the commissioning period without mishap.

**Table 8: Income statement**

A\$000s	2007A	2008E	2009E	2010E	2011E	2012E
Revenue	--	8,333	2,500	122,222	124,028	116,363
Operating costs	(2,947.3)	(10,993)	(10,163)	(40,138)	(35,839)	(35,454)
Exploration impairment	(5,286.7)					
EBITDA	(8,234.0)	(2,659.9)	(7,663.5)	82,084	88,189	80,909
Depreciation	(16.8)	(2,200)	(4,300)	(15,944)	(15,944)	(15,944)
EBIT	(8,250.8)	(4,860)	(11,963)	66,140	72,244	64,965
Net Interest	123.5	258	(3,758)	(1,044)	2,338	5,633
Other Income	83.0	--	--	--	--	--
Tax	--	0	0	(17,530)	(21,673)	(19,489)
Profit (loss) after tax	(8,044)	(4,602)	(15,721)	47,566	52,909	51,108
EPS (cents per share)	(10.76)	(6.16)	(21.04)	63.65	70.80	68.39

Source: FinnCap

### Low capital requirement to reach production

Offsite fabrication of the pilot plant is near completion and will be installed onsite in June for start up in July. The revenue from this production explains why EBIT in 2009 is less than in the proceeding year.

In a world of fast appreciating capital cost outlays to achieve production, Finders Resources' plan to raise US\$65 million next year is relatively modest. This is because the heap leach style of processing the ore does not involve the construction of a big steel-heavy plant.

**Table 9: cash flow statement**

AU\$000s	2007A	2008E	2009E	2010E	2011E	2012E
EBIT	(8,250.8)	(4,859.9)	(11,963.5)	66,140.0	72,244.1	64,964.9
Items not affecting cash flow						
Depreciation	16.8	2,200.0	4,300.0	15,944.4	15,944.4	15,944.4
Forex (gain) loss	536.0					
Change in working capital	402.5	(1,100)	111	(7,736)	279	347
Tax	--	--	--	(17,530.0)	(21,673.2)	(19,489.5)
Net interest	206.6	257.9	(3,757.5)	(1,043.8)	2,337.8	5,632.8
<b>Net cash flows from operations</b>	<b>(7,089.0)</b>	<b>(3,502.3)</b>	<b>(11,309.6)</b>	<b>55,775.2</b>	<b>69,132.3</b>	<b>67,399.3</b>
Purchase of plant and equipment	(124.5)	(7,222)	(65,000)	(1,500)	(1,500)	(1,500)
Exploration expenditure		(4,000.0)	(4,000.0)			
Investments						
<b>Net cash flows from investments</b>	<b>(124.5)</b>	<b>(11,222)</b>	<b>(69,000)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Proceeds from issue of shares	6,983.9	10,800				
Cost of raising funds	(474.4)	(1,074.4)				
(Repayment) proceeds of borrowing costs		5,000				
Interest and borrowing costs						
<b>Net cash flows from financing</b>	<b>6,509.5</b>	<b>14,725.6</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
Net increase (decrease) in cash held	(704.0)	1.1	(80,309.6)	54,275.2	67,632.3	65,899.3
Cash, beginning of year	5,809.2	5,157.5	5,158.7	(75,150.9)	(20,875.7)	46,756.6
Net change in foreign exchange	52.3	0.0	0.0	0.0	0.0	0.0
Cash, end of period	5,157.5	5,158.7	(75,150.9)	(20,875.7)	46,756.6	112,655.9

Source: FinnCap

It would seem logical that the funding be a combination of debt and equity. The company says it will give its existing shareholders right of first refusal before considering new shareholders. Although the metallurgy remains unproven in the eyes of many, we do not believe the company will have difficulty raising the money. But we have not assumed any future fund raisings in our forecasts.

#### Business strongly cash generative from 2010

At the end of June this year, we estimate that Finders Resources will have about A\$5 million in cash. With the equipment for the pilot plant now purchased, the remaining cash should be sufficient until the next big fund raise. We see this taking place in Q1, after the feasibility results are published.

**Table 10: Balance sheet**

A\$000s	2007	2008	2009	2010	2011	2012
<b>Non current assets</b>						
Deferred exploration costs	0.0	4,000	8,000	0.0	8.0	8.0
Property, plant and equipment	111.8	5,134	60,700	44,755.6	28,811.1	12,866.7
Financial assets	2,301.0	2,301.0	2,301.0	2,301.0	2,301.0	2,301.0
<b>Total non current assets</b>	<b>2,412.8</b>	<b>11,435.0</b>	<b>71,001.0</b>	<b>47,056.6</b>	<b>31,120.1</b>	<b>15,175.7</b>
<b>Current assets</b>						
Cash at bank and in hand	5,157.5	5,158.7	(75,150.9)	(20,875.7)	46,756.6	112,655.9
Inventories	0.0	710.7	967	6,598	5,891	5,828
Receivables	412.3	342.5	102.7	5,022.8	5,097.0	4,782.1
<b>Total current assets</b>	<b>5,569.8</b>	<b>6,211.8</b>	<b>(74,081.0)</b>	<b>(9,254.9)</b>	<b>57,745.0</b>	<b>123,266.0</b>
<b>Liabilities</b>						
Trade and other payables	493.4	355.3	483.6	3,299.0	2,945.7	2,914.0
Long term debt	0.0	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
<b>Net assets</b>	<b>7,489.2</b>	<b>12,291.4</b>	<b>(8,563.6)</b>	<b>29,502.7</b>	<b>80,919.4</b>	<b>130,527.6</b>

Source: FinnCap



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