

FINDERS RESOURCES LTD (ASX: FND)**BUY**

Sector: Base Metals

Target: \$0.66

COMPANY STATISTICS

Share Price	\$0.40
Valuation	\$0.66
12 Month Range	\$0.32 – \$0.51
Market Cap	\$114m
Enterprise Value	\$118m
Issued Shares	284.4m
Unlisted Options (30¢, 37¢, 50¢)	19.3m
Cash Balance (30 Dec 11)	\$3.6m
Debt Facility (arranged but undrawn)	A\$138m

Top Shareholders (August 2011):

Resource Capital Fund	10.2%
Acorn Capital Ltd	10.9%
Straits Resources Ltd	10.8%
Taurus Resources	9.7%
Lujeta Pty Ltd	5.6%
Directors/ Staff	8.0%

Directors:

Russell Fountain	Chairman
Dr Chris Farmer	Managing Director
Robert Thompson	Director, Development
James Wentworth	Finance Director
Stephen Lonergan	Non Executive Director
Stephen R de Bell	Non Executive Director
Quinn Roussel	Non Executive Director



Source: ASX

VALUATION & MULTIPLES

Wetar project (\$3.50/lb Cu)	\$0.47
Wetar upside (\$3.50/lb Cu)	\$0.02
Ojolali project	\$0.03
Cash (post-placement)	\$0.14
Debt (pre-drawdown)	(\$0.01)
Options	\$0.02
Total NAV	\$0.66
EV/EBITDA (2013)	3.5x
EV/EBITDA (2014)	1.4x
EV/Resource	\$0.24/lb
EV/Reserve	\$0.25/lb

Source: Canaccord BGF estimates.

FND Financial Year ends in December.

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jf.bertincourt@canaccordbfg.com**Final Financing Hurdle Will Open Start of Re-Rating**

Investment Perspective: FND is one of the few listed ASX pre-production copper companies with a clear path and timeline to production. We see 2012 as being a very important year for FND. The Wetar project has been in the making for some time and is significantly de-risked. It shall take about 18 months for FND to reach full capacity, going from a 1,825 tpa demonstration plant to a 7,000 tpa “expanded demonstration plant” and finally a 25,000 tpa commercial plant.

FND is well supported by specialised resource funds and has attracted the interest of global mining finance banks, but turnover of the shares in the secondary market has been a restrictive factor. As the Wetar project is substantially de-risked, the value of the FND shares should progress slowly but surely towards its NAV. The key hurdle for FND is financing: the debt component has been arranged, but its availability is subject to raising the equity capital.

Based on a copper price of US\$8,000/t or US\$3.63/lb, we derived a post-tax NPV_{10%} for the Wetar project of \$294m, in line with FND’s figure of \$287m. On a Net Asset Value basis, and assuming an **\$80m equity capital raising at \$0.30 per share, we have valued FND at \$0.66 per share**, applying a 10.4% discount rate to the NPV of the Wetar copper mine. The valuation considers a flat copper price of US\$3.50/lb.

Further upside resides in higher grades and recoveries achieved during the demonstration phase having the potential to add a full year of production and \$43m to the project NPV.

With the shares currently trading at a significant discount to our valuation, we rate FND a **BUY**, with a price target of \$0.66. Investors may wish to wait and enter via the equity capital raising or invest now to be positioned for a possible share purchase plan.

Investment Highlights

- High margin copper project, high grade (2.5% Cu) and low strip (0.95:1) resource located on a remote island of Indonesia.
- 25,000 tpa Cu SX-EW mining project significantly de-risked by demonstration plant.
- US\$155m capital costs and US\$1.09/lb C1 operating costs.
- US\$138m project finance (including cost overrun facility and working capital facility) in place arranged by three mining banks, with credit approval now received.
- Construction scheduled to start in March 2012.
- Full production scheduled from Q4 2013.
- Brownfield development de-risked through demonstration plant.
- Final permitting imminent.
- Experienced team, Indonesian based senior management, local contacts and experience.
- Current 9-year mine life likely to be extended by a couple of years based on existing prospects.
- Excellent growth potential through exploration.

VALUATION METRICS

Table 1: DCF Summary

FYE December	Unit	2012	2013	2014	2015	2016	2017	2018	2019	2020
Assumed Copper Price	A\$/lb	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50
Copper Production	t	1,825	10,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Revenue	A\$m	14	77	193	193	193	193	193	193	193
Operating Costs ¹	A\$m	(4)	(24)	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Royalties ²	A\$m	(1)	(3)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Operating Cash Flow	A\$m	9	50	125	125	125	125	125	125	125
Capex/Debt Repayment	A\$m	(5)	(33)	(30)	(30)	(30)	(5)	(5)	(5)	(5)
Interest	A\$m		(10)	(8)	(5)	(3)				
Exploration	A\$m	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Overheads	A\$m	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Pre-tax Cash Flow	A\$m	(4)	(1)	80	85	112	112	112	112	112
Pre-tax Cash Flow / share	A¢	(1)	(0)	14	15	20	20	20	20	20

Source: FND, Canaccord BGF estimates. A\$/US\$ assumed 1.00.

Notes:

1. Life of mine operating costs of \$1.09/lb.
2. Royalties: 4% of revenue.

With the shares currently trading at a significant discount to our valuation, we rate FND a **BUY**, with a price target of \$0.66. The valuation considers a flat copper price of \$3.50/lb and assumes an equity capital raising of \$80m at a price of \$0.30 per share. The equity capital raising could include a share purchase plan for the benefit of existing shareholders.

With a copper price of \$3.00/lb, the FND share valuation decreases to \$0.53 per share. At \$4.00/lb copper, the valuation increases to \$0.80. Note that the hedging programme scheduled over the life of loan should limit the sensitivity to the copper price and reduce the extent of the valuation range.

WETAR COPPER PROJECT (95%)

LOCATION

Copper mineralisation in Indonesia tends to be associated with bulk porphyry systems and therefore is typified by large, low grade type deposits. FND's Wetar project is an exception, though the previous miners Billiton did mine the gold cap off the top of the remaining copper sulphide system, leaving FND with a pure SX-EW copper project that is relatively rich in copper at 2.5% Cu.

The Wetar project site is located in a remote area of east Indonesia, however previous mining operations on Wetar Island have demonstrated that logistics will not impede operations. Existing infrastructure include a 6 km road to an established port. Power will be provided by Marine Fuel Oil generators (6 units for a total capacity of 19.7 MW) working on a N+2 redundancy schedule. There is always one unit under maintenance in rotation and one spare. Water will be pumped from the major river near the Lurang village, which offers a very secure supply all year round.

Figure 2: Project Location Map



Source: Company presentation.

GEOLOGY, RESOURCES AND MINERALISATION

Based on FND's drilling, the Kali Kuning massive sulphide resource has been re-classified into three metallurgical sub-types: leached, transition zone and primary massive sulphide zones. The leached and transition types reflect incipient in situ leaching of the massive sulphide unit by natural groundwater. The transition zone material although of lower copper grade than the main primary massive sulphide (1.5% vs. 2.9%) contains a higher proportion of readily leachable copper minerals.

Table 2: Resources and Reserves

Resources (0.5% Cu cut-off)	Ore (Mt)	Cu (%)	Metal (t)
Kali Kuning	6.3	2.52%	159,000
Lerokis	2.7	2.30%	62,000
Total resources	9.0	2.46%	221,000
Reserves (0.5% Cu cut-off)			
Proved	5.9	2.50%	148,000
Probable	2.2	2.40%	54,000
Total ore	8.2	2.47%	202,000

Source: Company presentation.

Most of the mineral resources (and reserves) reside in the primary zone: 73% of the tonnage and 85% of the copper metal. The dominant leachable sulphide minerals are covellite, chalcopryrite and chalcocite. Other SX-EW sulphide leach operations in other parts of the world commonly leach chalcocite, less commonly covellite and never chalcopryrite on the same scale as FND's demonstration plant. The Wetar project is unique as it is the first high grade copper leach operation of a massive sulphide deposit.

MINING AND PROCESSING

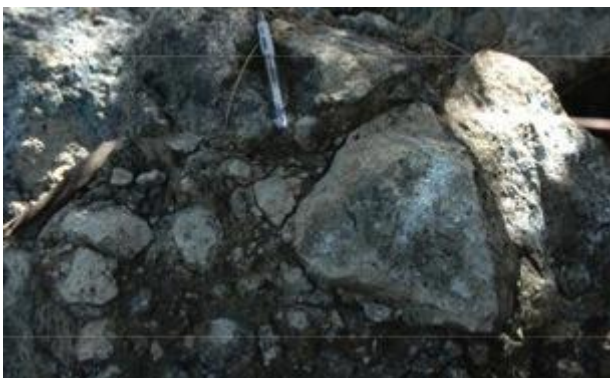
The copper ore bodies are partially pre-stripped from a prior gold mining era. Since February 2009, FND has successfully operated a 5 tonne per day SX-EW demonstration plant to test copper sulphide leach kinetics, optimise process design and provide data required for project finance. The demonstration plant produced and sold approximately 2,500 tonnes of LME Grade A copper cathode, all of which were sold at a premium to the LME price and without specification issues.

Wetar production follows a standard process flow sheet with crushed ore agglomerated and stacked on heaps. Heap aeration and irrigation allows leaching of copper into solution where it is collected and then extracted using standard SX-EW technology to produce copper cathode.

The high proportion of pyrite (essentially ~90% of the mineralogy in the massive sulphide) leads to a strong exothermic reaction when the ore is irrigated and aerated. The heaps are hotter than others with a targeted temperature of 80 . The exothermic process actually generates acid, making the leaching self-sustaining once initiated. Nevertheless, the process requires a neutralisation plant to raise the pH of the pregnant leach solution to allow for more effective copper extraction in the solvent extraction plant.

The development of the Wetar copper project comprises the brownfield expansion of the existing 1,825 tpa demonstration plant to 7,000 tpa capacity approximately 10 months after commencement of construction activities, followed by incorporation of the Whim Creek 18,000 tpa plant (acquired from Straits Resources for \$5m in shares) to lift production to 25,000 tpa, approximately 20 months after commencement of construction activities. Full production is expected to be reached by the end of 2013.

Figure 3: Demonstration Plant



Source: Company presentation. From left to right and top to bottom: ore, heap leaching, SX-EW plant, copper cathodes.

We see the project as significantly de-risked: the test heaps are at heights similar to commercial operations worldwide and the SX-EW technology is now an industry standard used to produce about 22% of the global copper production. Given that the project was previously mined by Billiton, the forestry classification over 50% of the project appears to be an oversight by the Ministry of Forestry. FND has applied for a permit to conduct mining operations and the Province of Maluku has submitted plans for the re-zoning of forestry lands to open grounds.

Opportunities for a longer mine life are strongly founded, based on:

- Mining reconciliation during the demonstration stage, which showed that copper grades from the transition zone are under-reported in the resource model by 10-30%.
- Better recoveries in the order of 80% vs. 75% used in the BFS.
- Satellite deposits such as Meron and Karkopang (see page 6).

FINANCING AND PERMITTING

On 22 December 2011, FND announced that its Mandated Lead Arrangers, Barclays Capital, Credit Suisse and Standard Bank had received credit approval for the provision of US\$138m of debt facilities to FND.

The facilities include:

- a term loan facility of US\$103m to fund construction;
- a cost overrun facility of \$20m; and
- a working capital facility of \$15m.

Drawdown of the facilities is subject to standard conditions precedent including completion of documentation, permitting, securing and spending the project equity and implementation of an agreed hedging programme. In a very difficult global banking environment, it is pleasing that credit approvals were granted by those three banks, reaffirming them as leaders in mining project finance.

FND needs to raise about \$70-90m of equity in Q1 2012 to complete the funding of the project and provide additional funding for exploration.

The mining permits were issued on 9th June 2011. The key conversion of forestry status, which will allow formal commencement of the project is in the final stages of documentation and FND expects the process to be completed in February 2012. The Wetar project is viewed as a key regional development by the Indonesian authorities and we do not expect any undue delays for the final forestry permit.

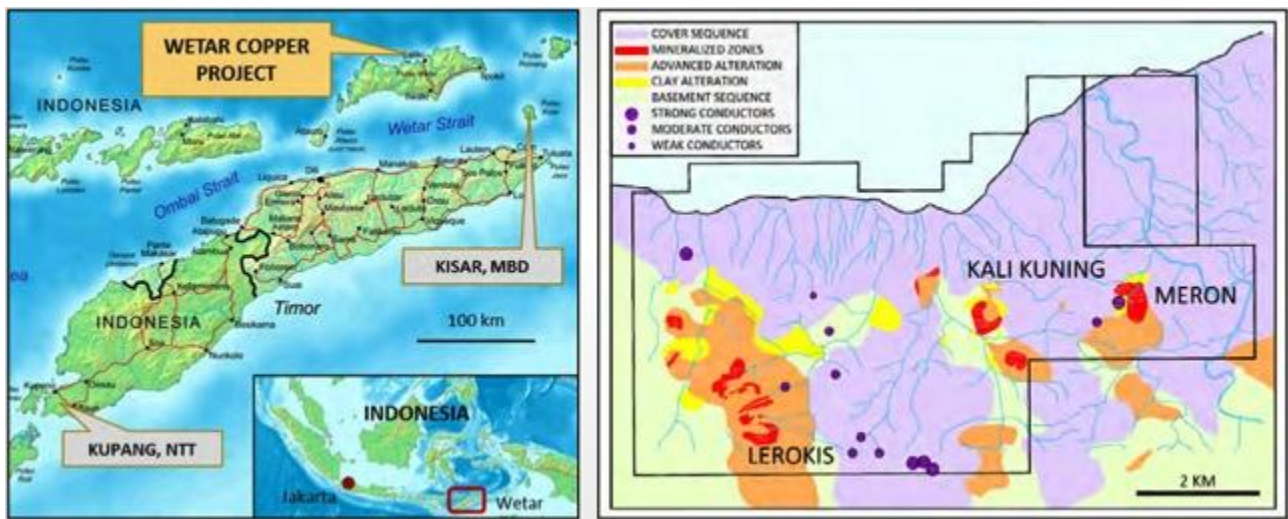
In terms of news flow, we expect the equity capital raising to take place in the coming couple of months with the view to start construction on the 7,000 tpa SX-EW plant in March 2012.

MINE LIFE EXTENSION

Introduction

The geology of all known deposits on Wetar Island displays identical units: cover sequence, gold-barite san deposit, massive sulphides and pillow basalts. In this context, electromagnetic (EM) surveys are an excellent tool to locate massive sulphide bodies.

Figure 2: Wetar project location and Near mine resource upside



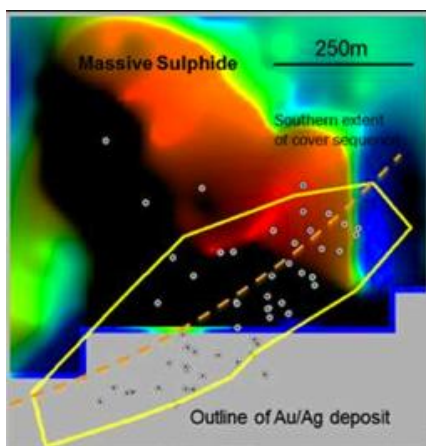
Source: Company presentation.

Meron prospect

Meron was discovered and partially drilled by the former gold company. The focus was on gold and there is about 100,000 oz Au equivalent from surface.

The gold exploration drill holes were drilled largely in the southern 25% of a strong EM conductor, about 20% hit massive sulphides with copper under the gold horizon. Note these holes terminated in massive sulphide, so the copper intersections can be open at depth in places. From this drilling program, there is a non-JORC copper resource of around 1 Mt @ 2.3% Cu, supporting an exploration target of 0.5-1.5 Mt @ 1.5-3.0% Cu. This is only for the 25% of EM conductor drilled.

Figure 2: Meron prospect



Hole	From (m)	Width (m)	Cu (%)
MED17	60.6	8.0	1.4
MED22	61.0	3.0	4.2
MED24	10.0	9.0	1.5
MED24	19.0	2.0	5.8
MED29	50.2	9.8	1.4
MED32	28.5	5.0	3.0
MED33	22.5	5.0	6.3
MED70	33.0	4.5	4.3
MED81	37.0	9.0	1.4
MED82	74.0	12.0	2.7
MED84	67.0	3.0	3.4

Source: Company presentation.

The massive sulphide body is approximately 500m x 250m or about the same size as the Kali Kuning sulphide body, which has a JORC resource of 6.30 Mt @ 2.52% Cu and JORC reserve of 5.76 Mt @ 2.5% Cu. FND plans to drill out the 75% of the sulphide body that has not been drilled. It is difficult to provide an overall exploration target for the prospect as not all massive sulphide bodies are mineralised with copper. Nevertheless, another Lerokis

size deposit with a JORC resource of 2.7 Mt @ 2.3% Cu and a reserve of 2.42 Mt @ 2.4% Cu could easily fit at the Meron prospect.

Karkopang prospect

At Karkopang, the EM anomalies are beneath the cover sequence and streams draining from the target area have mineralisation and alteration, which are very similar to the surroundings of existing deposits. The stream sediment geochemistry is also anomalous. Hence there is definitely a massive sulphide there, but only drilling can determine how much of it is mineralised with copper.

Overall, we can reasonably conclude at this stage that the mine life will highly likely be extended by a couple of years.

OJOLALI PROJECT, SUMATRA (72%)

FND owns 71.82% of the Ojolali project in Lampung Province of southern Sumatra, with an option to increase to 100%.

The Ojolali project covers 13 km² of a major epithermal gold-silver field with numerous shoots. Ojolali lies within the highly productive Sumatran Gold Belt, which includes Martarbe (+3.7 Moz) Lebong Donok (1.5 Moz), Lebong Tandai (1.3 Moz), Pongkor (3 Moz), Cibalung (0.4 Moz) and Way Linggo deposits (0.25 Moz).

The project has a defined oxide gold resource of 176,000 oz at the Jambi prospect, high-grade drill intercepts at Tambang and strong surface showings of gold and silver along its length suggesting at least 1 Moz gold resource potential.

Throughout the field only a few holes have been drilled to more than 100m depth, while epithermal systems commonly persist to depths of 500m and more, which leaves great opportunities for further discoveries at depth.

Over the next 2 years, FND is targeting a 10,000m drilling program and the completion of a pre-feasibility study.

Figure 4: Ojolali Project Location Map



Source: Company website.

MANAGEMENT

FND is managed by a very professional team, providing high quality and comprehensive technical, financial and corporate information to the market.

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