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The Mining Investment Experts

**OZEQUITIES
COMMENTARY
On Presentation**

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Catalyst Metals Ltd (“CYL”)

“A New Molybdenum Story on Its First Public Outing”

Recent IPO Flew High, then Fell

CYL was a recent IPO, listing on 26 July 2006, after raising \$3.2m at 20¢ a share. The stock initially came on strongly, peaking at 35¢, but since then a steady slide has taken the price back to the IPO level of 20¢. We first looked at the Company’s lead project, Minnie Springs, in 2005 when the private owner was considering joint venture proposals and options for advancing the prospect. At the time it certainly appeared to be one with merit, and good upside when compared to another molybdenum project – Spinifex Ridge (Moly Mines). The ability to raise funds in the IPO has given Mark Thompson, the original holder of the licence and now the CEO, an opportunity to demonstrate what he believes he has on the table

Simple, One Project Company

CYL comes across as a single purpose company; one that aims to prove and develop a major molybdenum resource. As such it give investors a clear and focused alternative to the general purpose junior exploration stock.

Classic Molybdenum in Porphyry

Without getting bogged down in geology, we can described the Minnie Springs discovery as being part of a classic porphyry system which give rise to large tonnage potential; the known dimensions of the system are 5 km x 2 km. This is in contrast to the narrower skarn-type of mineralisation, which a number of other Australian companies are looking to develop, frequently containing molybdenum and tungsten (scheelite).

Although there is potential for in excess of 100 mill. tonnes within the system, CYL is aiming to confirm a figure of only 7-10 mill. tonnes in the first instance, then building on this figure. This would be sufficient for a 5-7 year mine life at a rate of 1.5 mtpa. At the expected grade of 0.1% Mo, this would give an in-situ resource of 7-10,000 t (15-22 mill. lb) of molybdenum. The economic significance of this can be compared to that of a million ounce gold deposit, at US\$600/oz.

Quick to Prove Up A Resource

To prove up a resource of the 7-10 mt size is not an expensive exercise due to the 100m width of the mineralisation. It would only need a 300m strike length to a depth of 100m. The first 20 RC drill holes are about to commence, with a pattern of holes on lines spaced 50m apart.

We would expect that CYL will seek to double this initial resource prior to committing to any sort of feasibility study or development plan.

Comparison with Others

Minnie Springs has a number of advantages when compared with Spinifex Ridge, the most obviously similar project in Australia.

Moly Mines describes Spinifex Ridge as “world class”. Indeed, it is a substantial orebody with a Measured and Indicated Resource of 469 mill. tonnes at 0.06% molybdenum and 0.01% Cu. It is planning for a 15 mtpa operation for at least 20 years, with a capital cost of \$600m (US\$466m). It could produce 21 mill. lbs of Mo and 8,500 tpa Cu, in separate concentrates. Cash operating costs would be US\$4.50/lb (pre copper credits).

In contrast, CYL is much more modest in its expectations. A 1.5 mtpa plant for a simple crush/grind/float operation might cost in the order of \$70m, with mining fleet and infrastructure adding another \$50m (but this is really guesswork).

The grade at Minnie Springs would be much higher (0.1% versus 0.06%), but there would be no copper credits. However, early drilling, which returned a 64m intercept at 0.09% Mo, also included widths of 24m at 0.14% Mo. This suggests that there could be a high grading option if necessary.

The Company believes that the assaying techniques were defective when the first drill holes were analysed and has suggested that we could see up to a 20% improvement in grade. This could be interesting.

Minnie Springs virtually outcrops so the waste to ore ratio would be almost nothing for the first few years, whereas Spinifex Ridge is expecting 1.4:1. This sounds low, but it is still a sizeable tonnage to move each year (21 mill tonnes).

Even though Minnie Springs is modest in size, to begin with, the system is sufficiently large that it could fit Spinifex Ridge into it three times over. Thus, there is nothing modest about the potential size.

Metallurgy Not Expected to Be A Problem

At this point there is nothing adverse known about the metallurgy of the ore. To the contrary it seems as if the large flat grains are well suited to the flotation process, suggesting recovery rates to concentrates in the order of 85-90%.

Molybdenum Price

The molybdenum price has, like just about every other commodity, been the beneficiary of the enormous appetite for raw materials in China. From a

price of below US\$5/lb in 2003/04, the molybdenum price peaked at US\$40/lb in mid 2005, before falling to US\$23/lb in 2006. It is currently sitting at about US\$27/lb, still well ahead of the US\$11.93/lb average for the past 10 years. Stocks of molybdenum have been reported to be at their lowest levels for 14 years

Molybdenum Production – World Profile

In 2005, the world production was 389 mill. lbs. High grade mines (0.2%) in North America contributed 38% of this while lower grade Mo/Cu mines in South America, with grades 0.01-0.03% contributed another 36%.

Rhenium – An Ultra-Exotic Co-Product?

You will be excused for ignorance on this one, as I hadn't heard of it before today. Apparently it is a very rare metal that is used in catalysts. It sells for US\$32/g (gold is \$19/g).

Rhenium is believed to be tied up in the molybdenum grain at Minnie Springs at a grade of 1 gpt. CYL might be looking at production of 1.3 mill grams p.a., which would have a gold equivalent value of about 70,000 oz p.a. We are not aware of what payment terms would be, as it would report to concentrates with the molybdenum, but it could be very significant as a co-product.

The Bottom Line

Investors usually gloss over when given a specialty metal company to look at, for anything more exotic than gold is usually put in the too hard basket as there is a shortage of comparisons with other companies. This could change as the knowledge of the mining sector improves.

CYL is a very tightly capitalised company with only 23 million shares on issue, giving a tiny market capitalisation of \$5.5m, backed by just under \$3m in cash; but remember that there are four million shares in each of Class A and Class B, which will vest upon share price performance measures or the proving of minimum size resources in gold equivalent terms (share price over 50¢ and 75¢ for 30 days, resources of 150,000 oz and 225,000 oz). While this is designed to give incentive and a level of comfort to shareholders, it seems reasonable to assume these hurdles will be met so there will be 32 mill. shares on issue, giving a market capitalisation of \$7.7m. At this

price CYL can be regarded as an “option” on the molybdenum price.

A 1 for 2 option issue has been announced, costing 1¢ and exercisable at 20¢ by December 2008. The shares go ex-entitlement to the issue on 10 November, so there is a little “bonus” there for shareholders at present.

It wouldn't take much buying, inspired perhaps by some good results, to make the stock perform. The tight capitalisation is a double-edged sword however. The Company needs to deliver at the end of the day, if it is going to satisfy serious investors.

Geologically the Company seems to have to goods. A substantially higher share price can be expected as the work program is undertaken and the number become clearer. However, it is an early stage project that is unlikely to benefit from the recent high point in the price cycle (like most other prospective molybdenum producers). This means that it will have to look better than its competitors if it is going to get up and running at some later date.

In the interim, the share price will also be affected by the performance of other near development companies such as Moly Mines. It will experience collateral benefit if Moly Mines is successful as CYL will be seen as an earlier stage play and the confidence could well rub off onto its share price. However, there could also be collateral damage if Moly Mines disappoints shareholders. (The impact on the rest of the lateritic nickel hopefuls was very apparent when Anaconda Nickel stumbled, and almost fell).

The table below is incomplete due to unavailability of information, but it gives an idea of molybdenum projects out there

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Project	Company	Location	Capex US\$m	Plant Size mtpa	Grade % Mo	Cash Costs US\$/lb	Strip Ratio	Forecast Prod'n Mill lb Mo	% World Supply	First Prod'n
Davidson	Blue Pearl Mining	Canada	50	0.7	0.29%	\$8.00	u/g	5	1.3%	2008
Lucky Ship	New Cantech	Canada	?	1.8	0.09%	?	?	5	1.3%	2009
Malmberg	International Moly	Greenland	?	?	?	?	?	22	5.7%	2010
Minnie Springs	Catalyst	Australia	?	1.5	0.09%	?	?	5	1.3%	?
Mt Hope	Idaho General	Nevada, USA	?	14	?	\$3.40	?	30	7.7%	2009
Ruby Creek	Adanac Moly	Canada	320	7	0.06%	?	0.95:1	8	2.1%	2008
Spinifex Ridge	Moly Mines	Australia	450	15	0.06%	\$4.50	1.4:1	20	5.1%	2008