Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Adanac Molybdenum Corporation (TSX: AUA) – New Resource Estimate; Nearing Development FINAL REPORT

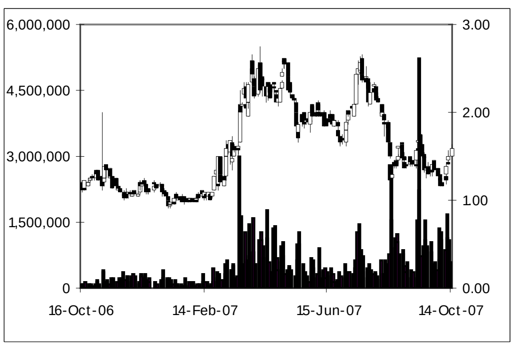
Sector/Industry: Mining

www.adanacmoly.com

Market Data (as of October 17, 2007)

Current Price	C$1.59
Fair Value	C$3.40 (↑)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C$1.10 – C$2.67
Shares O/S	97,818,186
Market Cap	C$155.53 mm
Current Yield	N/A
P/E	N/A
P/B	2.31
YoY Return	38.3%
YoY TSX	18.5%

*see back of report for rating and risk definitions



Investment Highlights

- Adanac received their Environmental Assessment Certificate on September 11, 2007. The company has begun construction, and production is expected to commence at the Ruby Creek Molybdenum Project in Q2-2009.
- The company has completed approximately $68 million in procurement to date. Approximately 10% has been paid in deposits.
- Detailed engineering has been completed, and the estimated capital cost has risen from $440 million to $640 million, of which $300 million will be spent in the next 12 months. The operating rate has risen from 21,000 tpd to 26,000 tpd.
- The 2007 resource expansion and exploration drilling program has discovered a new, high grade mineralized zone north of the Adera Fault.
- In the past 18 months, the company has raised close to $57.78 million through private placements and the exercise of options and warrants. AUA intends to raise additional capital through equity and debt financings to fund capital costs in the next 12 months ($300 million).
- On October 17, 2007, AUA announced that it has entered into an engagement letter with a U.S. investment bank to act as the agent for a proposed debt financing of $600 million.
- We have raised our fair value estimate from $3.25 per share to $3.40 per share.

Risks

- Success is dependent on the development of the Ruby Creek property and is subject to grade risk, recovery risk, finance risk and cost overruns among others.
- The share price is correlated to the price of molybdenum.

Key Financial Data (C$)

	2005	2006	2007	Q1 - 2008
Cash	2,154,892	3,382,021	44,938,744	30,531,138
Mineral Assets	3,349,426	9,253,309	18,329,915	23,519,980
Total Assets	5,901,377	13,154,446	66,109,677	69,046,021
LT Debt/Assets	-	-	-	-
Net Loss	(1,187,083)	(2,153,762)	(5,278,143)	(1,577,338)
EPS	(0.05)	(0.05)	(0.08)	(0.02)

Adanac Molybdenum Corporation is a British Columbia based junior mining company that is focusing its molybdenum mining efforts in British Columbia, Canada. The company aims to begin production on their Ruby Creek project in Q2-2009.

Company Overview

Adanac Molybdenum Corp. (TSX: AUA) is a British Columbia based resource company that is focusing its molybdenum mining efforts in British Columbia, Canada. Adanac's most advanced molybdenum project is the Ruby Creek Property in British Columbia, Canada. With the current high price of molybdenum, strong market conditions for molybdenum, and 100% ownership of the Ruby Creek property, Adanac has been working hard to bring the project into production, and has completed resource definition, preliminary feasibility, and bankable feasibility. They expect to be in production on the Ruby Creek Project by the beginning of 2009. The company continues to build their resource base. Their most recent resource estimate added 10.1 million pounds of molybdenum for a total resource of 295.7 million pounds of molybdenum measured and indicated and 29.7 million pounds of molybdenum inferred.

Permitting Status

The company received an Environmental Assessment Certificate from The BC Environmental Assessment Office on September 11, 2007. Final federal permitting is expected shortly. A number of provincial permits, including road building, are expected in the next few weeks.

First Nations Relations

The company continued its commitment to working proactively with the Taku Tlingit First Nations by awarding the mine's catering and housekeeping contract to a joint venture company formed by PTI Group Inc. and the Atlin Tlingit Development Corporation. The Atlin Corporation is wholly owned by the Taku River Tlingit First Nations.

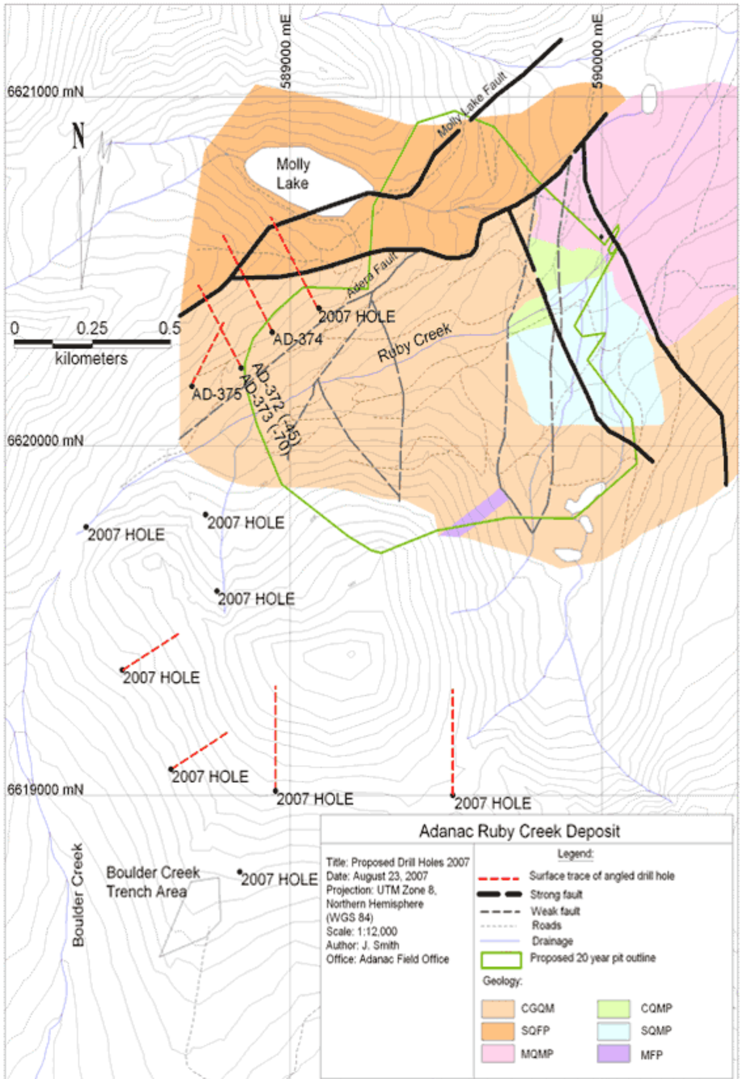
Adanac's relationship with the TRTFN has established a precedent for more open dialogue between First Nations and mining companies that wish to work on aboriginal land. This model works to minimize land and aquatic impacts on First Nations territory, as well as respect and benefit TRTFN members and their land rights in the long term. Currently, the company is working with the Taku River Tlingt First Nation to negotiate and consummate a full impact benefit agreement.

Engineering & Procurement

The company has completed $68 million in procurement to date. They have paid approximately 10% in down payments. In May 2007, the company completed procurement of the long lead items required for the processing plant. The contract for flotation cells has been secured. They have awarded contracts for the diesel generators required for power generation in the first five years of production. The 50 man camp has been completed, and will be utilized for mine construction beginning in October 2007.

According to management, the company is planning to spend $300 million of the estimated $640 million capital cost over the next 12 months (approximately $40 million has been spent on the project to date). The company plans to raise this money with a combination of debt and equity financing.

On October 17, 2007, AUA announced that it has entered into an engagement letter with a U.S. investment bank to act as the agent for a proposed debt financing of US$600 million. AUA stated that the debt financing transaction would involve approximately US$450 million of senior notes and US$150 million of convertible debentures. Due diligence is currently underway.



The company drilled several holes north of the proposed open pit to test mineralization north of the Adera and Molly Lake Faults. The 2007 drilling program holes are outlined in red.

Source: Adanac Molybdenum Corporation

Drilling

While awaiting permitting, the company completed a 7,000 meter drilling program in 14 holes to test the outer extensions of the Ruby Creek deposit, which is known to be open in several directions. This program was designed to expand the resource, provide information for mine planning, and test new targets.

The Ruby Creek deposit is found in a cirque, which is an amphitheater shaped valley usually formed by glaciation. The company was testing to the north, west, and south of the proposed open pit deposit. In addition, the company is testing two early stage targets in Boulder Creek. The company has announced results from three holes drilled to the northwest to test for down-dropped mineralization north of the Adera and Molly Lake faults. The drilling results were notable for their high molybdenum grades and great widths. While these drilling results require further exploration, we believe they represent exciting resource expansion potential for the project.

Timeline

The revised timeline for the Ruby Creek Project is as follows (previous estimates in parentheses):

December (April) **2006-July** (May) **2009:** Engineering and Procurement

September-October (June) **2007:** Receive permits

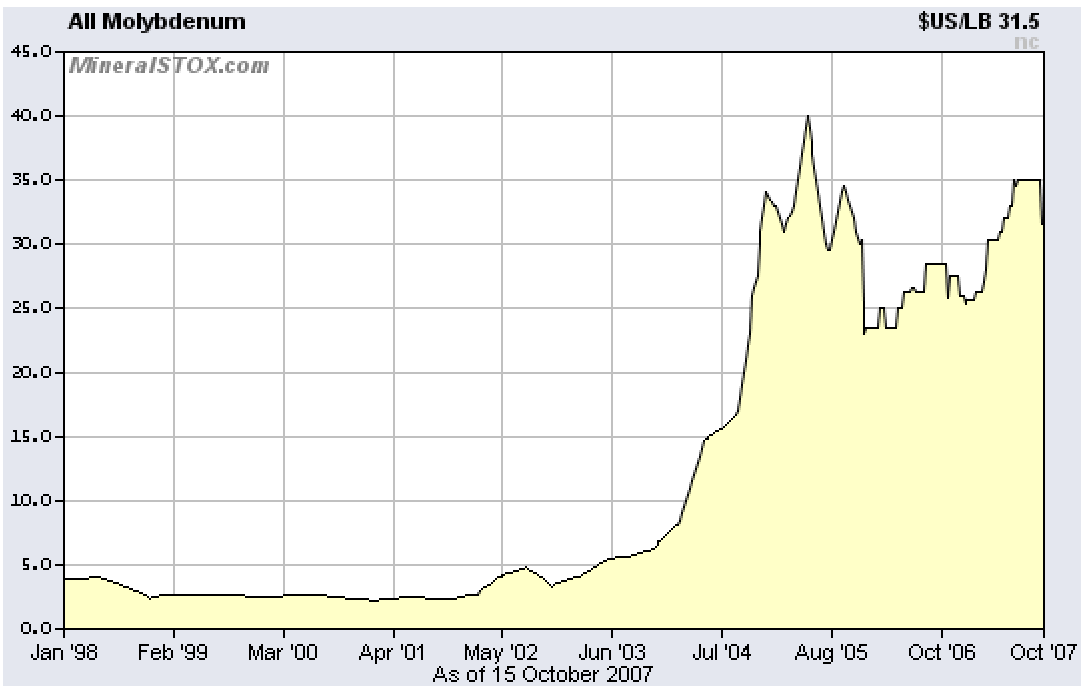
October (July) **2007- December** (February) **2008:** Commence construction, pit preparation

January 2009 (October 2008)**:** Mine commissioning

March 2009 (January 2009)**:** Commence production

Outlook on Molybdenum

The chart below shows molybdenum prices since January 1998.



As of October 15, 2007, molybdenum was trading at US$31.5/lb, compared to US$29.7/lb in December 2007. We have maintained our outlook on molybdenum price. Although we expect prices to gradually decline throughout our forecast period, we believe they will stay higher than their historic low of US$2.33/lb (during 2000 – 2006), based on the following reasons.

- Supply/Demand balance is expected to remain tight in the rest of the decade.
- Strong demand from China, the global market for stainless steel, and the oil sector will be the main drivers of molybdenum demand in the long-term. Increasing investment demand is also a positive sign for long-term demand.
- On the supply side, not many molybdenum projects are expected to be put into production in 2007 and 2008. Also, new molybdenum mines have longer lead times.

- Supply from China is expected to drop as the Chinese government intends to restrict exports of molybdenum products in the future.
- It is estimated that supply will also be affected by tight roaster capacity.

Financials

In the first three months of FY2007 (ended July 2007), the company recorded a net loss of $1.58 million (EPS: -$0.02), compared to a net loss of $1.28 million (EPS: -$0.02) in the comparable period in the previous year. We estimate the company had a burn rate (cash spent on operating and investing activities) of $5.50 million per month in the first three months of FY2007, compared to $1.18 million per month in FY2006 (12 – month period ended April 2007). The table below shows the company's cash and liquidity position.

	2005	2006	2007	Q1 - 2008
Cash	2,154,892	3,382,021	44,938,744	30,531,138
Current Ratio	5.68	9.76	74.65	19.58
Working Capital (in $)	1,960,939	3,220,601	45,219,106	29,850,999
LT Debt	-	-	-	-
Burn Rate Per Month (in $)	(320,138)	(662,714)	(1,176,577)	(5,504,957)
Cash from Financing (in $)	5,808,798	9,179,698	55,675,650	2,107,265

At the end of July 2007, the company had cash and working capital of $30.53 million and $29.85 million, respectively, compared to $44.94 million and $45.22 million at the end of April 2007.

Stock Options and Warrants: At the end of April 2007, the company had 8.66 million stock options outstanding (8.46 million are currently 'in-the-money'), with exercise prices ranging between $0.10 and $2.37, and expiry dates between November 2008 and July 2012. The company also had 24.23 million warrants outstanding, with exercise prices ranging between $1.02 and $3.00, and maturity periods between December 2007 and February 2012.

Conclusions: Based on cash on hand at the end of July 2007 ($30.53 million), we believe the company is in an excellent cash position to fund operations. As for the proposed $300 million capital costs in the next 12 months, the company is actively trying to raise capital through equity and debt financing. *(As mentioned earlier in the report, the company has already announced that they have engaged an U.S. investment bank to act as an agent to raise approximately US$600 million through debt financings.)* The capital costs also include an outstanding contractual commitment of $120 million to the consultants contracted to complete a feasibility study, environmental and socio-economic studies, procurement services, construction management, mining equipment and detailed engineering work.

Valuation

We continue to value the company based on a Discounted Cash Flow (DCF) model and a real options valuation model.

AUA's DCF valuation increased from $2.31 per share to $2.83 per share: In our previous reports, we had estimated the fair value of AUA based on the net present value (NPV) of the Ruby Creek Project calculated by Wardrop. In this report, we have built our own DCF model to account for the following:

1. Increase in commodity price forecasts – We have used an average molybdenum price of US$27.50/lb in 2009. We have assumed that molybdenum prices will decline by US$1.00/lb a year thereafter to US10/lb by 2021.
2. Increase in capital cost estimate from $434 million to $600 million.
3. We now estimate commercial production to commence in March 2009 (previous forecast – January 2009).
4. For conservatism, we have assumed that the company will raise $450 million in debt, although the company recently announced that they intend to raise US$600 million through debt financings.
5. Increase in operating rate estimate from 21,000 tpd to 26,000 tpd.

As a result of all the above-mentioned changes, our DCF valuation on AUA increased from $2.31 per share to $2.83 per share. A summary of our valuation model is shown below.

DCF Valuation - Summary	
Resource Estimate (in tonnes)	225,393,500
Wt. Avg. Grade (%)	0.062%
Contained Metal (in lbs)	310,566,707
Recovery	90%
Operating costs (C$/t)	$8.05/t (first 5 years: $11.25/t)
Capital Costs (in mm)	$600 mm
Mine Life (years)	26
Cost of Capital (%)	9.54%
Base Case NPV	179,029,500
Present Value of Tax Shields	$80,665,146
Net Value of the Project	**$259,694,646**
Current Working Capital	29,850,999
Current Debt	-
Net Value	289,545,645
No. of Shares (diluted)	102,228,646
NAV per Share	**$2.83**

We have included all of the measured and indicated and half of inferred resources in our valuation model. In order to account for the additional value as a result of the proposed debt financings, we have used the adjusted present value (APV) valuation approach.

Valuation of the Ruby Creek Project

Adjusted Present Value = Base case NPV (assuming no debt) + Present Value of Tax Shields
= $179.03 million + $80.67 million
= $259.69 million

Adding the current working capital to the adjusted present value of the Ruby Creek project, we obtained the company's fair value of $289.55 million, or $2.83 per share (diluted).

Real options valuation: We made the following changes to our real options valuation model.

- Increased capital cost estimate from $434 million to $600 million.
- Increased the annualized standard deviation of molybdenum prices from 33% to 36.5%.
- Reduced our estimate of mine life from 32 years to 26 years (due to an increase in the operating rate).

We also raised the annualized dividend yield (cost of delay) from 3.13% to 5.06% (due to higher cash flows per year from higher commodity prices and the operating rate).

Real Options Valuation Model					
	Resources	Grade	Contained Metal	Price (US$/lb)	Value (C$)
	(in tonnes)	(g/t)	(in lbs)	(average forecast price)	
Molybdenum	225,393,500	0.06%	310,566,707	13.89	4,077,755,792
			Total Value (C$)		$4,077,755,792
			Operating Costs (C$)		$2,045,082,559
Recovery	90%		**Net Value (C$)**		**$2,032,673,233**
Inputs relating to the underlying asset					
Estd.Value of Minerals if extracted today					$1,796,693,833
Annualized Standard Deviation of Mineral Prices					37%
Capital Investment					$600,000,000
Estd. Mine Life (years)					26
Riskfree Rate					4.20%
Output					
Stock Price	$1,796,693,833			T.Bond rate	4.20%
Strike Price	$600,000,000			Variance	0.13
Expiration (in years)	26.0			Annualized div yield	5.06%
			Value of Option		$378,248,522
d1 =	1.400		Working Capital		$29,850,999
N(d1) =	0.919		Debt		-
d2 =	-0.461		No of outstanding shares (diluted)		102,228,646
N(d2) =	0.322		**Value per share**		**$3.99**

Conclusions &Rating

Our real options valuation dropped from $5.85 per share to $3.99 per share, primarily, due to increases in capital cost estimates and the annualized dividend yield.

We are pleased with the company's progress to date and believe that the share price at this level represents an excellent buying opportunity. The most important thing going forward is raising financing to support construction. We believe the company may be subject to further delays, due to the nature of the industry as a whole right now, but the project has made great advances and we are confident in its future.

Based on our revised valuation models and review of the company's progress since our previous update, we have raised our fair value estimate from $3.25 per share to $3.40 per share (average of DCF and real options valuation), which reflects an upside potential of 114% from current price levels. Our valuation clearly indicates that the company is undervalued based on its fundamentals. We expect AUA's share price to move closer to our fair value estimate as the Ruby Creek project approaches production.

Risks

The following risks may cause our estimates to differ from actual results (not exhaustive):

- The company will have to continue to rely on equity and /or debt financing to carry out its exploration and development activities. The company's ability to raise capital will depend on its share price. The lower the share price, the lower the capital raised and/or more shares have to be issued.
- Like other junior mining companies, Adanac's success will be dependent on the development of key projects, and is subject to risks related to mineral grades and recovery.
- Like other primary molybdenum producers, there exists the threat of competition from secondary Molybdenum producers (copper –moly producers).
- The share price is highly correlated to the price of molybdenum. Although the price of molybdenum has recovered from its lows of the past few years, a significant long-term drop in the price of molybdenum would negatively affect the value of Adanac's shares.

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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