

Wetar pilot phase successfully completed

Buy

Event

- FND has provided an update on the development of the Wetar copper project.
- FND has simplified the ownership structure of the Wetar project.

Analysis

- Emerging copper story not yet recognised.** FND is well positioned to become a meaningful pure-play copper producer by early-2013. The Wetar project is anticipated to produce 25ktpa over a nine year mine life which is supported by an Ore Reserve of 8.2Mt grading 2.5% copper. We forecast that the project will have a low cash cost of US\$1.10/lb, due to its high copper grade and very low strip ratio.
- Pilot phase completed and leaching performance verified.** During Q4-CY10, FND shut down its pilot plant which has effectively tested every aspect of the operation. Most importantly, this has indicated that terminal copper recoveries are likely to be closer to 80%, compared to 71% assumed in the DFS. We believe that the technical aspects of the Wetar project have been substantially de-risked.
- Permitting remains the key catalyst for development.** The Whim Creek SX-EW plant is containerised for shipment, orders have been placed for other long lead items and all major contractor and equipment suppliers have been selected. While on-site activities are now focused on preparing for project construction, a mining permit is the critical path item. Permitting delays are now starting to encroach on the development schedule, which has already needed to be reviewed.
- Ownership structure simplified.** In January 2011, FND moved to 100% ownership of Banda Minerals (the Australian holding company for the Wetar project) when it purchased PT Batutua Kharisma Permai's (BKP) 3.7% interest for US\$675k cash and 2m FND shares (subject to vesting conditions). BKP retains an entitlement to a 5% interest in the Wetar project.

Earnings Impact

- Near-term production to capture buoyant copper prices.** Wetar is set to ramp up to full-scale production by early-2013, a time when the copper market is forecast to be extremely tight with prices of close to US\$4.00/lb. At this price, Wetar has the potential to generate over \$150m in EBITDA per year.

Recommendation and Price Target

- Retain our BUY and Price Target of \$0.80/share, based on a P/NPV of 0.9x.**
- 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.

8 March 2011

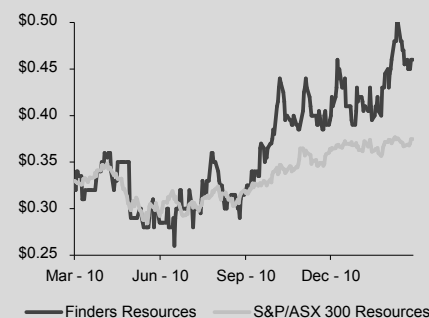
Company Information

Code	FND
Last Price	\$0.46
12 Month Price Target	\$0.80
Total Shareholder Return	73.9%
Valuation	\$0.88
Shares on Issue	278.7m
Market Capitalisation	\$128.2m
Free Float	100%
Monthly Turnover	\$0.7m

Financial Summary

	CY09a*	CY10e	CY11e	CY12e
Revenue (\$m)	11.7	0.0	25.5	189.4
EBITDA (\$m)	(7.2)	(4.1)	8.2	126.7
D&A (\$m)	1.3	0.0	2.3	19.5
EBIT (\$m)	(8.6)	(4.1)	5.8	107.2
Net Interest (\$m)	(0.0)	(1.3)	2.2	4.8
Tax (\$m)	(1.7)	(0.8)	1.1	30.7
Underlying NPAT (\$m)	(6.8)	(1.9)	2.5	71.7
Abnormals	0.0	0.0	0.0	0.0
OEI (\$m)	(0.2)	0.0	0.0	0.0
Reported NPAT (\$m)	(6.7)	(1.9)	2.5	71.7
* CY09a covers only the 6 months to 31-Dec-09				
EPS (¢)	(2.4)	(0.4)	0.6	16.7
EPS growth (%)	n/a	n/a	n/a	n/a
CFPS (¢)	(6.0)	(4.4)	(28.5)	20.4
DPS (¢)	0.0	0.0	0.0	0.0
Cash (\$m)	14.4	55.4	23.3	90.7
Net debt (\$m)	(14.4)	(55.4)	66.7	(20.7)
Net debt / equity (%)	(31.0)	(52.9)	62.2	(11.6)
Interest cover (x)	n/a	n/a	2.6	n/a
ROE (%)	(14.3)	(1.8)	2.4	40.1
ROA (%)	(12.1)	(1.8)	1.3	28.6
NTA per share (¢)	17.8	23.6	24.2	40.9
PE (x)	n/a	n/a	n/a	2.8
EV/EBITDA (x)	n/a	n/a	n/a	1.4

Share Price Performance



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Investment Thesis

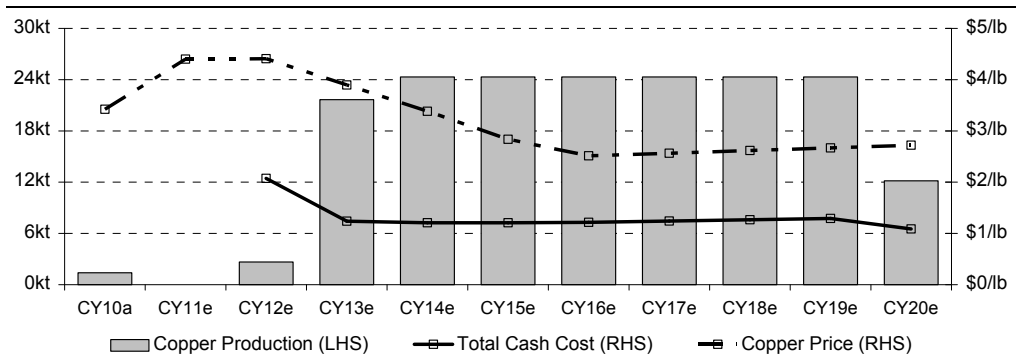
- **Aiming to be in full-scale production by early-2013**

FND is on the verge of project construction at its advanced Wetar copper project. The Company plans to develop Wetar in two stages with an aim of achieving a full production rate of 25ktpa of copper cathode by early-2013.

During the past two years FND has completed a Definitive Feasibility Study (DFS), successfully operated a pilot plant, obtained environmental approval and simplified the project's ownership structure. The next steps involve completing the detailed engineering studies, obtaining the final mining permit and concluding project financing.

Our estimated average life of mine (LOM) total cash cost is US\$1.10/lb, vs. FND's guidance of US\$1.00/lb. Given Wetar's attractive operating cost, it will operate at a very robust cash margin over its nine year open-pit mine life. We forecast the operation to generate an average of \$80m per year in free cash flow, based on our long-term copper price assumption of US\$2.25/lb.

Figure 1. Wetar's Production Profile (Forecast in Nominal Terms)



Key Assumptions

	CY10a	CY11e	CY12e	CY13e	CY14e	CY15e	CY16e	CY17e	CY18e	CY19e	CY20e
Copper Price (US\$/lb)	3.42	4.40	4.41	3.90	3.38	2.84	2.52	2.57	2.62	2.67	2.72
USD/AUD Rate (USc)	92.05	99.50	95.00	93.00	91.00	85.00	85.00	85.00	85.00	85.00	85.00

Wetar Production Summary (100% Project Basis)

	CY10a	CY11e	CY12e	CY13e	CY14e	CY15e	CY16e	CY17e	CY18e	CY19e	CY20e
Copper Cathode (kt)	1.39	0.00	2.66	21.66	24.32	24.32	24.32	24.32	24.32	24.32	12.16
Site Cash Cost (US\$/lb)	n/m	n/m	1.90	1.08	1.07	1.09	1.12	1.14	1.16	1.19	0.98
Total Cash Cost (US\$/lb)	n/m	n/m	2.07	1.24	1.21	1.21	1.22	1.24	1.27	1.29	1.09

Source: Blackswan Equities

- **A compelling investment case on all valuation metrics**

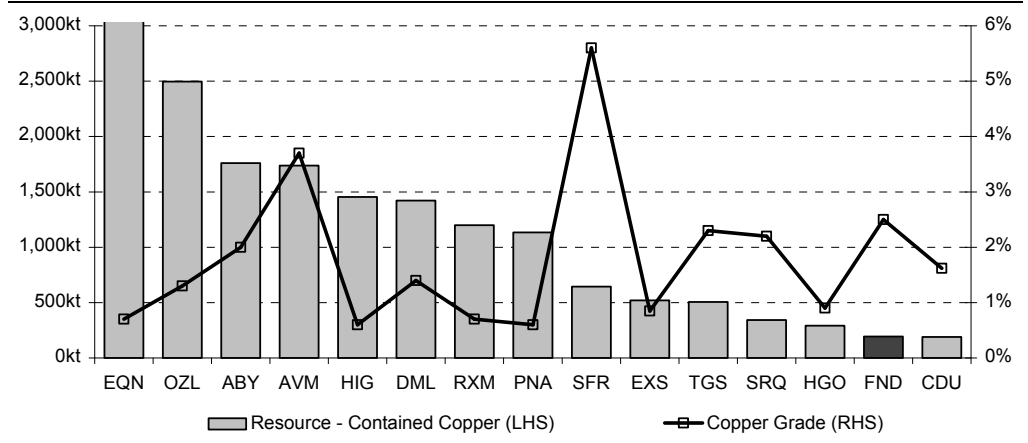
From a valuation stand-point, we believe FND represents the most attractive investment amongst its ASX-listed copper peers. We derive an NPV for the Company of \$249m or \$0.88/share.

In the current market, it is exceptionally rare to see a pure-play copper company trade below its NPV. Over the next 12 months we expect FND's share price to converge towards its NPV as it achieves development milestones, the most important milestone being the mining permit.

We also expect FND's EV/Annual Production and EV/Reserve ratios to converge on its peers as the market comes to appreciate the Company's high-quality reserve base and begins to accept FND as a likely producer (see Figures 6 and 7 on the page 4).

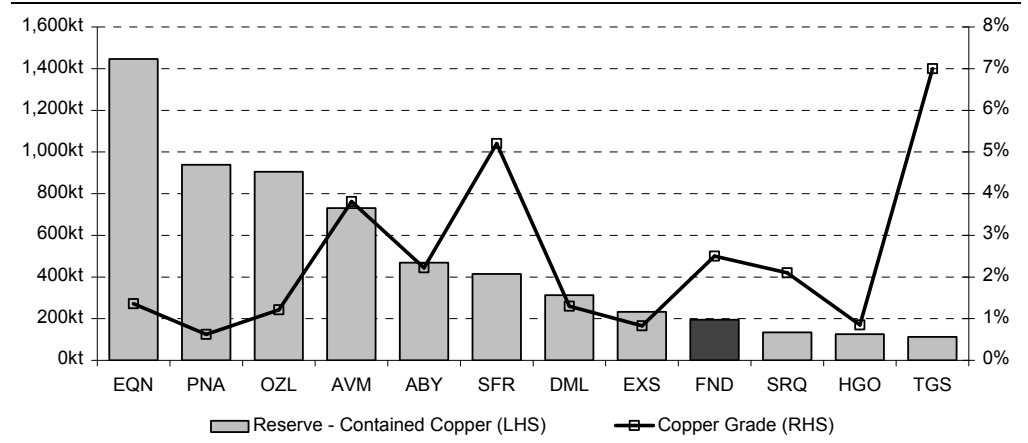
ASX-Listed Copper Peer Comparisons

Figure 2. Mineral Resources



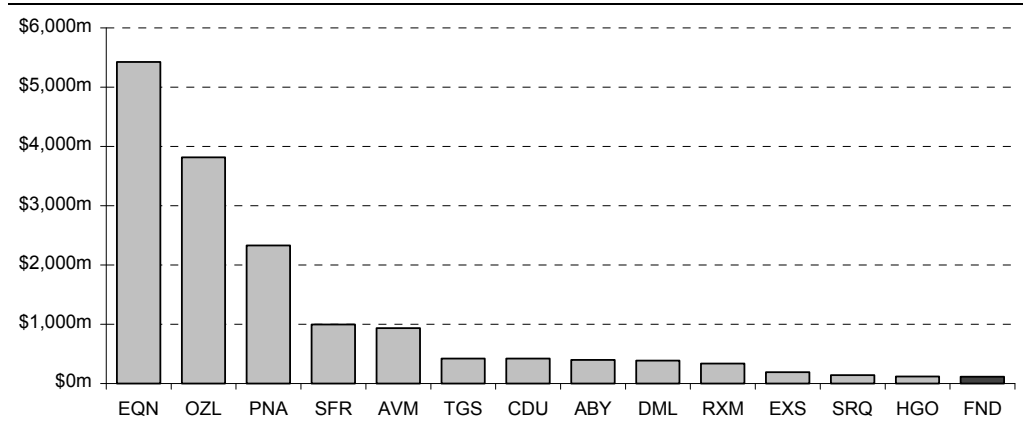
Source: Blackswan Equities

Figure 3. Ore Reserves



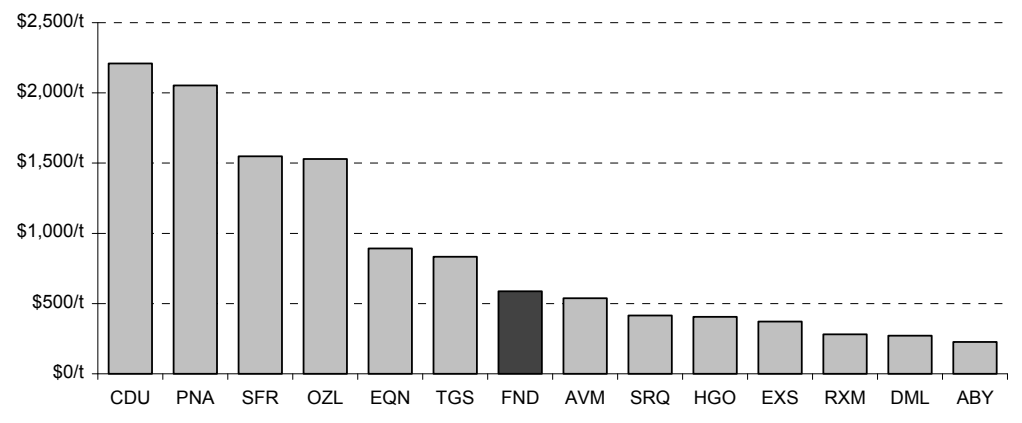
Source: Blackswan Equities

Figure 4. Enterprise Values



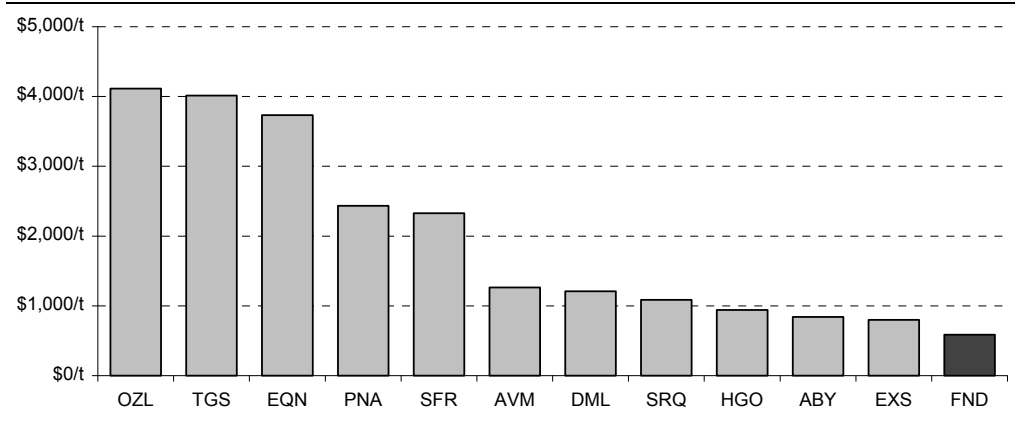
Source: Blackswan Equities

Figure 5. Enterprise Value to Resource



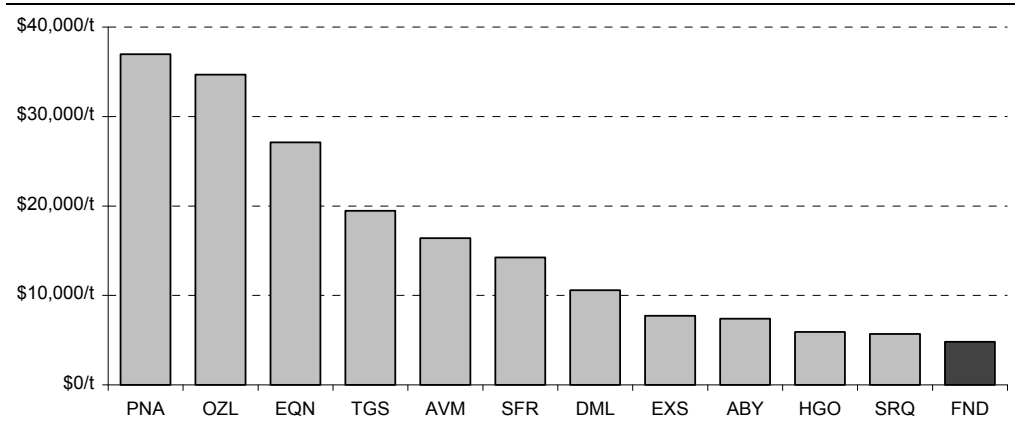
Source: Blackswan Equities

Figure 6. Enterprise Value to Reserve



Source: Blackswan Equities

Figure 7. Enterprise Value to Annual Production



Source: Blackswan Equities

Overview of the Wetar Copper Project

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

The Wetar deposits were discovered by CSR Ltd in 1986 and subsequently sold to Billiton Indonesia in 1988. From 1990 to 1997, Billiton mined the gold-silver-barite ores from two shallow open-pits (Kali Kuning and Lerokis). Underlying these gold-silver caps is copper mineralisation which was never mined as it could not be treated by the gold plant.

This copper ore was left exposed in the base of the gold pits. Ore Reserves at Wetar are 8.2Mt grading 2.5% copper, for 205kt of contained copper. This reserve is contained within the two historic open-pits with an overall strip ratio of 0.95:1. A third deposit (Meron) has a potential resource of about 0.5 to 1.5Mt grading 1 to 3% copper.

In the past, FND's Managing Director and local Indonesian partner both worked for Billiton at the Lebong Tandai and Wetar gold mines. Through this familiarity, FND acquired the Wetar project in co-operation with its local partner in December 2004.

- **Pilot phase now complete**

In November 2009, FND completed a DFS which investigated the economics of an on-site heap leaching and SX-EW processing operation at the Wetar project. As part of this, FND built a pilot plant with 1.8ktpa copper cathode capacity which was commissioned in February 2009.

The pilot plant successfully demonstrated that Wetar can produce LME Grade A copper cathode within specification. Circa 2,500t of copper cathode has been sold at a premium to the LME price.

The pilot phase is now essentially complete and allowed FND to test every aspect of the operation, including processing, logistics and marketing. In addition to confirming all of the parameters incorporated into the final detailed engineering studies, this experience will greatly assist the process of obtaining project financing.

- **Project development awaits permitting**

Activities on-site are now focussed on preparation for development and transitioning the Wetar project from a pilot plant into full-scale production of 25ktpa of copper cathode.

The final mining permit is the critical path item to commence project construction. While the delay in obtaining the mining permit has not slowed the development timeframe to date, this milestone is now critical to avoid delaying the targeted full-scale production date of early-2013.

- **Project offers low capital intensity and attractive operating 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, agglomerator and stacker, which is containerised for shipment to Wetar in March 2011 (contingent of weather conditions).

We expect that total capex (including working capital) will be approximately US\$130m. FND will be seeking to use a 60:40 debt to equity financing mix. This gives the project a relatively low capital intensity of US\$5,200/t of annual production, vs. an industry average of US\$7,500/t.

We estimate that Wetar will have a relatively low cash cost of US\$1.10/lb, placing the operation in the middle of the industry cost curve. While high copper grades and very low strip ratios are attractive, the operation will rely on expensive diesel generated power.

Wetar Development Program

- **Pilot phase completed and leaching performance confirmed**

The pilot plant was permitted to process 100kt of ore from the Kali Kuning deposit, of which all was stacked on four test heaps. Cumulative leached copper from the 100kt bulk sample had achieved a 65% recovery by the end of Q4-CY10.

The Heap 3 leach pad provides the most accurate reflection of the likely terminal copper recoveries from the Wetar ore. At the end of Q4-CY10, Heap 3 had reached a copper recovery of 79.3% after approximately 83 weeks of irrigation. Accordingly, the pilot phase has indicated that terminal copper recoveries are likely to be well in excess of the 71% assumed in the DFS.

- **Permitting remains the key obstacle to project development**

In March 2010, the Environmental Impact Assessment (known as AMDAL in Indonesia) was approved for the full-scale Wetar project.

Final documentation in support of the mining permit application has been completed. However, changes in the key government personnel handling the application have led to further reviews of previously submitted documents. FND is also progressing the forestry permit in order to utilise conversion and production forest areas.

Obtaining these permits is the key trigger for FND to award project financing and commence construction.

The development schedule is currently being reviewed to accommodate permitting delays. The Company now plans to commence the construction of both Stage 1 and Stage 2 concurrently. Final detailed cost estimates and an updated mine plan will be released as part of the Bankable Feasibility Study (BFS) results in Q2-CY11.

Figure 8. Development Timeframe

Activity	Timing
Pre-Feasibility Study	Complete
Pilot Plant	Complete
Environmental Permit Approval (AMDAL)	Complete
Definitive Feasibility Study	Complete
Stage 1 Detailed Engineering	Complete
Mining Permit	Target – Q1-CY11
Project Financing – Mandate	Target – Q1-CY11
Stage 2 Detailed Engineering & Bankable Feasibility Study	Target – Q2-CY11
Project Financing – Close	Target – Q2-CY11
Stage 1 Production	Target – Q2-CY12
Stage 2 Construction Completion	Target – Q4-CY12
Stage 2 Production	Target – Q1-CY13

Source: Finders Resources

The above timeframe is subject to required permitting, bank financing and no forestry moratorium.

Finders Resources Ltd (FND)

Shares on Issue	278.7m
Market Capitalisation	\$128.2m
Year End	31-December

Recommendation: BUY

Date	8 March 2011
Share Price	\$0.46/share
12 Month Target Price	\$0.80/share

Equity Valuation, Price Target, 12 Month Return

Equity Valuation		
	A\$m	A\$/share
Wetar Copper Project	224.3	0.79
Wetar Exploration	19.0	0.07
Ojolali Gold-Silver Project	16.9	0.06
Corporate	(27.2)	(0.10)
Hedging	0.0	0.00
Cash	14.4	0.05
Debt	0.0	0.00
Unpaid Capital	1.6	0.01
NPV	\$249.1m	\$0.88/sh
Real Discount Rate		8.00%

12 Month Price Target	
NPV (P/NPV: 0.9x)	\$0.80/sh

12 Month Return	
Capital Return	73.9%
Dividend Yield	0.0%
12 Month Total Return	73.9%

Production & Commodity Prices (Nominal Terms)

Key Assumptions				
	CY10e	CY11e	CY12e	CY13e
Copper Price (US\$/lb)	3.42	4.40	4.41	3.90
USD/AUD Rate (USC)	92.05	99.50	95.00	93.00

Wetar Production Summary (100%)				
	CY10a	CY11e	CY12e	CY13e
Copper Cathode (kt)	1.39	0.00	2.66	21.66
Site Cash Cost (US\$/lb)	n/m	n/m	1.90	1.08
Total Cash Cost (US\$/lb)	n/m	n/m	2.07	1.24

Financial Ratios

Earnings & Cash Flow Multiples				
	CY10e	CY11e	CY12e	CY13e
EPS	-2.4¢	-0.4¢	0.6¢	16.7¢
EPS Growth	n/a	n/a	n/a	n/a
P/E	n/a	n/a	n/a	2.8x
EV/EBIT	n/a	n/a	n/a	1.6x
EV/EBITDA	n/a	n/a	n/a	1.4x
GCFPS	-3.0¢	-0.6¢	1.0¢	21.1¢
P/GCF	n/a	n/a	n/a	2.2x
FCFPS	-6.0¢	-4.4¢	-28.5¢	20.4¢
P/FCF	n/a	n/a	n/a	2.3x

Balance Sheet				
	CY10e	CY11e	CY12e	CY13e
Gearing (Debt/Equity)	3.6%	1.6%	85.5%	40.1%
Gearing (Net Debt/Equity)	-31.0%	-52.9%	62.2%	-11.6%
EBIT Interest Cover	n/a	n/a	2.6x	n/a
ROE	-14.3%	-1.8%	2.4%	40.1%
ROA	-12.8%	-1.7%	1.2%	28.2%
NTA Per Share	16.7¢	24.4¢	25.0¢	41.7¢

Dividends				
	CY10e	CY11e	CY12e	CY13e
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%

Income Statement

Full Year Summary (A\$m)				
	CY10e	CY11e	CY12e	CY13e
Sales Revenue	11.7	0.0	25.5	189.4
EBITDA	(7.2)	(4.1)	8.2	126.7
Depreciation & Amortisation	1.3	0.0	2.3	19.5
EBIT	(8.6)	(4.1)	5.8	107.2
Net Interest Expense	(0.0)	(1.3)	2.2	4.8
Profit Before Tax	(8.6)	(2.7)	3.6	102.4
Income Tax Expense	(1.7)	(0.8)	1.1	30.7
Underlying NPAT	(6.8)	(1.9)	2.5	71.7
Abnormal Items	0.0	0.0	0.0	0.0
Minority Interests	(0.2)	0.0	0.0	0.0
Reported NPAT	(6.7)	(1.9)	2.5	71.7
Normalised Earnings	(6.7)	(1.9)	2.5	71.7

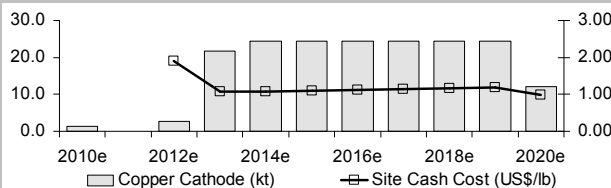
Cash Flow Statement

Full Year Summary (A\$m)				
	CY09a*	CY11e	CY12e	CY13e
EBITDA	(7.2)	(4.1)	8.2	126.7
Inc/(Dec) in Working Capital	(3.0)	0.0	0.0	0.0
Exploration & Other Items	1.9	1.6	(3.9)	(36.1)
Operating Cash Flow	(8.3)	(2.5)	4.3	90.6
Capital Expenditure	(5.8)	(16.6)	(126.3)	(3.2)
Other	(2.6)	0.0	0.0	0.0
Free Cash Flow	(16.7)	(19.1)	(122.0)	87.4
Equity Raised	19.6	60.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Inc/(Dec) in Borrowings	0.0	0.0	90.0	(20.0)
Financing Cash Flow	19.6	60.0	90.0	(20.0)
Effects of Exchange Rates	(0.0)	0.0	0.0	0.0
Movement in Net Cash	2.9	40.9	(32.0)	67.4
Cash at End Period	14.4	55.4	23.3	90.7
Net Cash/(Debt)	14.4	55.4	(66.7)	20.7

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

Balance Sheet

Full Year Summary (A\$m)				
	CY10e	CY11e	CY12e	CY13e
Cash	14.4	55.4	23.3	90.7
Receivables	3.6	3.6	3.6	3.6
Inventory	1.7	1.7	1.7	1.7
Property, Plant & Equipment	16.7	33.3	157.3	141.0
Exploration Expenditure	0.7	1.2	1.8	2.4
Mine Development	11.8	11.8	11.8	11.8
Other	3.1	3.1	3.1	3.1
Total Assets	52.0	110.1	202.6	254.3
Payables	2.5	2.5	2.5	2.5
Debt	1.7	1.7	91.7	71.7
Provisions	1.2	1.2	1.2	1.2
Other	0.0	0.0	0.0	0.0
Total Liabilities	5.4	5.4	95.4	75.4
Net Assets	46.6	104.7	107.2	178.9
Shareholders' Equity	85.5	145.5	145.5	145.5
Reserves	2.2	2.2	2.2	2.2
Retained Profits	(41.1)	(43.0)	(40.5)	31.2
Minority Interests	0.0	0.0	0.0	0.0
Total Shareholders' Equity	46.6	104.7	107.2	178.9



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