

## Wetar expansion remains permit driven

Buy

### Event

- FND released its quarterly activities report.

### Analysis

- Demonstration plant operates in-line with forecasts.** During Q3-CY10, FND produced 341t of LME Grade A copper cathode from the demonstration plant at its 94%-owned Wetar project. Copper recoveries in the first three test heaps have reached 60% and leach rates have started to slow as anticipated. FND's production rate will continue to decline until fresh ore can be mined.
- Processing continues to be a technical success.** Operations during Q3-CY10 continue to show that FND is having success in leaching chalcopyrite. Accordingly, the Company is confident of achieving terminal copper recoveries in excess of the 71% predicted by the DFS. We believe that operations at Wetar continue to substantially de-risk the project.
- Funded for the first stage of growth.** FND is embarking on a two-staged expansion at Wetar to a final production rate of 23ktpa of copper cathode by mid-CY12. During Q3-CY10, the detailed engineering design for Stage 1 was completed and a revised capex estimate of US\$25m was reported. FND recently raised \$20m in equity to fund this expansion and has started placing orders for long lead items, including the rectifier.
- Permitting remains the key catalyst for development.** A Mining Permit is the critical path item to commencing Stage 1 construction. While the final documentation for the permit application has been completed, it is unlikely to be issued prior to the local elections which will be held in November.
- Development fast-tracked with the Whim Creek plant.** Stage 2 will involve importing and re-assembling the Whim Creek plant at Wetar, which is expected to commence in Q1-CY11. FND will report a revised Stage 2 capex estimate in December 2010 based on optimised earthworks and the use of Indonesian contractors. We expect this to be lower than the DFS estimate of US\$118m (which includes the US\$25m for Stage 1).

### Earnings Impact

- No impact.

### Recommendation and Price Target

- Retain our BUY and Price Target of \$0.60/share.
- Permits to drive a re-rating.** Wetar has a robust ore reserve, technically proven processing route and a strong Indonesian-based management team. While the permitting process in Indonesia does entail a high level of risk, we believe the stock's current discount to NPV offers an attractive investment in our preferred commodity of copper.

3 November 2010

#### Company Information

Code	FND
Last Price	\$0.39
12 Month Price Target	\$0.60
Total Shareholder Return	53.8%
Valuation	\$0.62
Shares on Issue	269.0m
Market Capitalisation	\$104.9m
Free Float	100%
Monthly Turnover	\$0.4m

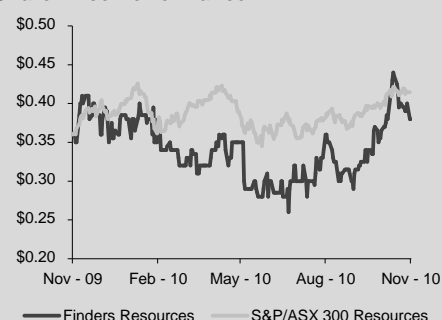
#### Financial Summary

	CY09a*	CY10e	CY11e	CY12e
Revenue (\$m)	3.0	12.5	39.1	105.0
EBITDA (\$m)	(2.2)	(6.6)	14.7	58.0
D&A (\$m)	0.7	1.3	5.0	15.3
<b>EBIT (\$m)</b>	<b>(2.9)</b>	<b>(7.9)</b>	<b>9.8</b>	<b>42.6</b>
Net Interest (\$m)	0.2	0.1	2.1	4.5
Tax (\$m)	0.0	(1.5)	2.3	11.4
<b>Underlying NPAT (\$m)</b>	<b>(3.1)</b>	<b>(6.5)</b>	<b>5.3</b>	<b>26.7</b>
Abnormals	0.0	0.0	0.0	0.0
OEI (\$m)	(0.2)	(0.2)	0.0	0.0
<b>Reported NPAT (\$m)</b>	<b>(2.9)</b>	<b>(6.3)</b>	<b>5.3</b>	<b>26.7</b>

\* CY09a covers only the 6 months to 31-Dec-09

EPS (¢)	(1.5)	(2.3)	1.2	6.2
EPS growth (%)	n/a	n/a	n/a	n/a
CFPS (¢)	(3.9)	(6.1)	(17.8)	(3.5)
DPS (¢)	0.0	0.0	0.0	0.0
Cash (\$m)	7.6	16.4	43.0	23.0
Net debt (\$m)	(7.6)	(16.4)	12.0	27.0
Net debt / equity (%)	(23.5)	(34.7)	11.9	21.2
Interest cover (x)	n/a	n/a	4.6	9.5
ROE (%)	(9.0)	(13.3)	5.3	21.0
ROA (%)	(7.8)	(11.9)	3.3	14.6
NTA per share (¢)	16.2	17.5	23.4	29.6
<b>PE (x)</b>	<b>n/a</b>	<b>n/a</b>	<b>31.3</b>	<b>6.3</b>
<b>EV/EBITDA (x)</b>	<b>n/a</b>	<b>n/a</b>	<b>12.2</b>	<b>3.4</b>

#### Share Price Performance



#### Analyst Details

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## Overview of the Wetar Copper Project

- **Wetar Island has a history of mining**

The Wetar deposit was discovered by CSR Ltd in 1986 and was sold to Billiton Indonesia in 1988. From 1990 to 1997, Billiton mined the gold-silver-barite ores from shallow open-pits at the Kali Kuning and Lerokis deposits.

Copper was also discovered underlying the gold ore at these two deposits and at a third smaller deposit at Meron, 2km east of Kali Kuning. However, the copper was never mined as it could not be treated by the gold plant and was left exposed in the base of the gold mining pits.

In December 2004, FND acquired the Wetar project in co-operation with an Indonesian partner. Following considerable metallurgical test work, the Company has successfully demonstrated that it can produce a copper cathode via a heap leaching and SX-EW operation.

FND's management team has extensive Indonesian experience, with a Managing Director who resides in Jakarta and a local partner who has been well-known to FND's management for decades.

- **High-grade reserve with a low strip ratio**

Ore Reserves at Kali Kuning and Lerokis stand at 8.2Mt grading 2.5% copper, for 205kt of contained copper. This is based on a cut-off grade of 0.5% copper with an overall waste to ore ratio of 0.98:1. Meron has a potential size of around 0.5 to 1.5Mt grading 1 to 3% copper, based on historical drilling results. Meron is yet to be converted into a Mineral Resource.

- **Staged expansion minimises risk**

In November 2009, FND completed a Definitive Feasibility Study (DFS) which investigated the economics of an on-site heap leaching and SX-EW processing operation at the Wetar project. As part of this investigation, FND built a demonstration plant with 1.8ktpa copper cathode capacity which was commissioned in February 2009. This has allowed FND to test every aspect of the operation and has substantially de-risked the Wetar project.

The Company is now developing the Wetar project in two stages. Stage 1 will involve transitioning the demonstration plant from a test facility to commercial scale production via the lower risk Stage 1 expansion to 7ktpa. Stage 2 will then include the Whim Creek plant to expand to a production rate of 23ktpa of copper cathode by mid-CY12.

- **Project offers low capital intensity and attractive cash costs**

The Wetar project will benefit from substantial infrastructure left over from Billiton's previous gold mining operation, including a wharf, camp and roads. The Company has already purchased the Whim Creek SX-EW plant from Straits Resource, which is containerised for shipment to Wetar and will substantially shorten the timeframe to first production.

The DFS determined that US\$118m will be required for the two staged expansion to 23ktpa of copper cathode. This gives the project a relatively low capital intensity of US\$5,000/t of annual production, vs. an industry average of US\$7,500/t. FND expects significant capex reductions to this DFS estimate.

Wetar will have a relatively low cash cost of US\$1.00/lb, placing the operation in the middle of the industry cost curve. The Wetar deposits have a high copper grade of 2.5% (which is likely to be understated) and are located at the base of the old gold mining pits providing very low strip ratios.

## Review of the Wetar Demonstration Plant

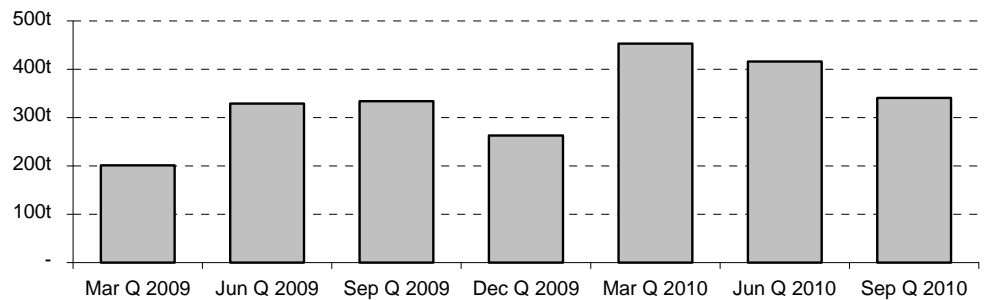
- **Copper production begins to tail off as expected**

FND currently produces LME Grade A copper cathode from a demonstration plant with 5t per day nameplate production rate, equivalent to 450t per Q. While the plant was producing at its nameplate capacity during the first half of CY10, this has fallen to 341t in Q3-CY10.

The pilot operation was originally permitted to process 100kt of ore from the Kali Kuning deposit, of which all has been stacked on the four test heaps. Copper recoveries in the first three heaps have now exceeded 60% and leach rates have slowed as expected. Consequently, Wetar's production rate will continue to decline until fresh ore can be mined and stacked.

We estimate that there is circa 750t of leachable copper remaining in the test heaps.

**Figure 1. Demonstration Plant – Historical Production Statistics**



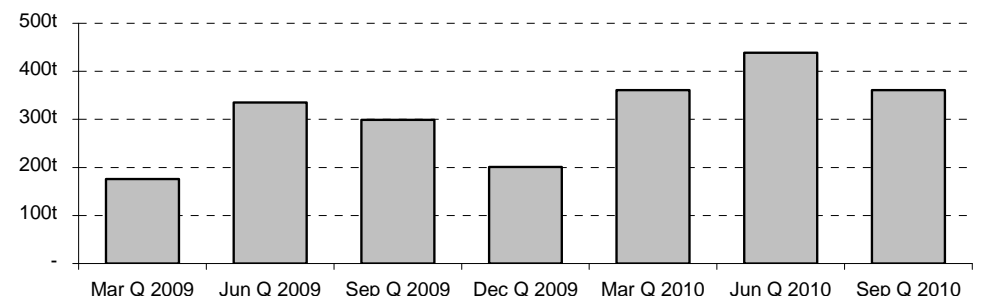
Source: Blackswan Equities, Finders Resources

- **Demonstration plant generates handy cash flow**

During Q3-CY10, FND sold 361t of LME Grade A copper cathode at an average price of US\$7,227/t. This generated revenue of \$2.9m for the Q. Every shipment of cathode since inception has been within LME Grade A copper cathode spec.

Sales continue to generate useful cash flows to fund the costs of running the demonstration plant, design studies for the expansion, exploration and corporate overheads. These costs totalled \$5.8m during Q3-CY10 and are budgeted to remain at a similar level for the next Q.

**Figure 2. Demonstration Plant – Historical Sales**



Source: Blackswan Equities, Finders Resources

▪ **Leaching performance continues to meet expectations**

Leaching performance during Q3-CY10 continues to demonstrate that FND is having success in leaching chalcopyrite.

The residual copper mineralogy in the heaps is dominated by covellite which indicates that precursor chalcopyrite has successfully been leached during the trial phase. This has given the Company confidence that higher terminal copper recoveries will be achieved in excess of the 71% DFS estimates.

**Table 1. Leach Performance**

	Mar Q 2009	Jun Q 2009	Sep Q 2009	Dec Q 2009	Mar Q 2010	Jun Q 2010	Sep Q 2010
<b>Heap 1:</b> Weeks Under Irrigation	11	23	33*	42*	44*	56	70
Cumulative Copper Recovered (t)	123	168	208	266	275	307	339
Copper Recovery to Date	22%	30%	37%	47%	49%	55%	61%
<b>Heap 2:</b> Weeks Under Irrigation	7	18	33	47	59	71	85
Cumulative Copper Recovered (t)	143	303	379	429	463	495	533
Copper Recovery to Date	17%	36%	45%	51%	55%	59%	64%
<b>Heap 3:</b> Weeks Under Irrigation	1	12	27	41	53	65	79
Cumulative Copper Recovered (t)	37	319	459	562	609	663	716
Copper Recovery to Date	4%	34%	49%	60%	65%	71%	76%
<b>Heap 4:</b> Weeks Under Irrigation			9	22	34	46	60
Cumulative Copper Recovered (t)			262	430	543	719	958
Copper Recovery to Date			14%	23%	29%	38%	52%

*\*Note Heap 1 was re-stacked twice and effects the number weeks irrigation in the marked quarters*

Source: Finders Resources

**Review of the Wetar Expansion**

▪ **Expansion plans remain the priority**

FND continues to remain focused on the two-staged expansion of Wetar. The Company is aiming to reach a full production rate of 23ktpa of copper cathode by mid-CY12.

In March 2010, the Environmental Impact Assessment (known as AMDAL in Indonesia) was approved for the full scale 23ktpa Wetar copper project. The current critical path item to commencing Stage 1 construction is obtaining the remaining necessary permits.

▪ **Permitting remains the key obstacle**

Final documentation in support of the Mining Permit application has been completed. However, the permit is unlikely to be issued prior to the local elections which will be held in November.

FND is also progressing the Forestry Permit in order to utilise conversion forest areas. The Company has lodged a new spatial plan for Maluku, which pending Ministerial approval, will reclassify conversion forest in the project area to open ground.

While obtaining the necessary approvals is a complicated and time consuming process, FND has vast experience in dealing in Indonesia and continues to manage the process effectively.

- **Stage 1 expansion of the demonstration plant**

FND will transition to commercial scale production via the Stage 1 brownfields expansion of the existing 1.8ktpa demonstration plant to 7ktpa of copper cathode. This will involve expanding the SX-EW plant, upgrading the power supply and installing new leach pads within the footprint of the existing disturbed area from previous mining.

A nine month construction timeframe for Stage 1 will commence upon receiving a Mining Permit. Production is expected to continue from the demonstration plant throughout this period.

During Q3-CY10, the detailed engineering design for Stage 1 was completed and all supplier and contractor bids were received. Accordingly, FND has reported a revised capex estimate of US\$25m which is in-line with the Company's previous guidance.

**Table 2. Revised Capex Estimate for Stage 1**

Component (100% Project Basis)	US\$m
Mine Development	0.5
Process Plant Equipment and Installation	12.2
Heap Leach Pad Construction and Fittings	4.5
Utilities and Reagents	0.8
Infrastructure	0.7
Indirect (including EPCM)	3.9
Others (including First Fills)	1.7
<b>Total (excluding contingencies)</b>	<b>24.3</b>

Source: Finders Resources

FND is currently selecting contractors and suppliers for Stage 1 and is selectively ordering some long lead items. One of the capital items already ordered for Stage 1 is the rectifier which has an expected delivery time from the USA-based supplier of seven to nine months.

- **Stage 2 addition of the Whim Creek plant**

FND has continued to progress Stage 2 engineering design work for installing the Whim Creek SX-EW plant which is currently containerised at the Whim Creek site in WA. Final documentation regarding the import of the plant into Indonesia is expected before the end of CY10, allowing mobilisation to commence in Q1-CY11 (dependent on sea conditions).

During Q3-CY10, FND also exercised an option to purchase the Whim Creek 400tph mobile crushed ore to leach pad stacker and agglomerator for \$0.2m from Venturix Resources Ltd. The capacity of these units matches well with throughput requirements for Stage 2. These units will be disassembled and prepared for inclusion with the shipping of the Whim Creek plant.

The DFS capex estimate for Stage 2 was US\$118m. FND is aiming to provide a revised estimate in December 2010 based on optimised earthworks and the use of Indonesian contractors.

**Table 3. DFS Capex Estimate for Stage 1 & 2**

Component (100% Project Basis)	US\$m
Stage 1 Expansion of Demonstration Plant (7ktpa) – Inc. Working Capital	25.0
Stage 2 Addition of Whim Creek (23ktpa) – Inc. Working Capital	93.0
<b>Total</b>	<b>118.0</b>

Source: Finders Resources

**Finders Resources Ltd (FND)**

Shares on Issue	269.0m
Market Capitalisation	\$104.9m
Year End	31-December

**Equity Valuation, Price Target, 12 Month Return**

Equity Valuation	A\$m	A\$/share
Wetar Copper	162.6	0.59
Exploration	20.0	0.09
Corporate	(34.5)	(0.13)
Hedging	0.0	0.00
Cash	16.4	0.06
Debt	0.0	0.00
Unpaid Capital	1.7	0.01
<b>NPV</b>	<b>\$166.1m</b>	<b>\$0.62/sh</b>
Real Discount Rate		8.00%

<b>12 Month Price Target</b>	
NPV (P/NPV: 0.9x)	\$0.60/sh

<b>12 Month Return</b>	
Capital Return	53.8%
Dividend Yield	0.0%
<b>12 Month Total Return</b>	<b>53.8%</b>

**Production & Commodity Prices (Nominal Terms)**

Key Assumptions	CY09a	CY10e	CY11e	CY12e
Copper Price (US\$/lb)	2.34	3.28	3.48	3.29
USD/AUD Rate (USc)	79.34	91.08	90.00	85.00

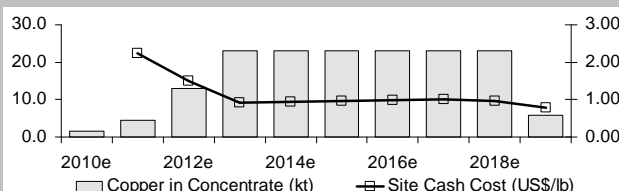
Wetar Production Summary (100%)	CY09a	CY10e	CY11e	CY12e
Copper in Concentrate (kt)	1.13	1.46	4.40	13.09
Site Cash Cost (US\$/lb)	n/m	n/m	2.24	1.51
Total Cash Cost (US\$/lb)	n/m	n/m	2.38	1.64

**Financial Ratios**

Earnings & Cash Flow Multiples	CY09a	CY10e	CY11e	CY12e
EPS	-1.5¢	-2.3¢	1.2¢	6.2¢
EPS Growth	n/a	n/a	n/a	n/a
P/E	n/a	n/a	31.3x	6.3x
EV/EBIT	n/a	n/a	18.4x	4.6x
EV/EBITDA	n/a	n/a	12.2x	3.4x
GCFPS	-3.6¢	-3.0¢	2.2¢	9.7¢
P/GCF	n/a	n/a	18.0x	4.0x
FCFPS	-3.9¢	-6.1¢	-17.8¢	-3.5¢
P/FCF	n/a	n/a	n/a	n/a

Balance Sheet	CY09a	CY10e	CY11e	CY12e
Gearing (Debt/Equity)	4.9%	3.6%	56.4%	40.7%
Gearing (Net Debt/Equity)	-23.5%	-34.7%	11.9%	21.2%
EBIT Interest Cover	n/a	n/a	4.6x	9.5x
ROE	-9.0%	-13.3%	5.3%	21.0%
ROA	-7.8%	-11.9%	3.3%	14.6%
NTA Per Share	16.2¢	17.5¢	23.4¢	29.6¢

Dividends	CY09a	CY10e	CY11e	CY12e
Dividend Per Share	0.0¢	0.0¢	0.0¢	0.0¢
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Dividend Franking	n/a	n/a	n/a	n/a
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%


**Recommendation: BUY**

Date	3 November 2010
Share Price	\$0.39/share
12 Month Target Price	\$0.60/share

**Income Statement**

Full Year Summary (A\$m)	CY09a*	CY10e	CY11e	CY12e
Sales Revenue	3.0	12.5	39.1	105.0
<b>EBITDA</b>	<b>(2.2)</b>	<b>(6.6)</b>	<b>14.7</b>	<b>58.0</b>
Depreciation & Amortisation	0.7	1.3	5.0	15.3
<b>EBIT</b>	<b>(2.9)</b>	<b>(7.9)</b>	<b>9.8</b>	<b>42.6</b>
Net Interest Expense	0.2	0.1	2.1	4.5
Profit Before Tax	(3.1)	(8.0)	7.6	38.1
Income Tax Expense	0.0	(1.5)	2.3	11.4
<b>Underlying NPAT</b>	<b>(3.1)</b>	<b>(6.5)</b>	<b>5.3</b>	<b>26.7</b>
Abnormal Items	0.0	0.0	0.0	0.0
Minority Interests	(0.2)	(0.2)	0.0	0.0
<b>Reported NPAT</b>	<b>(2.9)</b>	<b>(6.3)</b>	<b>5.3</b>	<b>26.7</b>
<b>Normalised Earnings</b>	<b>(2.9)</b>	<b>(6.3)</b>	<b>5.3</b>	<b>26.7</b>

\* CY09a covers only the 6 months to 31-Dec-09.

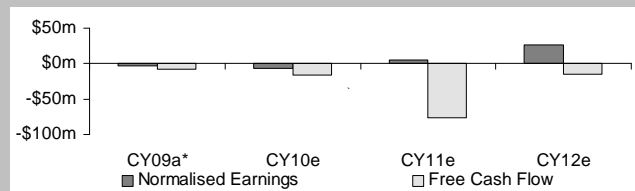
**Cash Flow Statement**

Full Year Summary (A\$m)	CY09a*	CY10e	CY11e	CY12e
EBITDA	(2.2)	(6.6)	14.7	58.0
Inc/(Dec) in Working Capital	1.0	(1.6)	0.0	0.0
Exploration & Other Items	(6.0)	0.1	(5.4)	(16.5)
<b>Operating Cash Flow</b>	<b>(7.2)</b>	<b>(8.2)</b>	<b>9.3</b>	<b>41.5</b>
Capital Expenditure	(0.2)	(5.7)	(85.6)	(56.5)
Other	(0.3)	(2.6)	0.0	0.0
<b>Free Cash Flow</b>	<b>(7.8)</b>	<b>(16.5)</b>	<b>(76.3)</b>	<b>(15.0)</b>
Equity Raised	20.6	19.8	48.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Inc/(Dec) in Borrowings	(7.5)	0.0	55.0	(5.0)
<b>Financing Cash Flow</b>	<b>13.2</b>	<b>19.8</b>	<b>103.0</b>	<b>(5.0)</b>
Effects of Exchange Rates	0.0	(0.0)	0.0	0.0
<b>Movement in Net Cash</b>	<b>5.4</b>	<b>3.2</b>	<b>26.7</b>	<b>(20.0)</b>
<b>Cash at End Period</b>	<b>7.6</b>	<b>16.4</b>	<b>43.0</b>	<b>23.0</b>
<b>Net Cash/(Debt)</b>	<b>7.6</b>	<b>16.4</b>	<b>(12.0)</b>	<b>(27.0)</b>

\* CY09a covers only the 6 months to 31-Dec-09.

**Balance Sheet**

Full Year Summary (A\$m)	CY09a	CY10e	CY11e	CY12e
Cash	7.6	16.4	43.0	23.0
Receivables	2.6	3.6	3.6	3.6
Inventory	2.5	1.7	1.7	1.7
Property, Plant & Equipment	13.6	16.7	97.4	138.5
Exploration Expenditure	6.7	0.7	1.7	2.2
Mine Development	3.9	11.8	11.8	11.8
Other	0.6	1.7	1.7	1.7
<b>Total Assets</b>	<b>37.5</b>	<b>52.5</b>	<b>160.9</b>	<b>182.5</b>
Payables	1.5	2.5	2.5	2.5
Debt	1.6	1.7	56.7	51.7
Provisions	1.0	1.2	1.2	1.2
Other	0.9	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>5.0</b>	<b>5.4</b>	<b>60.4</b>	<b>55.4</b>
<b>Net Assets</b>	<b>32.4</b>	<b>47.1</b>	<b>100.4</b>	<b>127.1</b>
Shareholders' Equity	65.7	85.6	133.6	133.6
Reserves	1.4	2.2	2.2	2.2
Retained Profits	(34.5)	(40.7)	(35.4)	(8.7)
Minority Interests	(0.2)	0.0	0.0	0.0
<b>Total Shareholders' Equity</b>	<b>32.4</b>	<b>47.1</b>	<b>100.4</b>	<b>127.1</b>



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