

Adanac Molybdenum



Adanac is developing the Ruby Creek molybdenum mine in British Columbia - a bulk tonnage mine currently on track to process up to 20,000 tonnes per day from early 2009 and with a predicted operating life of at least 21 years.

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Initiation Report

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Key Points

1 June, 2007
Price: C\$1.96

Adanac Molybdenum Corporation is a junior mining exploration and development company based in Canada with four molybdenum properties. The primary property, Ruby Creek in British Columbia, is a bulk tonnage mine currently on track to process up to 20,000 tonnes per day from early 2009 and with a predicted operating life of at least 21 years.

- **All set to take advantage of buoyant molybdenum prices**

Adanac is in the final stages of the permitting process and expects to start facilities construction work in third quarter of 2007 with full production to be underway by the first quarter of 2009. This time scale will enable it to take advantage of the still buoyant molybdenum price of US\$30 per pound. As a primary concentrate, Adanac's product will be in particular demand at roasting facilities.

- **Profitability not dependent on current high prices**

Adanac's plans do not rely on the currently high prices for molybdenum but work on the assumption that prices will decline over the long term. Production will be maximised in the first five years to take advantage of the higher price levels and then the operating focus will revert to cost minimisation and cash flow sustainability. Even at the levels of US\$8 per pound predicted by Adanac for 2020, the company would remain profitable.

- **Demand remains strong and still rising**

Molybdenum's unique anti-corrosive and temperature resistant properties, particularly in stainless steels and high tech steel alloys, has led to an increase in demand across a wide number of industries. It is used in nuclear reactors, space equipment, the defence industry, architecture, petroleum production, and perhaps most notably oil and gas pipelines, with new applications continually being developed. The strength of the steel industry in both China and India has given the market further confidence in the outlook for molybdenum.

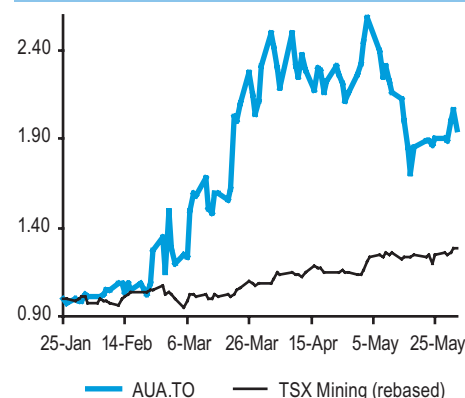
- **Supplies have yet to catch up**

The loss of a significant part of the molybdenum production in China in 2005 has yet to be replaced and anticipated new supplies have so far failed to materialise. In addition to tight supplies of molybdenum concentrates, there is a shortfall in roasting capacity to convert the concentrate, which lends further support to the price.

- **Recent drilling suggests there's more**

Exploration drilling undertaken last year suggests that the original calculations may have underestimated the grade of the deposit and that reserves may increase. The deposit is open to depth and to the south and southwest. In addition further resources may exist to the west. This can only increase confidence in the prospects for the Ruby Creek project.

Price chart (C\$)



Value of equity*

Expected Value	C\$281.3m
Value per share	C\$2.95
Pessimistic Scenario	C\$213.6m
Optimistic Scenario	C\$331.0m
Value per share	C\$2.24 - C\$3.47

* our view of what today's share price should be given potential risk and returns

Company details

Quote

Shares

-Toronto Stock Exchange AUA.TO

-Frankfurt A9N.F

-Pink Sheets AUAYF.PK

Hi-Lo last 12-mos. (C\$) 0.90 - 2.75

Shares issued (m) 95.3

Fully diluted (m) 127.8

Market Cap'n (C\$m) 187.6

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Adanac is a junior mining stock with one project in the final stages of permitting. Construction is scheduled to begin this summer, commissioning by the end of next year and full production during early 2009. The company has three further properties in various stages of exploration and evaluation but with no predicted production date as yet.

Significant potential in Ruby Creek...

The primary asset, Ruby Creek, is a bulk-tonnage molybdenum mine with life estimated of least 21 years and milled tonnage estimated at 144 million tonnes. There is some prospect for an increase in both the grade and probable reserves as further exploration is undertaken; particularly as a new zone discovered in 2006 is systematically explored.

backed by strong demand...

Molybdenum is currently enjoying buoyant prices, although at US\$30 per pound it is still some way off its historical high of US\$40 achieved during 2005. There is every reason to see prices remain firm on the basis of:

- Strong economic growth in China and India
- Increasing applications in high performance steel alloy production and chemical catalysts
- Tight supply as Chinese production has slowed dramatically and new supplies from Mexico and Chile have yet to materialise
- Constraints in roasting capacity

....and good relationships

Adanac has developed good relationships with the local Taku River Tlingit First Nation in British Columbia and its plans for Ruby Creek have received support from the local community in general. Federal approvals are expected at the same time as environmental provincial approval; the Mining Lease has been approved by the Gold Commissioner for British Columbia.

Funding for the next year is in place

Sufficient funding is already in place to complete the next six to eight months exploration and corporate expenditure, together with the initial costs of securing key equipment and contractor services. Thereafter, completion will require appreciable further funding: capital costs are estimated at C\$390 million with an additional C\$80 million to cover contingencies, working capital and start up costs. The balance between debt and equity is being examined with the outcome dependent on the expected molybdenum price, about which the company is making conservative assumptions. Joint venture partnerships are also being considered.

Detailed engineering design and procurement of long lead time equipment is under way. In this light and even given the company's conservative approach to prospective molybdenum prices, the proposed returns look achievable.

Stable political climate

Customers are increasingly seeking reliable supplies of molybdenum concentrate from stable regions of the world. British Columbia has a population of 4.3 million, some 13% of the Canadian total. It has a strong, stable diverse economy with significant natural resources including natural gas and large mineral deposits. GDP per capita is growing at 5.8% per annum compared to 5.2% for Canada as a whole.

The table below shows key economic data for the region.

Key economic data					
	2005 data			2004 data	
	Employment	% of total goods	% of total employment	% of GDP, goods	% of total GDP
Total, all industries	2,130.5		100.0		100.0
Goods-producing sector	452.7	100.0	21.2	100.0	27.3
Manufacturing	198.2	43.8	9.3	44.2	12.1
Construction	168.0	37.1	7.9	22.8	6.2
Agriculture	38.7	8.5	1.8	3.4	0.9
Forestry & logging	21.6	4.8	1.0	10.8	2.9
Mining and oil & gas extraction	13.8	3.0	0.6	11.8	3.2
Utilities	10.3	2.3	0.5	6.7	1.8
Fishing, hunting & trapping	2.1	0.5	0.1	0.4	0.1

Source: British Columbia Government Statistics

Our valuation approach

We have valued Adanac based on assessing the economic potential of the company's properties after accounting for: the likelihood that an economic resource will ultimately be proven; the likelihood that feasibility will be established (after considering metallurgical, social and permit issues etc) and the likely economics if actual mining were to occur (tax, operating costs etc).

One of the key issues that must be considered in any mining analysis is the problem posed by the dependence of our assessment on commodity prices. This issue takes two forms – what will be the price environment when mining eventually occurs; and the operating dynamics in response to changing mining prices.

From a valuation perspective the aspect of operational dynamics that is of interest is the ability to “moth-ball” operations during periods when the commodity price is below the marginal cost of extraction. This creates what is frequently referred to as “optionality” - something that traditional NPV fails to capture. Intuitively this can most easily be understood by thinking of NPV as assuming that positive and negative deviations from our mid-case have a similar likelihood of occurring and hence balance each other– however, in mining, the downside is capped at the cost of “moth-balling” the site.

We capture these aspects by valuing each years' production as an option assuming that prices revert to mean over the long run – ie, the mine will only be operated if the commodity price is above the extraction cost. In essence, rather than valuing that years' production as we would in an NPV model as the discounted value of the cashflow estimated using the mid-case for the commodity price we value the probability that the price is above the extraction cost.

In valuing the economic potential of resource projects we assume that while commodity prices are volatile they return to an inflation-adjusted, long-run mean. For example, in the case of molybdenum it has historically traded at approximately US\$9.40/lb (in current dollars) with deviations from mean normally correcting over 6 years with a volatility of 35%.

Our key assumptions

Adanac's key asset is the Ruby Creek project, our key assumptions for this property are:

- the property currently has a reserve of 143.7m tonnes and a further indicated and inferred resource of 94.2m tonnes. We have assumed this will translate to a mineable resource of 209.6m tonnes or 168.5m tonnes on a risked basis.
- we have modeled limited mining commencing in 2009 targeting a 20,000 tpd capacity. Capex is anticipated to be under C\$500m.
- we have assumed that operating costs will start at C\$10.20 per tonne in the first year of mining. We have assumed a 32% corporate tax rate.

Valuation summary (C\$m)

	Scenario		
	Base	Pessimistic	Optimistic
Property portfolio			
- Ruby Creek	309.5	218.0	377.0
- other	6.1	6.1	6.1
Total	315.6	224.1	383.1
Less: overhead	15.6	15.6	15.6
Expected value of portfolio	300.0	208.5	367.5
Add: other investments	0.0	0.0	0.0
Add: starting cash + new funds	67.3	67.3	67.3
Total Current Value for Firm	367.3	275.8	434.8
Less: bank & other debt	1.1	1.1	1.1
Total Value to Equity Claims	366.2	274.7	433.7
Less: Alternative Equity Claims	84.9	61.1	102.7
Ordinary Equity Holders	281.3	213.6	331.0
Value per share (C\$)	2.95	2.24	3.47

Expected value of Adanac Molybdenum Corp

Scenario	Risky mineable resources (m tonnes)	Ruby Creek property		AUA Valuation (C\$m)	Value per share (C\$)
		Risked mineable resources (m tonnes)	Ruby Creek property value (C\$m)		
Base case outlook	168.5	309.5	281.3	2.95	
Value for scenarios of further exploration success					
Full proved up	188.7	386.5	338.0	3.55	
Optimistic outlook	186.0	377.0	331.0	3.47	
Pessimistic outlook	144.8	218.0	213.6	2.24	
Value with no further exploration success					
Current resource estimate	116.4	121.3	141.4	1.48	

Notes:

- 'fully proven up' scenario assumes that current mineable resource estimates are upgraded to 'Proven' status
- for further details see Ruby Creek property section

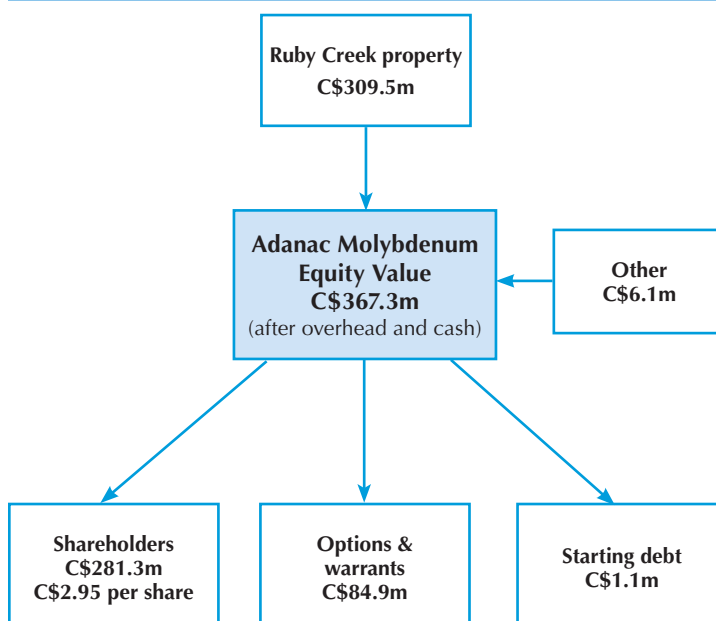
Sensitivities for assumptions on ...

Long run real moly price (US\$/lb)	7.40	8.40	9.40	10.40	11.40	
Value (C\$/share)	1.06	2.55	2.95	3.36	4.17	
Time for metal price to revert to mean (years)		4	5	6	7	8
Value (C\$/share)	1.50	2.22	2.95	3.66	4.34	
Volatility of moly price (%)	30%	35%	40%	45%	50%	
Value (C\$/share)	2.60	2.95	3.37	3.86	4.43	
Interest rate (%)	4.6%	4.7%	4.8%	4.9%	5.0%	
Value (C\$/share)	3.05	3.00	2.95	2.90	2.86	

Ruby Creek sensitivities for assumptions on ...

Change in assumed recovery rate (%)	-5%	-3%	0%	3%	5%
Value (C\$/share)	2.72	2.84	2.95	3.07	3.22
Operating Costs (C\$ per tonne)	9.69	10.20	10.71	11.22	11.73
Value (C\$/share)	2.90	2.95	3.03	3.03	2.88
Increase in Capital Cost (%)	+0%	+10%	+20%	+30%	+40%
Value (C\$/share)	2.95	2.67	2.39	2.11	1.83

Components of Adanac Molybdenum Corp's entity value



Ruby Creek Valuation (C\$m)

Scenarios for exploration success	Base	Optimistic	Pessimistic
Net value of production	839.8	839.8	839.8
Probability of mining success	81%	89%	70%
Expected net value of production	678.8	746.3	587.4
Add: tax shield on depreciation charge	115.4	115.4	115.4
Less: development & operational capex	484.0	484.0	484.0
Value of mining operations	310.1	377.7	218.7
Probability of reaching mine development	100%	100%	100%
Expected value of deposit	310.1	377.7	218.7
Less:			
- expect pre-development costs*	—	—	—
- further exploration costs **	0.7	0.7	0.7
Expected value of project	309.5	377.0	218.0
effective risk haircut	34%	20%	54%
Ownership	100%	100%	100%
Adanac's share	309.5	377.0	218.0

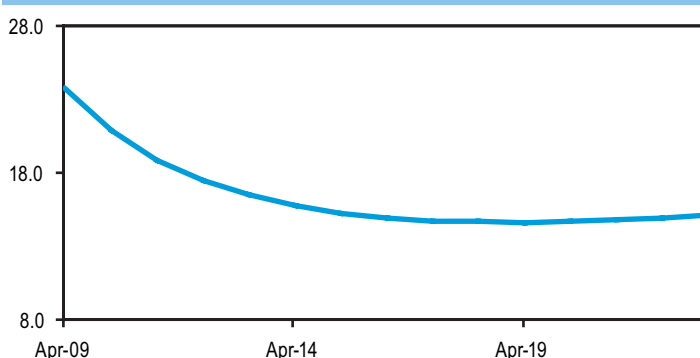
* shown as expected value of being incurred after allowing for likelihood of reaching each development stage

** present value

Commodity assumptions

Molybdenum prices are mean reverting	
Long run level	9.40 US\$/lb
Avg time to revert	6 years
Volatility	35%
Inflationary price growth	2%

Expected molybdenum price



Our results

After allowing for likely economics, exploration potential and development risk our analysis suggests an expected value of C\$309.5m for the Ruby Creek property. After allowing for corporate overhead and outstanding warrants this values Adanac's ordinary equity at C\$281.3m, or C\$2.95 per share compared to a current price of C\$1.96.

Our analysis suggests that current risk adjusted resources support an expected value of C\$121.3m, equivalent to C\$1.48 per share after overhead. If all available resources were ultimately proven then the Ruby Creek property could yield up to C\$3.55 per share. Our more optimistic outlook for exploration success would suggest values as high as C\$3.47 per share.

Benchmarks

The market value accorded Adanac appears lower than its peer companies, primarily because of the nature of its lower-grade, large-tonnage deposit at Ruby Creek. This is undoubtedly due to the perceived risk of a rapid drop in the molybdenum price, as much of the company's revenues would go to covering operating costs if molybdenum retreats below its long-term inflation-adjusted price. Nevertheless, it also highlights the leverage offered in the current robust commodities market, with the price of molybdenum hovering at US\$30 per pound, roughly triple its long-term average.

Ruby Creek's reserves and indicated and inferred resources of nearly 240 million tonnes of ore translate to a gross molybdenum content of 326 million pounds of molybdenum. Adanac's current C\$1.96 share price and its 95.7 million shares outstanding yield a market capitalisation of C\$187.6-million. This in turn yields a value of C\$0.58 per pound of molybdenum in the company's Ruby Creek deposit. Based on our valuation for Adanac of C\$281.3 million, we arrive at a still modest C\$0.86 per pound.

This is low in comparison with producing companies. Thompson Creek Metals Co. Ltd., formerly Blue Pearl Mining Ltd., is producing molybdenum from its Endako and Thompson Creek mines, and has an advanced project in its Davidson deposit. At current prices, Thompson Creek Mines carries a market capitalisation of C\$1.86 billion, based on reserves and resources containing 1.14 billion pounds of molybdenum. This translates to a value of C\$1.67 per pound of molybdenum, more than triple Adanac's current value.

Roca Mines Inc. is targeting the start of production at its MAX molybdenum-tungsten deposit in southeastern British Columbia for later this year. The company's resource contains an equivalent of 130 million pounds of molybdenum at current price differentials, which translates into an equivalent price of C\$1.57 per pound. In fact, Adanac's current value is in a range consistent with junior explorers still in the exploration and prefeasibility stages.

Based on the comparisons with producers and near producers, we believe investors may be overly conservative when assessing the Ruby Creek economics.

Comparative companies				
Company	Ticker	Mkt Cap (C\$)	Million lbs Mo. Equiv	Market Capitalisation per tonne Mo. equiv.
Strategic Minerals	SMD.V	38.3	311	C\$ 0.12 per pound
Hi Ho Silver	HIHO.C	22.5	48	C\$ 0.46 per pound
Adanac Moly.	AUA.TO	187.6	326	C\$ 0.58 per pound
Roca Mines	ROK.V	203.8	130	C\$ 1.57 per pound
Thompson Creek	TCM.TO	1,860	1,114	C\$ 1.67 per pound

Source: Objective Capital

Limited infrastructure

The current site is accessible by road but has no additional facilities or services. Adanac needs to install a basic road network, drainage, power generation and buildings along with developing the mine itself. Furthermore there is no electricity generation available necessitating the use of more costly diesel generated power for the initial 5 years.

Shortage of labour

There is an unprecedented level of activity in the mining industry in North America leading to a shortage of contractors and consultants. Given the extent of the basic infrastructure requirement at Ruby Creek, Adanac is likely to face considerable competition for labour and as a result could see some slippage in its expected timescales.

Other producers may come on stream in the meantime

Any significant delays in the project could lead to other producers coming on stream ahead of Adanac thereby gaining the advantage of high prices and low supply. The situation in China is still uncertain but a return to production of the currently mothballed mines is not currently anticipated.

Molybdenum prices could decline more rapidly than anticipated

Instead of the anticipated slow decline to US\$8 by 2020, prices could fall more dramatically, unduly affecting the project economics and forecast returns.

Roasting capacity shortfall

The lack of sufficient roasting capacity could lead to producers being unable to treat all their concentrate or paying high roasting charges. The integrated producers have an advantage at this stage as they can retain capacity for their own mine output. Primary concentrate producers, such as Adanac, should retain an advantage over by-product producers, whose concentrate needs additional treatment to remove impurities.

Adanac Molybdenum Corporation

Company history

Adanac Molybdenum was incorporated in 1992 as Stirrup Creek Gold Ltd, later changing its name to Adanac Gold Corp. In November 2004, the company changed its name to Adanac Molybdenum Corporation to reflect its focus on molybdenum. Its primary asset is The Ruby Creek Molybdenum Deposit located near Atlin in British Columbia, Canada. It has also acquired 100% interests in three exploration stage molybdenum projects in Nevada.

Ruby Creek

Background

Molybdenum was first identified at Ruby Creek in 1905 and staked in 1967. Several feasibility studies were conducted during the 1970s and early 1980s but low molybdenum prices during that period made the property uneconomic. After 1982 no further work was conducted and the claims eventually lapsed. Exploration and development work worth more than C\$35 million has been spent by previous operators to date. Adanac, who is now the sole owner of all mineral rights, has spent an additional C\$20 million.

Ruby Creek--reserves

Proven tonnes	38.9 million	0.077%
(stockpile)	1.2 million	0.035%
Probable tonnes	73.5 million	0.060%
(stockpile)	30.1 million	0.034%
Total Tonnes	143.7	0.059%

Source: Adanac reports / Wardrop Engineering

Reserves

Ruby Creek has an estimated life of at least 21 years at 20,000 tonnes per day, giving an overall milled tonnage of 144 million tonnes and 75.9 million kgs (167.9 million lbs) of molybdenum in concentrate. There is a high-grade starter pit for the first five years of production which is estimated at 0.08%-0.1% Mo over this period.

The angled drilling programme undertaken in 2006 indicated that grades in the main pit could be higher than currently estimated and that tonnages may increase. Samples taken to obtain a concentrate produced 92.5% recovery – some 3.5% higher than the bankable feasibility study level of 89%. This drilling also suggested mineralisation continues to the west.

Infrastructure

The site is accessible by road and some 45 minutes drive from Atlin, but there are no services or facilities in place. There is power available within 90 kilometres of the site, but the power companies are reluctant to bring in power lines ahead of production commencing, having absorbed similar costs on failed projects in the past. Adanac expects to operate on diesel for the first four years before being able to persuade the power companies to connect the site. The use of diesel is an expensive option adding some C\$2.00-3.00 per tonne milled to costs. Tests on the waste products show no acid rock drainage potential, simplifying waste treatment requirements and environmental compliance.

Construction

The company aims, and is already committed, to start construction of the basic infrastructure in third quarter of 2007. This will require special use permits to be obtained within weeks of the anticipated issue date of the environmental certificate. Full permitting is then expected to proceed quite rapidly during the 3Q 2007. At the height of the building phase it will have some 650 construction workers on site.

Establishing infrastructure and pre-stripping on the site will take the best part of a year with commissioning expected to commence in the last quarter of 2008 and production by first quarter 2009. The industry is experiencing unprecedented demand for contractors and suppliers at present and pressure on resources could lead to project slippage.

Milling

Adanac is developing a state of the art concentrator plant, employing high pressure grinding rolls (HPGR) to grind the ore, rather than the more traditional semi-autogenous grinding mill. This is expected to reduce power costs and increase plant availability from 91% to 96%. Tests demonstrate that an overall recovery to concentrate rate of greater than 90% can be achieved.

The findings of the Wardrop Engineering feasibility study, including revisions for the HPGR mill option, are summarised in the accompanying table:

Ruby Creek—selected statistics

Capital, inc. contingencies etc.	C\$ 469.7m
Gross revenue over life of mine	C\$ 2,500.4m
Total operating cost over life of mine	C\$ 1,206m
Average total cost of production for first full 5yrs	US\$ 5.58/lb
Mo in first full 5 years of operation	61m lbs
Projected Moly price 2009-2013	US\$20-15/lb
NPV @ 8% discount rate	C\$ 250.4m
IRR – 21 year mine life	25.6%

*Source: Adanac reports / Wardrop Engineering
Financial returns based on Feasibility Study price scenarios*

Other assets

Adanac also has three molybdenum deposits in the state of Nevada. These projects are in various states of exploration and historic resource estimates should not be relied on.

B&C Springs is a molybdenum-copper deposit some 200km south of Reno. Adanac compiled an initial NI 43-101 compliant resource estimate in 2007; giving an indicated resource of 96m tonnes grading 0.048% Mo and 0.068% Cu.

The Pine Nut molybdenum deposit is located 80 kms south of Reno near the California border. Its historical published deposits are stated at 82 million s.tons grading 0.06% Mo.

Cucomungo is a molybdenum deposit situated approximately 180 kms south-southeast of Reno. Historical estimates suggest two deposits are present, one of 30 million s.tons grading 0.66% Mo, and a second of 9 million s.tons at 0.075% 0.15% Mo.

Pine Nut and Cucomungo will not be advanced in the medium term.

Capital history

As at April 30th 2007, Adanac had 95.3 million shares outstanding with an additional 23.0 million warrants and 9.03 million options. The company relies heavily on equity markets to finance its operations.

The warrants issued for expiry at the end of 2011 will entitle the holder to purchase one additional Common Share of the company for a four year term at an exercise price of \$1.50 per share in the first year, \$1.75 in the second year, \$2.00 in the third year and \$2.25 in the fourth year.

Summary of Options and Warrants Outstanding			
Type of Issue	Number Outstanding	Exercise Price	Expiry Date
<i>Options</i>	785,350	0.10	26 November 2008
	711,500	0.30	7 June 2009
	2,437,500	0.55	18 May 2010
	200,000	0.50	26 September 2010
	950,000	0.60	26 January 2011
	3,500,000	1.20	17 November 2011
	450,000	1.20	2 January 2012
	9,034,350		
<i>Warrants</i>	2,321,536	0.75	20 June 2007
	6,536,574	1.50	14 December 2007
	4,466,327	1.50	23 December 2007
	1,845,255	1.50	3 January 2008
	330,646	1.50	23 January 2008
	1,008	1.50	1 February 2008
	197,500	1.50	3 February 2008
	625,000	0.95	24 February 2008
	427,824	1.02	14 June 2008
	123,918	1.20	3 July 2008
	15,082	1.02	23 July 2008
	6,549,975	3.00	30 March 2009
	23,440,645		

Source: Adanac Molybdenum

Molybdenum (Mo) is a soft grey metal with one of the highest melting points of all pure elements. In a natural state, it only occurs in chemical combination with other elements; the only ore mineral of commercial significance is molybdenite (MoS₂). Economic grades are reached in ore between 0.01%-0.25% Mo.

It was first mined in the USA in Colorado in 1916 and the USA remains the leading producer nation today. Chile, China and Peru are other key producers; Canada was ranked 5th in the world in 2005, with some 5% of global production. The accompanying chart shows the reserve base as at 2005.

Molybdenum concentrates produced by mines are converted to molybdenum tri-oxide (MoO₃) at a relatively small number of roasting facilities around the world. This technical grade molybdic oxide (TMO), is then sold to consumers or converted to ferro-molybdenum (FeMo) or molybdenum metal (Mo) for use as an alloying metal.

Production

Only one third of the total molybdenum is produced by primary molybdenum mines, all of which are located in North America or China. The balance is a by- or co-product of copper, mainly from large-scale porphyry copper mines. For this reason molybdenum supply (and therefore the molybdenum price) is strongly influenced by the economics of copper mining. Molybdenum production levels from individual copper mines can vary significantly from year to year, as molybdenum grades can differ greatly in different parts of the same copper porphyry orebody.

Some operations have the ability to selectively mine higher Mo grade parts of their orebody in response to market conditions but overall, the by-product production from copper mines is expected to have reached a plateau in the short-medium term.

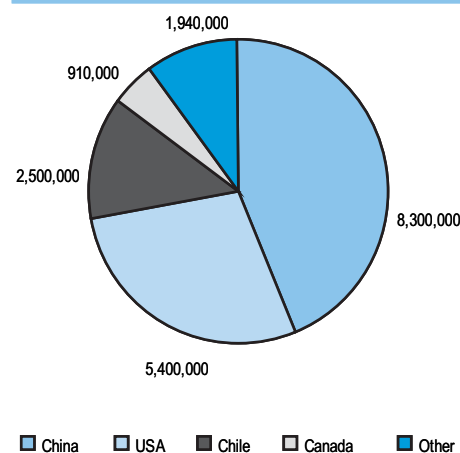
The quantities of molybdenum produced have increased from 280 million pounds in 2002 to over 400 million pounds in 2005. The accompanying graphic shows the production by region between 1994 and 2005.

Four companies (Codelco, Freeport McMoran, Rio Tinto and Grupo Mexico) dominate the supply of molybdenum concentrates, whilst Molymet is the leading non-integrated roasting-leaching company. These companies between them account for over half of the world's production of molybdenum.

China has some 200 molybdenum mines in the northeast region of the country, but output has fallen significantly since February 2005, when the industry was hit by tax fraud, expiring licences and the closure of illegal operations. Recovery of Chinese exports has been delayed by the imposition of a 10% export duty by the

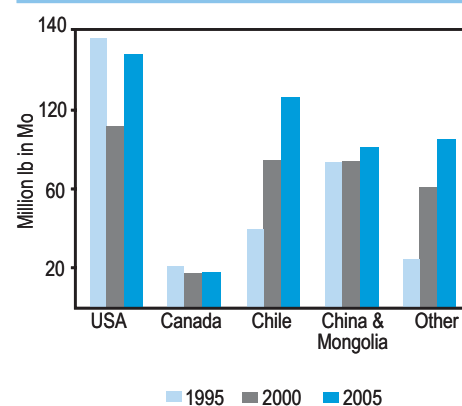
The Molybdenum Industry

Molybdenum reserves in 2005 (tonnes)



Source: US Geological Survey

Molybdenum production



Source: IMO

Chinese government on molybdenum tri-oxide and ferromolybdenum, which has led to a significant decline in exports. The quality of concentrates from Chinese mines has historically been poor.

In the recent past, the rising price of molybdenum has made recycling more economically viable, although it remains very small in scale.

Applications

Demand for molybdenum comes primarily from the steel industry, which on a global basis accounts for about 75% of the total consumption. Within this sector the largest single application is in high specification stainless steel but consumption of high-strength, low-alloy construction steel is at only a slightly lower level. The small balance of consumption in the steel industry comes from tool steels and cast iron products.

The remaining 25% of global demand comes from the production of catalysts for the oil refining industry (~9%), the production of pure molybdenum metals or super alloys for high temperature applications (~10%) and other chemical uses.

Europe is the most important area of consumption with 35% of the global total followed by the US with 20% and Japan with 15%. Of the balance, China accounts for 7%, the C.I.S. for 6%, South Korea for 4% and other markets 13%.

Demand for molybdenum mirrors that of the steel industry as a whole. The steel industry has been extremely buoyant over the past two years with 2006 production of 1,240 million tonnes up 8.8% on the previous year. Global stainless steel melt production grew by an average of over 5.0% p.a. from 2000 to 2006. Much of this strong growth can be attributed to the rapid rise in production capacity in Asian countries, particularly from 2001. Production is forecast to continue grow from 2007-2015, albeit at a reduced rate.

This growth in steel production is encouraging for the molybdenum market as there are relatively few acceptable substitutes for molybdenum in most of its uses.

The demand for molybdenum in catalysts is another important growth area. This market continues to rise as petroleum refiners increase their need for cleaner, de-sulphurised and de-nitrogenised fuels.

Prices

Future developments in the stainless steel market, itself closely tied to the health of the world economies, will have a significant influence on movements in molybdenum supply, demand and prices.

Molybdenum is currently trading at around \$30/lb. Prices peaked at US\$40-50/lb in 2005 compared to an average in the previous ten years up to 2004 of around US\$4.50/lb.

The significant increase in prices from 2003 onwards was initially prompted by a growing supply deficit, but this has been exacerbated from 2005 onwards by the shortage of roasting capacity and the unpredictability of Chinese supplies. In 2005 and 2006 there was a shortfall in roasting capacity relative to concentrate supply and this shortfall is set to persist until 2009 or later. This has been a significant factor underpinning prices in recent years.

Although additional roasting capacity has been added, and more is currently planned or under construction, it is not expected to relieve the global roasting capacity shortfall in the short-term. No new capacity independent of a new mine is likely to come on stream before 2009.

Supply deficits are expected to continue to affect the molybdenum market through to 2008-09, even allowing for additional production from existing mines in response to high prices. By the end of 2005, 24 molybdenum mining projects were under consideration but have yet to move to the development stage. From 2009 onwards, the market could return to a surplus, if a number of new projects and expansions come on stream simultaneously.

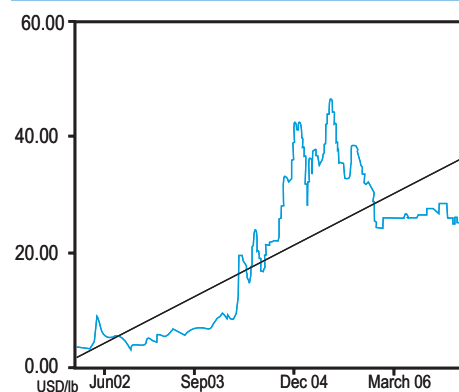
In the short-term, however, the molybdenum market will remain prone to significant short-term price volatility, biased toward higher prices over short periods. Whilst prices are not expected to rise substantially from current levels, they are unlikely to return to their pre-2004 levels as they remain underpinned by limited roasting capacity and strong demand.

Generally the quality of all molybdenite concentrates has declined over the last five years as miners tried to remove the molybdenum from copper concentrates at minimum cost. This caused the original low quality concentrates to be sold at increasing discounts as the availability of good quality concentrates with which they could be blended declined.

It is likely that by-product concentrates, of a quality that makes their direct conversion to acceptable TMO standards difficult, will continue to sell at a discount; while high quality, primary concentrates will command a premium.

A long-term price level assumption somewhere between US\$8 and US\$11/lb Mo for clean, primary concentrates therefore appears to be reasonable. The indications are that the Ruby Creek primary concentrate is of high quality with low levels of copper and other metals.

Molybdenum (US\$/lb)



Source: InfoMine.com

Ruby Creek

The Ruby Creek deposit is a porphyry molybdenum deposit located, at the headwaters of Ruby Creek in the extreme north western corner of British Columbia, Canada.

The property consists of a single, irregularly shaped block of 20 claims covering 5,452 hectares of the upper southwest part of the Ruby Creek valley and much of the adjacent Boulder Creek valley. The claims are 100% owned by ADANAC and are not subject to any royalties or carried interests. The mineral claims have been professionally surveyed and converted into a Mining Lease.

The property lies at an elevation of 1500m and the deposit underlies a relatively un-vegetated valley, with moderately steep walls and a flat, glacially scoured floor. Ruby Creek flows south into Surprise Lake.

The deposit is easily accessed by 40km of road from Atlin, the last 21km of which is a single lane exploration road that is not maintained. Atlin is accessible by a two-hour drive on an all-weather road south from Whitehorse, Yukon, the territorial capital and major supply centre for the region.

There is no other significant infrastructure on the property at present. Adanac believes that surplus power is available from the Yukon Grid, which would require the installation of 100km of transmission line. Initial power requirements for the project will be met by diesel generators.

The Ruby Creek area lies east of the Coast Range Mountains and has an interior type of continental climate, with severe winters and cool summer months notable for long daylight hours.

Geology and Mineralisation

Ruby Creek is a porphyry molybdenum (Mo) deposit and formed late in the development of a major batholith of granitic to quartz monzonitic rocks. These types of deposits are characterised by stockworks of molybdenite bearing quartz veinlets and fractures in intermediate to felsic intrusive rocks and associated country rocks. They are typically low-grade but large and amenable to bulk mining methods. Molybdenite (MoS_2) is the principal ore mineral.

The mineralisation is best developed in mafic and coarse grained varieties of quartz monzonite and takes the form of a mineralised blanket that overlies another quartz monzonite intrusion stock, with sparse quartz, beneath the other intrusives, and dips off in all directions.

The veins commonly occur without other metallic phases, although pyrite is found locally and chalcopyrite has been observed. The veins contain traces of scheelite, orthoclase, fluorite, biotite, sericite, and carbonate.

Molybdenite mineralisation commonly consists of sulphide coatings on fracture planes, as fine to coarse grained rosettes and blebs in quartz, and as streaks and smears in deformed rock. Molybdenite may locally be enriched in fault zones.

Vein sets locally can be extremely well mineralised, and blebs of molybdenite commonly occur at the intersection of cross cutting veinlets, producing a pronounced nugget effect in the assay results from drilling. Three prominent orientations of vein sets have been identified to date, a horizontal to sub-horizontal set and two near vertical sets.

The geology of the deposit and the controls to mineralisation are sufficiently well understood and reliable to be used in the estimation of a mineral resource. The 2006 resource estimate is, however, based on vertical drilling which will not adequately delineate the sub-vertical fracture sets present in the deposit.

Exploration history

The Ruby Creek deposit has been known since 1905, but underwent only limited exploration until 1966, when it was staked and drilled to a limited extent by Adanac Mining and Exploration (no relation to Adanac Molybdenum Corporation) and Canadian John's Manville Limited.

The property was then optioned to Kerr Addison Mines who completed a further programme of diamond drilling and undertook underground sampling, via a series of drifts, cross-cuts and raises in the higher-grade core of the deposit. Bulk samples totalling 9,545t were excavated and processed on-site to assess the significance of a well-defined nugget effect caused by coarse-grained molybdenite and confirm a viable metallurgical process. It was noted that the grade of the mined material was on average 20% higher than that predicted by the drill holes alone.

A feasibility study completed in 1971 deemed the deposit un-economic on account of the prevailing low prices for molybdenum (~\$1.90US/lb). As a result, Kerr Addison dropped its option, which was briefly taken up by Climax Molybdenum Corporation. The property remained dormant until metal prices improved in the late 1970s.

In 1978, Placer Development optioned the property and initiated further exploration drilling, and a full-scale technical and socioeconomic evaluation. Although Placer carried out all of the work required for a feasibility study, the price of molybdenum dropped sharply in 1983 and the project was shelved.

The claims lapsed in the late 1990s and in 2000 the deposit and surrounding additional mineral claims were staked for Adanac Gold, now Adanac Molybdenum Corporation (Adanac).

Drilling History: Ruby Creek

Company	Years	Drillholes	(m)
Adanac Mining and Exploration, & John's Manville	1966 to 1970	80	12,775
Kerr Addison Mines	1970 to 1972	47	5,626
Climax Molybdenum	1973	9	2,672
Placer Development	1979 to 1980	76	10,886
Adanac Gold (now Adanac Molybdenum Corporation)	2004	38 [#]	9,087
Adanac Molybdenum Corporation	2005	19 [#]	4,982
Adanac Molybdenum Corporation	2006	13 [*]	2,668
Total		282	48,696

[#] 2004 includes two re-drilled holes; 2005 included five geotechnical holes

^{*} 2006 excludes three exploratory holes (1,333m) to southwest of planned pit

Source: Adanac/Golder Associates

A comprehensive review of historic data, and a positive scoping study early in 2004, encouraged Adanac to undertake further drilling on the property. The objectives were to fill gaps in existing data distribution, to get new assay information to validate the quality of the old assay data and to improve the understanding of the deposit.

Adanac completed 38 diamond drill holes totalling 9,087m in 2004 and commissioned AMEC to complete an NI 43-101 compliant Technical Report and a Conceptual Study on the property in May 2005.

Adanac completed 19 additional diamond drill holes totalling 4,982m in 2005. Information from these and the earlier drill holes was integrated into a new database by Golder Associates and used to develop the 2006 resource estimate.

In Golder's opinion, the drilling practice, logging, handling and storage of core employed at Ruby Creek from 2004 onwards is standard to the industry. No assay samples or representative drill core samples were available from the previous drilling programmes.

Similarly, the recent Adanac drilling employed a comprehensive program of QA/QC consisting of inserted blanks, standards and duplicate samples. There is no information available on QA/QC procedures or results from the drilling completed prior to 2004, but industry standard practice was to use standards and blanks as well as to include duplicate samples.

A total of 615 samples from the 2004 and 2005 drill programmes have been collected for specific gravity (density) testing. Procedures for the determination of specific gravity, the statistical analysis of results and the method in which values were assigned to resource blocks all follow industry standard practices.

At Ruby Creek, the large number of samples collected for the determination of specific gravity, and the statistical results shown, mitigate any risk that bulk density factors have been incorrectly estimated and applied to the calculations of ore and waste tonnages. A small risk remains that bulk density will be adjusted as mining progresses, but the magnitude of any error is unlikely to significantly alter the economics of the project.

In 2006 Adanac drilled thirteen holes in a westerly direction at an angle of -50 degrees to give better coverage of near-vertical veins and fractures in a relatively well-mineralised part of the deposit and to determine the precise orientation of individual veins and vein sets. This should provide a better understanding of molybdenum grade distribution within the deposit.

Mine production plan

Based on the 2006 feasibility study completed by Wardrop Engineering, a production plan has been developed for a 20,000 tpd mill process fed from an open pit mine. Estimates of capital and operating costs are considered to be accurate to within +/-15% limits.

Ruby Creek has been designed as a standard open pit mining operation. The mining fleet of front-end loaders, 200t capacity haul trucks and support equipment, will initially all be diesel powered. After grid electric power becomes available, an electric rope shovel will be added to the fleet, together with additional haul trucks.

The proposed open pit will reach a final depth of 1,252m and its north-west rim will reach Molly Lake, requiring the lake to be drained before mining begins. The strip ratio is advantageous for an open pit operation, at 0.95:1.0 (waste:ore ratio). Five pushbacks are planned with the initial one focused on mining the higher grade mineralisation near surface.

To take advantage of the high metal prices forecast in the early years an initial payback pit has been proposed which will maximise the Mo production during the first five full years of operation. This was facilitated by raising the mine cut-off grade to 0.06% Mo and planning to stockpile material grading between 0.04% and 0.06% Mo for later processing.

Open pit mining will initially be performed using two front-end loaders and four 200t capacity haul trucks, plus support equipment. After grid electric power becomes available, the rope shovel and five more haul trucks will be added to the mining equipment fleet.

The mill has been designed to operate at an average rate of 20,000t per day for an initial life of at least 21 years. Mining and milling are scheduled on a round the clock, 365 days-a-year basis.

The mill circuit comprises two stages of crushing, a high pressure grinding roll (HPGR) and ball mill circuit designed to crush and grind material for conventional flotation. The flotation circuit includes rougher/scavenger and cleaner stages. One regrinding stage is included within the cleaning section to increase the degree of liberation and improve overall molybdenum recovery. The final concentrate is thickened, filtered, dried, packaged and shipped offsite for roasting. Tailings will be impounded and water recycled back to the process.

Adanac have opted to use the more energy efficient HPGR rather than the more conventional semi-autogenous grinding (SAG) mill reported in the feasibility study. Detailed studies by Wardrop Engineering have indicated that HPGR offers potential benefits including: a reduction in total power requirements, increased mill availability and reduced mill operating costs. The higher capital costs of HPGR will be partly offset by reductions in the size (and hence cost) of the diesel power plant.

Capital and operating costs

Over the life of the mine; 143.7Mt of ore will be processed at an average grade of 0.059% Mo, to recover 75.9 million kgs (167.91 million lbs) of molybdenum in concentrate. Capital costs in the 2006 feasibility study were estimated at C\$364.4 million; this has been revised upwards to C\$389.7 million with the selection of the HPGR milling option.

Working capital, contingencies and start-up capital could add a further C\$80 million to pre-production costs; although Adanac is hopeful of making cost savings through the detailed engineering design stages.

The company's revised base case economic model produces an IRR of 25.6% and an NPV of C\$250.4 million at an 8% discount rate for the 21-year mine life. The payback of the initial capital is three years.

A revised project schedule is due to be completed in June 2007, accompanying revised capital cost estimates. Adanac's current plans are for commissioning of the mine late in 2008, assuming permitting is received in 3Q 2007 and camp construction and site preparation commences by mid-2007.

Ruby Creek: Production and operating cost projections (Feasibility Study)			
Year#	Production (Mlbs Mo)	Total cost (US\$/lb)	Projected price (US\$/lb)
2009	13.9	4.99	20
2010	13.2	5.19	18
2011	9.8	6.94	17
2012	10.6	6.81	16
2013	10.7	5.50	15

*Assumes full year production in 2009

Source: Wardrop, 2006

Resources and Reserves

Golder Associates prepared the most recent resource/reserve estimate for Ruby Creek in March 2007, incorporating the results of the 2006 diamond drilling programme. The resultant Technical Report was prepared in compliance with the standards required for Canadian National Instrument (NI) 43-101 standards of disclosure. The resource estimate is based on a database comprised of 233 vertical and inclined drill holes plus underground sampling data.

Reserves for Ruby Creek total 143.7Mt grading 0.059% Mo at present; but exploration potential exists for improvements to be made to both grade and tonnage.

Ruby Creek Reserve/Resource Statement

	Mt	Mo(%)
Proven reserves	40.09	0.078
Probable reserves	103.62	0.053
Measured+ indicated resources	212.91	0.063
Inferred resources	24.97	0.054
0.04% Mo cut-off-grade		
Resources are inclusive of reserves		

Source: Adanac/Golders, 2006-07

Ruby Creek risked mineable resource assumptions

Reserves		Probability	Tonnes (m)
Proven		90%	40.09
Probable		50%	103.62
Total		61%	143.71
Resources	Conversion	Probability	Tonnes (m)
Measured	70%	90%	9.02
Indicated	70%	50%	60.18
Inferred	70%	10%	24.97
Hypothesised	70%	0%	0.00
Total	70%	43%	94.17
Mineable resource			Tonnes (m)
Mineable resource			209.6
Risked mineable resource			Tonnes (m)
Current classification			116.4
<i>Scenarios for exploration success</i>			
- base case			168.5
- optimistic case			186.0
- pessimistic case			144.8

Notes:

- mineable resource have been estimated as reserves plus the portion of resources that would be expected to convert to reserves considering deposit type and likely grade variability
- risked mineable resource refers to the various classes of resource/reserve weighted by their assumed confidence level

Source: Objective Capital

Exploration potential

Based on the current understanding of the deposit, there is the potential for the 2006 angled holes to define a vertical stock work zone which may contribute to a higher grade locally (because of the inclusion of sub-vertical molybdenum mineralisation missed by previous drilling). If confirmed, the presence of a vertical fracture set containing economic grades may also increase the resource tonnage at depth.

Previous drilling showed that the mineralisation plunges to the southwest, and Adanac's permitted drilling application for 2006-07 included additional holes to define the extent of the deposit to the north, south, and west of the currently defined resource. The deposit is effectively open in these directions, and at depth, and it would be entirely consistent with this style of mineralisation for additional resources to be delineated as mining progresses.

In particular, three holes drilled to the southwest of the currently proposed pit profile encountered molybdenum at grades suggesting that mineralisation continues under the south wall of the proposed pit.

A newly discovered and poorly defined buried intrusion has been located under the headwaters of Ruby Creek. The company plans to revisit the area in the summer and drill additional holes to delineate the intrusion better, to see if the mineralisation associated with it can be traced across the divide into Boulder Creek.

Proforma Ruby Creek operation profit and loss

Proforma P&L (C\$m)	Year ending April										
	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18
Gross revenues	0.0	40.4	347.2	297.8	204.3	208.1	200.4	160.5	149.2	145.4	128.7
Operating costs	0.0	8.6	99.5	100.7	96.1	104.2	90.0	89.0	92.9	97.0	98.0
Operating profit	0.0	31.7	247.7	197.1	108.2	103.8	110.5	71.5	56.3	48.3	30.7
Depreciation	0.0	8.0	78.3	74.3	55.2	59.6	60.0	49.6	47.1	46.5	41.5
Administrative costs	3.3	3.5	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
EBIT	3.3	43.3	329.8	275.4	167.4	167.5	174.5	125.2	107.5	98.9	76.1
<i>Assumptions</i>											
Capital costs (C\$m)	166.5	305.4	4.9	0.6	25.7	4.4	-2.8	3.5	4.8	4.0	4.7
Tonnes ore processed (millions)	0.0	0.9	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Average grade (%)		0.08%	0.10%	0.09%	0.07%	0.07%	0.08%	0.06%	0.06%	0.06%	0.05%
Recovery (%)		88.9%	89.6%	89.6%	89.6%	90.4%	89.8%	88.4%	89.6%	88.5%	89.4%

Other assumptions

Roasting charge C\$2.07/kg; roaster deduction 1.5% loss; transport C\$150/t wet conc; marketing 2%.

Source: Objective Capital

Project status

Adanac is currently completing the permitting process Ruby Creek, and expects provincial and federal permitting during August 2007. The British Columbia Environmental Assessment Office is currently reviewing the company's application and the statutory public information session and submission of public comments has been completed. Federal permitting is occurring simultaneously and is expected to be received at the same time as the provincial permitting.

Adanac has received from the Chief Gold Commissioner for British Columbia a Mining Lease to cover the pit operations, concentrator area, waste dumps and tailings area, with a sufficient buffer zone to cover all ancillary services (roads etc.) at the Ruby Creek site.

Relationships with the Taku River Tlingit First Nation (TRTFN) community are good and Adanac has funded various TRTFN initiatives such as a traditional land use and impact study and the use of independent consultants to help TRTFN review the project application. Adanac and TRTFN will shortly conclude an agreement which defines the economic and social benefits to be derived from the development.

Site infrastructure is currently limited to road access. Establishing a construction camp will require development of a fresh water supply, sewage treatment, power generation and distribution network, fuel storage, communications facilities and accommodation for operating personnel. All these will be developed in-line with final project requirements and have been costed into the project's economics.

The contract for detailed engineering was awarded to AMEC in December 2006 and procurement of long-lead time equipment has been completed.

Key issues

The timing of the project is critical if Adanac is to take advantage of the recent high prices for molybdenum.

Project slippage is occurring right across the mining industry, and there is a risk that this will impact on the timing of the Ruby Creek project. Adanac management have recognised this risk and are pro-actively planning and committing funds to help ensure a rapid start-up on site once the environmental certificate is issued.

Competitors with new molybdenum or copper-molybdenum projects in the pipeline will likely be subject to the same delays, however, and the lack of new sources of molybdenum concentrate will help support prices provided demand holds up. The risk remains that existing suppliers (most notably established copper-molybdenum producers) manage to increase supply in the interim, although production constraints make major increases unlikely.

Adanac have adopted a flexible production plan; effectively high-grading the deposit to maximise the molybdenum production during the first five years of operation. After capital payback is achieved, the mine's cut-off grade will be reduced and the operating focus revert to cost minimisation and cash flow sustainability.

This is an entirely appropriate production plan and ties in with projected molybdenum prices. The company's marketing studies have predicted a long-term decline in the price to a level between US\$5 and US\$8 per lb. Base line economic studies have incorporated a declining molybdenum price as follows: \$22 per pound in 2008; \$20 per pound in 2009 and \$18 per pound in 2010; thereafter declining at \$1 per year to reach \$8 per pound in 2020.

The effect of a predicted decline in long-term molybdenum prices has been incorporated into mine planning; but any adverse short-medium term price movements will have a more significant impact on Adanac's ability to raise finance for its exploration and development activities.

Sufficient funds are in place for six to eight months expenditure, after two recent private placements raised aggregate gross proceeds of C\$40.6 million. Proceeds will be used to fund the detailed engineering and procurement contract awarded to AMEC, corporate overhead and for securing contractor services, key equipment and materials, in advance of the formal construction start-up.

The cash burn rate will increase substantially in the second half of 2007 and the company is committed to raising additional funds. Adanac's ability to raise project development capital will, however, depend on its share price and, as with all junior mining companies with a single core project, the share price is highly correlated to the corresponding commodity price. Debt/equity funding is currently being negotiated, the terms of which will be highly sensitive to share price movements. Adanac is also investigating potential joint venture partners as a means of raising the required financing.

Molybdenite (MoS_2) concentrates produced by mines are converted to molybdenum tri-oxide (TMO) or ferromolybdenum (FMO) at a relatively small number of roasting facilities around the world. Some of the major miners are integrated producers, but in most cases concentrates are sold to, or toll-roasted at these facilities.

In 2005-2006 there was a shortfall in roasting capacity relative to concentrate supply and the shortfall is expected to continue in the short-medium term. The tight global roasting capacity, while helping in part to maintain molybdenum prices, makes it critical that Adanac completes long term off-take agreements for its concentrates. Adanac is currently negotiating its off-take agreements. With Ruby Creek offering a potential new source of primary, high quality concentrates, these negotiations should be completed successfully.

The project is currently at the detailed engineering design and procurement stage and Adanac is hopeful that capital cost savings will be identified. Our view, given the recent history of mining projects, is that industry cost inflation will offset any potential savings highlighted by the detailed design stages and that present capital cost estimates are the most appropriate to use in valuation.

Adanac has decided to use diesel-electric power generation in order to fast-track the proposed development schedule, rather than wait an estimated five years for connection to grid electric power from Yukon. This has added significantly to both capital and operating costs but enables the project start-up to be pulled forward. Any cost escalation in supplying sufficient diesel fuel for on-site electric power generation and mobile fleet operations will impact on project economics.

Geological modelling of the orebody at Ruby Creek has been improved in the March 2007 resource estimate after integration of the results of the 2006 drilling programme, which deliberately targeted the near-vertical, mineralised vein sets.

Confidence in the resource, and ultimately reserve, grade comes from the fact that previous bulk sampling results indicated that the grade recovered from selected areas was higher than that estimated from drill results alone.

The C\$ to US\$ exchange rate is important to the project, as the price of molybdenum and some of the major mining equipment is priced in US\$.

Nevada Properties

Adanac has built up a portfolio of molybdenum properties in Nevada, all of which are at an early exploration stage. The company is undertaking further exploration and geological modelling work to identify high-grade deposits for small-scale mining operations. Only B&C Springs has a NI 43-101 compliant resource estimate and their development is only a low priority, long term objective.

B&C Springs

The B&C Springs property is located in Nye County, 12 miles southeast of Gabbs, Nevada. The property consists of 91 unpatented lode mining claims and covers a large flat tabular molybdenum-copper occurrence reported to contain 131 million s.tons grading 0.12% Mo (0.20% MoS₂) in the 1985 US Bureau of Mines circular 903-5, titled Principal Deposits of Strategic and Critical Minerals of Nevada.

The B&C deposit is located in moderately metamorphosed sediments with mineralisation found in quartz veins cutting the sediments and as disseminations within calc-silicate beds.

Prior drilling (66 diamond and RC holes) by US Smelting Refining and Mining (USSRAM) encountered molybdenum, copper and silver values over the area encompassing the tabular structures. The discovery hole averaged 0.30% Mo (0.50% MoS₂) over 80 feet. Adanac has purchased numerous reports, drawings and technical information from USSRAM, together with forty-six pallets of drill core and four racks of assay pulps.

Adanac received an initial NI 43-101 compliant resource estimate for B&C Springs in March 2007. Based on an open pit mining scenario, a cut-off grade equivalent to US\$10 per tonne was used to delineate an indicated resource of 96.1 million tonnes grading 0.048% Mo and 0.068% Cu.

Pine Nut

Pine Nut covers 21 claims located 20 miles south-east of Carson City, Nevada. The geology at Pine Nut consists of a thick package of limestones and volcanic-derived sediments, of which the lowest exposed formation is intruded by two stocks of quartz monzonite.

A geochemical molybdenum anomaly is associated with one of these intrusions and the property was diamond and rotary drilled by American Metals Climax Inc. in the mid 1960s.

The 1985 US Bureau of Mines circular 903-5, titled Principal Deposits of Strategic and Critical Minerals of Nevada, reports a historic resource estimate of 82 million s.tons grading 0.06% Mo.

Adanac has not done the work necessary to verify the classification of the resource estimate and is not treating it as NI 43-101 compliant and verified by a qualified person. The historical resource estimate should not, therefore, be relied on.

Cucomungo

Cucomungo covers 36 claims located 15 miles south-west of Lida, Nevada. The claims are underlain by a complex assemblage of intrusive rocks containing small remnants of meta-sediments. The country rocks have been subjected to moderate to intense hydrothermal alteration and accompanying molybdenum mineralisation.

The alteration/mineralisation zone has a general north-westerly elongation and exposed surface dimensions of 6,000 feet by 2,000 feet. Further strike extensions have been demonstrated by drilling under gravel cover to the northwest.

Past exploration consisted of several generations of drilling totalling 52 core and rotary holes (31,000 feet) in the 1960s and 1970s by Bear Creek Mining, Molycorp, Geochemical Surveys Inc. and Duval Corp.. Two molybdenum deposits were partially outlined on the claims, the Basalt Cap and Roper Tunnel zones.

Publicly available industry documents report that the Basalt Cap zone contains a drill-indicated resource of 30 million s.tons grading 0.066% Mo (0.11% MoS₂); while the Roper Tunnel zone contains a possible resource of 9 million s.tons grading 0.075% -0.150% Mo (0.125 to 0.250% MoS₂).

The previous estimates are based upon somewhat conflicting historical data and Adanac has not done the work necessary to verify the classification of the resource estimates. The company is not treating the resources as NI 43-101 compliant and the historical estimates should not, therefore, be relied on.

Nevada projects status

B&C Springs is the highest grade of the Nevada deposits and Adanac has compiled the information necessary to create a NI 43-101 compliant resource study. No other significant activities are planned in the short-medium term.

Adanac will incur payment of the property maintenance fees for Pine Nut and Cucomungo, but negligible additional management or exploration expenditure is expected in the medium term.

With management rightly focused on the Ruby Creek deposit, uncertainty over long-term molybdenum prices, and the long lead-time before B&C Springs could be considered a near production asset; the Nevada properties do not add significantly to the company's valuation.

Financials

Profit and Loss					
Year ending April (C\$m)	2006	2007	2008	2009	2010
Revenues	—	—	—	40.3	346.9
COGS	—	—	—	(8.6)	(99.5)
Gross profits	—	—	—	31.7	247.4
Administrative Costs	(2.1)	(5.9)	(5.3)	(5.5)	(5.8)
EBITDTA	(2.1)	(5.9)	(5.3)	26.2	241.7
Depreciation & amortisation	(0.0)	0.0	(0.0)	(8.0)	(78.3)
<i>Writedowns and Minority interests</i>		—	—	—	—
EBIT	(2.2)	(5.9)	(5.3)	18.2	163.4
Interest			—	—	—
EBT	(2.2)	(5.9)	(5.3)	18.2	163.4
Tax paid	—	—	0.4	(7.1)	(53.6)
Earnings	(2.2)	(5.9)	(4.9)	11.1	109.8
Dividends		—	—	—	—
Retained earnings	(2.2)	(5.9)	(4.9)	11.1	109.8

Cash flow statement					
Year ending April (C\$m)	2006	2007	2008	2009	2010
EBIT	-2.2	(5.9)	(5.3)	18.2	163.4
Depreciation	0.0	0.0	0.0	8.0	78.3
Gains & Writedowns	0.0	—	—	—	—
(Increase) decrease in inventory	0.0	0.1	0.3	0.2	10.0
Increase (decrease) in payables	0.3	—	(7.0)	(3.2)	1.0
Net cash from Ops	(1.9)	(5.8)	(12.0)	23.2	252.7
Tax paid	—	—	0.4	(7.1)	(53.6)
Dividends		—	—	—	—
Net interest recieved (paid)		—	—	—	—
New equity	9.2	52.0	8.0	25.0	25.0
New (deposits) borrowings		—	136.2	253.5	—
Capital expenditure	-6.0	(8.0)	(166.5)	(305.4)	(4.9)
Net cash from financing	3.1	44.0	(21.9)	(34.0)	(33.4)
Net increase (decrease) in cash	1.3	38.2	(33.9)	(10.8)	219.3

Balance sheet					
Year ending April (C\$m)	2006	2007	2008	2009	2010
Fixed assets at NAV	9.6	17.6	184.0	481.4	407.9
Cash	3.4	41.6	7.7	(3.1)	216.2
Receivables	0.1	0.1	0.1	0.1	0.1
Inventory	0.1	0.0	(0.3)	(0.5)	(10.5)
<i>Less Payables</i>	-0.4	(11.1)	(4.1)	(0.9)	(1.9)
Net current assets	3.2	30.6	3.5	(4.3)	204.0
Less loans	0.0	—	(136.2)	(389.7)	(389.7)
Capital employed	12.8	48.2	51.3	87.4	222.2
<i>Represented by</i>					
Shares in issue	19.9	61.2	69.2	94.2	119.2
Add retained profit					
Prior periods		(7.1)	(13.0)	(17.9)	(6.8)
This period	-7.1	(5.9)	(4.9)	11.1	109.8
Shareholders' funds	12.8	48.2	51.3	87.4	222.2

Source: Objective Capital

batholith: a very large intrusive mass of igneous rock, usually composed of multiple intrusions of slightly different ages and/or compositions.

calc-silicates: a contact (thermally) metamorphic rock formed from impure limestones.

granite: a coarse-grained igneous rock rich in quartz and feldspar minerals.

intermediate-felsic: a range of igneous rocks with compositions showing variable proportions of quartz and feldspar minerals.

mafic: igneous rocks with compositions showing little or no quartz and dominated by ferro-magnesian (Fe-Mg rich) minerals.

metamorphic: rocks changed by temperature and pressure within the Earth's crust.

molybdenite: a sulphide mineral (MoS_2) which is the main ore mineral of molybdenum.

monzonite: a medium to coarse-grained igneous rock with equal proportions of plagioclase and alkali feldspar minerals. Quartz monzonites contain free quartz, more mafic monzonites, little or no quartz.

NI 43-101: Canadian National Instrument 43-101, a regulatory standard for reporting details of exploration results and resource estimates for mineral projects.

plutonic: an igneous rock emplaced at depth within the crust (rather than erupted as a volcanic igneous rock).

porphyry: a general term for igneous rocks containing relatively large crystals within a finer grained groundmass; commonly found as individual stocks within a batholith or igneous complex.

QA/QC: Quality Assurance/Quality Control; a programme of checks to determine the precision and accuracy of sampling and analytical exploration data.

Reverse Circulation (RC): a rotary percussive type of drilling which returns small chips and dust to surface via an inner drill stem.

s.tons: an American imperial unit of weight, corresponding to 2000lbs (0.907 metric tonnes).

specific gravity: the calculated density of minerals and rocks; often used to determine bulk density, a factor used to calculate tonnages of ore and waste from the volumes modelled during the estimation process.

stock: an individual mass of igneous rock intruded as a separate body, often circular or elliptical in cross-section.

stockwork: a large-scale mass of veins too thin and closely spaced to be worked individually; the veins are usually of several intersecting orientations.

Appendix: Management

The company has established a highly experienced and skilled team to move the Ruby Creek project forward. The key board members are described briefly below:

Larry Reaugh – Executive Chairman

Reaugh founded the company in 1992, becoming Executive Chairman in October 2006. He has over 40 years experience in the mining industry with the past 26 directly involved in the mineral exploration with junior resource companies. He is credited with several producing mines and has raised more than C\$140 million for exploration and development of mining properties. He has been the driving force behind the Ruby Creek project and his reputation and experience have helped to build a world class team to move the project forward.

In addition to his duties at Adanac, he is also President and CEO of Goldrae Resources, a Canadian junior mining and exploration company with gold, silver, platinum, palladium, copper and molybdenum properties in China, British Columbia and Nevada.

Michael MacLeod – President & CEO

MacLeod has been an active mining engineer for over 30 years during which time he has been responsible for major capital projects, feasibility studies and marketing and environmental studies. He is overseeing all the project development and operational activities and assembling the team to take Ruby Creek forward.

Rick Alexander – Vice President, Project Development

Alexander joined Adanac at the beginning of 2007 after spending over 25 years in the development and operation of mining projects. He has been involved in all aspects from feasibility studies through to detailed engineering procurement and management working both abroad and in his native British Columbia. He was instrumental in the development of the Ruby Creek feasibility report.

Mike Petrina – General Manager, Ruby Creek

Petrina was appointed General Manager of the proposed Ruby Creek mine in February 2007. He has 25 years experience in the mining industry in both open-pit and underground operations undertaking engineering and supervision, project development, consulting and contracting.

David Kwok – Chief Financial Officer

Mr. Kwok is a successful entrepreneur and has seven years of experience in the financial markets and oversees the financial and corporate functions. His duties involve the administration of corporate and fiscal affairs and dealings with investors and institutions. David has a Diploma of Technology in Accounting as well as a Bachelors of Business Administration from the British Columbia Institute of Technology.

We are pleased to bring you this report on **Adanac Molybdenum Corporation**.



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Gabriel Didham, CFA
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Emma Tysoe

Emma is a well-known smaller company analyst. She began her career as an equity analyst at Kleinwort Grieveson Securities and has since worked with Fitch Ratings and the Extel-rated smaller companies research team at James Capel where she covered a wide variety of companies.

Paul Wheeler, BSc. ARSM

Paul is a mining geologist with over 18 years experience evaluating ore deposits. He has worked on mines and projects in West Africa, Europe and the former Soviet Union; and lectured at Camborne School of Mines.

Will Purcell

Will has been involved in the resource sector for 30 years in a variety of roles. Since the late 1990s, he has been active in assessed mineral resource investment projects. Will has a B. Math degree from the University of Waterloo in Ontario.

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