



**Initiating Report**

**February 24, 2009**

**Recommendation**

Speculative Buy

**Risk**

High

**Price (February 23, 2009)**

\$0.045

**52-Week Range**

\$0.385 - \$0.02

**Intrinsic Value**

\$0.40 - \$0.50

**Shares O/S**

88.12 million

**Market Cap**

\$3.97 million

**Average Daily Volume**

50-day: 293,900

200-day: 139,200

**Year-End**

December 31

C\$	BVPS	EPS
2006A	\$(0.02)	\$(0.03)
2007A	\$0.14	\$(0.03)
2008E	\$0.12	\$(0.02)
2009E	\$0.11	\$(0.02)

BVPS: Book Value Per Share

EPS: Earnings Per Share

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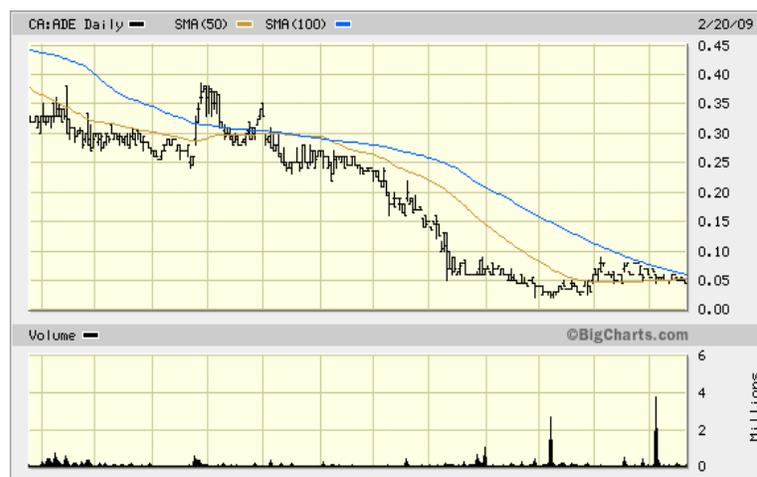
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**ADEX MINING INC.**

(\$0.045, TSX-V: ADE)



Data Source: www.BigCharts.com

**UPFRONT**

Adex Mining Inc. is currently still on track for achieving its intended start-up of production in 2011 at its New Brunswick-based Mount Pleasant property, particularly the tungsten-molybdenum Fire Tower Zone project. With a NI 43-101 technical report and a scoping study now in-hand, the next milestone is a definitive feasibility study on the Fire Tower Zone, which the Company intends to initiate as soon as global demand for metals improve. Progress is also being made on the property's other near-by zones, including the tin-indium-zinc-copper North Zone.

**RECOMMENDATION**

We recommend Adex Mining Inc. ("Adex" or the "Company") as a Speculative Buy for long-term risk-tolerant investors. However, due to the extreme volatility currently being experienced in the capital markets, until the investment environment stabilizes, we are not providing a 12-month Target Price. (see "Target Price" page 3.)

**PROFILE**

Adex Mining Inc. is a mineral exploration company focused on its 100%-owned Mount Pleasant Mine property, a tungsten-molybdenum and tin-indium development project in New Brunswick, Canada.

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## HIGHLIGHTS

- A NI 43-101 compliant technical report, dated December 1, 2008, for the Fire Tower Zone (“FTZ”) includes an Indicated Resource of 13.5 million tonnes at an average grade of 0.33% WO<sub>3</sub> (tungsten) and an average grade of 0.21% MoS<sub>2</sub> (molybdenum), and an Inferred Resource of 841,700 tonnes at an average grade of 0.26% WO<sub>3</sub> and an average grade of 0.20% MoS<sub>2</sub>;
- An independent scoping study on the FTZ was completed in November 2008. The pre-tax net present value was estimated at \$164.6 million;
- A feasibility study on the Fire Tower Zone is expected to be initiated as soon as global demand for metals begin to revive and markets return to more favourable conditions;
- An historical resource estimate for the North Zone and Deep Tin Zone (tin-indium) is expected to be upgraded in 2009 to an NI 43-101 compliant resource estimate;
- eResearch estimates current cash-on-hand to be around \$3.5 million, which covers the current monthly “burn” for about three years. However, capex for 2009, which includes the costs of conducting a feasibility study on the Fire Tower Zone, once initiated, and further follow-on expansion drilling on the North Zone, could approach \$5.0 million, which indicates additional equity will be required

## TARGET PRICE

The current environment for junior mining exploration equities is extremely challenging. Stock prices for many companies have been savaged, and now no longer reflect the inherent value of these companies. Investor interest in the junior mining sector is practically nil, and many of the companies are having great difficulty in raising the necessary financing to continue their mining activities.

In this respect, unless we can foresee over the ensuing twelve months a definitive and plausible strategy by a junior mining exploration company, we are no longer setting specified Target Prices for the junior mining sector. Instead, we are providing the intrinsic value that we have calculated using our stated assumptions concerning the exploration and/or development activities being conducted.

For Adex, we have derived the following intrinsic values using two valuation methodologies:

- Peer Comparison (Property Valuation): \$0.40 per share (based on a property ratio of 3.00x)
- Peer Comparison (Enterprise Valuation): \$0.46 per share (based on 320 million shares O/S)

Derivation and explanation of these intrinsic value estimates are set out in “Valuation” on page 13.

These intrinsic values are supported by a recent scoping study, prepared by Aker Solutions, in which the pre-tax net present value of the Fire Tower Zone project was determined to be the equivalent of approximately C\$0.51 per share. (See pages 6 and 16.)

## THE COMPANY

Adex Mining Corporation is headquartered in Toronto, Ontario (Canada). The Company engages in the exploration and development of mineral properties in New Brunswick.

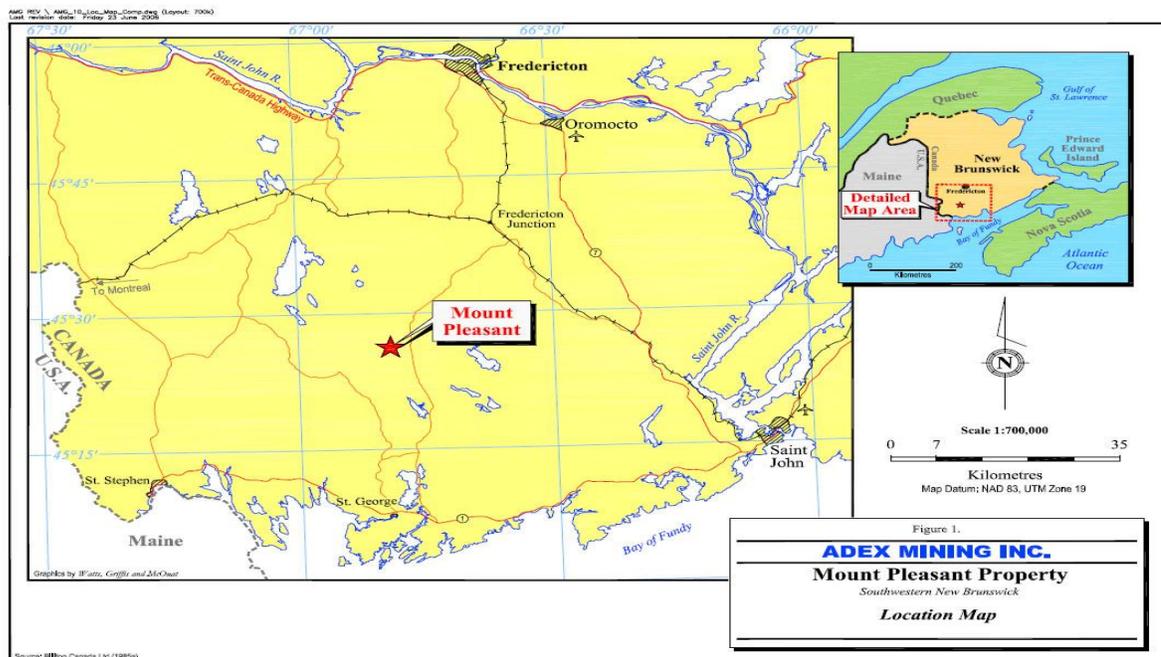
In 1995, through its subsidiary Adex Minerals Corp., Adex acquired 100% of the Mount Pleasant property, consisting of 102 contiguous mining claims covering an area of approximately 1,600 hectares (about 4,000 acres). It holds surface rights on 405 hectares (1,000 acres) at Mount Pleasant, including the existing structures of the formerly-producing Mount Pleasant Mine.

Capital expenditures of over \$150 million were spent on the Mount Pleasant property in the past, and nearly 1 million tonnes of tungsten-molybdenum ore were milled at the property between 1983 and 1985.

## PROPERTY SUMMARY

The Mount Pleasant property is located in Charlotte County, New Brunswick, approximately 60 km south of Fredericton, 65 km northwest of Saint John, and 35 km north of St. George (see map below).

### Map #1: Mount Pleasant Mine Location



Source: The Company and Watts, Griffis, and McOuat

The Mount Pleasant property consists of five major zones:

- the Fire Tower Zone (FTZ) (tungsten-molybdenum);
- the North Zone (NZ) (tin-indium);
- the Deep Tin Zone (DTZ) (tin-indium);
- the Scotia Zone (exploration potential); and
- the Saddle Zone (exploration potential).

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## (1) Background

- Billiton Exploration Canada Ltd. invested over \$150 million in construction costs from 1979 to 1982 (initial cost estimate was \$90 million). Underground operations started in late 1982.
- Production commenced in 1983. However, the actual production in 1984 decreased by 50% to 325,000 tonnes of tungsten ore per year. The mine was initially designed for a production capacity of 650,000 tonnes per year.
- After less than two years in production, the mine was shut down primarily due to falling tungsten prices. A total of 990,200 tonnes at a grade of 0.35% WO<sub>3</sub> was mined between 1983 and 1985.

## (2) Property Features

- **Accessibility:** There is excellent access to the property from major cities in the province. The property is accessible by all-weather roads from Fredericton, Saint John, the town of St. George, and the New Brunswick/Maine border. Saint John is Canada's second-largest port and is ice-free year-round.
- **Infrastructure:** The property infrastructure is solid; surface facilities are in good shape; and a modest amount of capital expenditures is required for ore storage, conveyor galleries, mill-flotation, warehousing and office buildings. This significantly reduces future construction costs.
- **FTZ Capex:** The underground mine at the FTZ requires significant capital expenditures since it is flooded. All infrastructure installation was stripped when the mine was closed. The mine still contains an inventory of 800,000 tonnes of broken tungsten-molybdenum material at a grade of 0.39% WO<sub>3</sub> and 0.19% MoS<sub>2</sub>.
- **FTZ Feasibility Study:** Watts, Griffis, and McOuat Limited (“WGM”) conducted a technical review of FTZ in 2006, which led the Company to undertake a number of programs, including exploration drilling in 2008, metallurgical test work, completion of NI 43-101 technical report, and a scoping study. Adex is now contemplating commencing a feasibility study on the FTZ but will wait for a more favourable market outlook.
- **NZ/DTZ Resource Potential:** There is currently an historical resource of 3.7 million tonnes for the North and Deep Tin Zones with an average tin grade of 0.8% and an average indium grade of 107 ppm. The Company is currently working on upgrading the NZ/DTZ historical resource estimate to NI 43-101 compliance. Consequently, the NZ/DTZ offers good potential for future tin-indium production.
- **Production:** WGM believes that the FTZ offers a faster timeline to production, since the FTZ was the site of past production and much of the infrastructure, including a tailings impoundment facility, is still intact.

## RESOURCE ESTIMATES

### 1. Fire Tower Zone

#### (a) NI 43-101 Technical Reports

Adex has had two NI 43-101 Technical Reports prepared on its Fire Tower Zone.

The first was provided by WGM and was prepared in August, 2006. It shows that the property has an Inferred Resource of 13.1 million tonnes of tungsten-molybdenum.

**Table 1: Fire Tower Zone Mineral Resource Estimate (2006)**

<b>Mineral Resource Estimate by WGM (2006)</b>			
<b>Inferred Mineral Resource</b> (Using a 0.3% WO <sub>3</sub> Equivalent (*) Grade)			
	<u>Tonnes</u>	<u>%WO<sub>3</sub></u>	<u>%MoS<sub>2</sub></u>
Fire Tower West	9,209,081	0.34	0.21
Fire Tower North	3,865,356	0.37	0.20
<b>Total Fire Tower Zone</b>	<b>13,074,437</b>	<b>0.35</b>	<b>0.21</b>

(\*) WO<sub>3</sub> Equivalent = %WO<sub>3</sub> + 1.5 %MoS<sub>2</sub>.  
Source: the Company

A more recent resource estimate for the FTZ was prepared by WGM and SRK Consulting (Canada) Ltd. in December 2008. The results are tabulated below, and show that the tungsten-molybdenum resource estimate comprises an Indicated Resource of 13.5 million tonnes and an Inferred Resource of 0.84 million tonnes.

**Table 2: Fire Tower Zone Mineral Resource Estimate (2008)**

<b>FTZ: Mineral Resource Estimate by SRK (2008)</b>					
		Tungsten	Molybdenum	Arsenic	Bismuth
<b>Indicated</b>	<u>Tonnes</u>	<u>%WO<sub>3</sub></u>	<u>%MoS<sub>2</sub></u>	<u>%As</u>	<u>%Bi</u>
Fire Tower West	9,148,900	0.32	0.21	0.29	0.04
Fire Tower North	4,340,100	0.35	0.20	1.15	0.09
<b>Total Indicated</b>	<b>13,489,000</b>	<b>0.33</b>	<b>0.21</b>	<b>0.57</b>	<b>0.06</b>
<b>Inferred</b>	<u>Tonnes</u>	<u>%WO<sub>3</sub></u>	<u>%MoS<sub>2</sub></u>	<u>%As</u>	<u>%Bi</u>
Fire Tower West	831,000	0.26	0.20	0.21	0.04
Fire Tower North	10,700	0.26	0.17	0.26	0.05
<b>Total Inferred</b>	<b>841,700</b>	<b>0.26</b>	<b>0.20</b>	<b>0.21</b>	<b>0.04</b>

Source: the Company

**COMMENT:** *The new resource estimate should significantly increase the inherent value of the FTZ property, particularly as there has been a substantial upgrade of the estimate to the Indicated category.*

**(b) Scoping Study**

In November 2008, Aker Solutions Canada Inc. produced a scoping study on the FTZ. Its highlights are:

- The FTZ project is estimated to earn a pre-tax IRR of 27.1%;
- Pre-tax NPV is estimated to be \$164.6 million;
- Total capital costs are estimated to be \$130 million to bring the project into production;
- Additional costs during the life of the mine (estimated to be 13 years) are \$5.75 million (maintenance capital expenditures);
- Operating costs are estimated to be approximately \$600 million against expected revenues of \$1.16 billion; and
- The mine capacity could reach 840,000 tonnes per year at a rate of 2,400 tonnes per day (tpd)

**COMMENT:** *We believe that the scoping study is positive for Adex and, in our opinion, indicates that the Company's current market price is significantly undervalued to its intrinsic value.*

**2. North Zone and Deep Tin Zone**

A feasibility study produced in 1997 by Kvaerner Metals Davy Ltd. shows that the NZ/DTZ has an historical mineral resource estimate of 3.7 million tonnes at 0.8% tin and 107 ppm indium.

**Table 3: North Zone and Deep Tin Zone Mineral Resource Estimates (1997)**

<b>Historical Tin Indium Resources, Kvaerner Study 1997</b>								
	<b>Total</b>	<b>Sn</b>	<b>In</b>	<b>WO3</b>	<b>MoS2</b>	<b>Cu</b>	<b>Pb</b>	<b>Zn</b>
<b>Deposit</b>	<b>(tonnes)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
North Zone	1,877,260	0.859	30.31	0.159	0.650	0.139	0.070	0.357
Deep Tin Zone	1,768,169	0.742	188.74	0.070	0.045	0.237	0.055	1.142
<b>Total</b>	<b>3,645,429</b>	<b>0.802</b>	<b>107.15</b>	<b>0.114</b>	<b>0.055</b>	<b>0.187</b>	<b>0.063</b>	<b>0.869</b>

Note: 0.2% Sn cutoff; Mo% is 60% of MoS2; Specific Gravity = 2.75  
Source: the Company

**COMMENT:** *The 1997 historical estimates on NZ/DTZ were prepared prior to the implementation of NI 43-101 and, therefore, do not meet current resource estimate standards and should not be relied upon. They are presented here only because Adex considers them to be relevant and of historic significance, and provide encouraging results that suggest further exploration is warranted.*

Adex intends to release a new mineral resource estimate and NI 43-101-compliant technical report for the North and Deep Tin zones in 2009.

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## EXPLORATION ACTIVITIES

### 1. 2008

Adex has completed its 2008 Mount Pleasant drill program, which comprised a total of 13,300 metres of definition and exploration drilling on both the tungsten-molybdenum Fire Tower Zone and the tin-indium North and Deep Tin zones. The completion of the program allows the Company to collect sufficient data to implement its property strategy for the next two years.

Drilling on the FTZ provided data on this zone that was used in the updated NI 43-101 technical report and in the scoping study.

Results from the 2008 drill program on the NZ/DTZ are indicative of significant near-surface and at-depth mineralization, suggesting there is significant potential.

### 2. 2009 - 2010

Adex's exploration activities over the past few years have allowed the Company to gather enough data in preparation to achieve the definite feasibility study stage for both the FTZ and the NZ/DTZ.

With the scoping study on the FTZ now completed, the Company is well positioned to initiate a feasibility study on the property at the appropriate time. A positive feasibility study would allow a production decision to be made. The overall project duration from the start of the definitive feasibility study to the start of production is expected to take 29 months, according to the scoping study completed by Aker Solutions Canada Inc.

The total cost to bring the FTZ into production is estimated at \$130 million. The Company will need to secure project financing.

<p><b>COMMENT:</b> <i>It will take a marked improvement in the capital markets to allow Adex the opportunity to raise the required funding necessary to bring the formerly producing tungsten-molybdenum FTZ into production.</i></p>
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Current exploration activities at the NZ/DTZ further indicate that there is a potential for near-surface, open-pit tin-indium-copper-zinc production. Once the Company completes its NI 43-101 compliant resource estimate for the NZ/DTZ, it expects to commission a scoping study in order to determine the capital cost of bringing the NZ/DTZ into production.

The Company also intends to continue to engage in exploration activities to extend the size and continuity of both the FTZ and the NZ/DTZ.

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## INVESTMENT CONSIDERATIONS

### (1) Strengths

- **Tungsten-molybdenum potential.** The Mount Pleasant property has the potential to become a profitable tungsten-molybdenum mining operation with an 840,000-tonnes of ore per year milling/processing capacity. The Fire Tower Zone milled approximately 1 million tonnes of tungsten-molybdenum ore between 1983 and 1985 when the mine ceased operations because of declining tungsten prices.
- **FTZ resource estimate.** The December 2008 NI 43-101 resource estimate for the FTZ was positive, including an Indicated Resource of 13.5 million tonnes and an Inferred Resource of 841,700 tonnes.
- **Scoping study.** A favorable scoping study on the FTZ estimated the pre-tax NPV at \$164.6 million.
- **NZ/DTZ potential.** There is potential for near-surface, open-pit tin-indium-copper-zinc production at the North and the Deep Tin zones. The 1997 Kvaerner report provided a mineral resource estimate of 3.7 million tonnes of ore, with an average tin grade of 0.8% and indium grade at 107 ppm. An NI 43-101 resource estimate is expected in 2009, although it could be delayed depending upon market conditions.
- **Adequately financed.** The Company has sufficient funding in place to withstand the current market volatility and continue to fund limited activities in furthering the development of the FTZ and NZ/DTZ. However, market conditions will need to improve dramatically in order for the Company to raise the capital necessary to bring the FTZ and NZ/DTZ into production.
- **Tungsten/molybdenum prices.** Although the Company faces commodity volatility, tungsten and molybdenum prices remain fairly stable (see Appendices 2 and 3, page 19 and page 22, respectively).
- **Historic capex.** Substantial capital expenditures were made on the property in the past (\$150 million).
- **Mining environment.** The property is located in New Brunswick, a province that is one of the strongest supporters of mining companies in Canada.
- **Infrastructure.** The mine location is favourable, reflecting all-weather access to the property, good infrastructure (existing buildings, water, and electricity supplies), and proximity to all major urban centres in the province.
- **Management.** The Company has a strong management team led by Kabir Ahmed, the CEO. He has significant experience with junior mining companies, particularly companies that are in the exploration stage.

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## (2) Challenges

- **Difficult capital markets.** Total capital expenditures needed to bring the Mount Pleasant property's FTZ into production is \$130 million. The estimate of costs to complete a feasibility study on the FTZ is between \$1 to \$2 million. Future financing of required capital expenditures may be a challenge, given the currently tight credit markets. The capital markets for junior mining companies in Canada have become highly restrictive due to the relatively high-risk profile of the sector. However, with the Company's estimated cash treasury, we believe that Adex should be able to manage its expenditures and keep the property in good standing.
- **Escalating costs.** The mining industry is facing increasing operating costs (cash burn rate) and material costs, which could result in higher project costs than previously estimated. Uncertainties associated with construction and production costs could significantly delay projects. In some cases, increases in construction costs (and failure to obtain financing for the increase) could significantly delay or even postpone commercial operations or could render a potential mine uneconomic.
- **Commodity price fluctuations.** The Company is exposed to commodity price fluctuation beyond its control. Any prolonged downward trend in commodity prices would be expected to extend the current reduction in investors' interest in the mining industry. This, in turn, could restrict the Company's access to the capital markets. In the 1990s, tungsten prices were mainly influenced by the Chinese government subsidizing its mine production, resulting in low prices for an extended period.
- **NI 43-101 compliancy.** The resource estimate at Adex's NZ/DTZ is only historical, and not NI 43-101 compliant. The Company is expected to complete an NI 43-101 resource estimate for the NZ/DTZ in 2009. Nevertheless, even with a new NI 43-101 compliant resource estimate for the NZ/DTZ, there is no assurance that the minerals will be discovered in sufficient quantities to justify commercial operations.

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## FINANCIAL REVIEW & OUTLOOK

**Financial Year-End:** December 31

**Revenues:** The Company currently generates no revenues. Adex will report losses for a few more years until it is able to bring a mine into production.

**Cash and Marketable Securities:** At September 30, 2008, the Company had over \$4.3 million in cash and \$106,685 in committed cash. Based on the Company's operating and capital spending in 2008, we estimate current cash resources to be approximately \$3.5 million.

**Burn Rate:** The average monthly operating burn rate for the 9 months ending September 30, 2008 was \$82,000. This is a significant increase from 2007, and is a result of increases in exploration activities on the FTZ and the NZ in order for the Company to complete its 2008 drill program. Beyond 2008, the burn rate will more likely reflect economic circumstances and whether new financing can be obtained.

**Capital Expenditures:** Capex of \$4.33 million, largely related to the FTZ and NZ projects, was recorded for the 9 months ending September 30, 2008, yielding the cash burn rate for the period at \$480,000 per month, a substantial increase from 2007 reflecting increased activities related to the scoping study on the FTZ. eResearch expects the Company to spend approximately \$5 million for capital expenditures over the next 12-15 months. Our expectation is based on the capital requirements to complete a feasibility study on the FTZ.

**Financing:** To date, the Company's capex has been financed with 100% equity through private placements. In 2007, cash proceeds of \$11.7 million were raised through equity issuance. During the first six months of 2008, another \$1.34 million in net cash proceeds were obtained through a series of warrants exercised. The financing of the capital expenditure program over the next 12-15 months could present a challenge for the Company, reflecting: (1) a weak credit market, with banks and financial institutions reducing the amount of corporate loans due to weak balance sheets; and (2) volatile commodity prices, with investors losing their appetite for the mining industry, particularly junior mining stocks. However, given the strength of its current cash position, completion of a NI 43-101 resource estimate and technical report, and production of a positive scoping study for the FTZ, we believe that Adex is well-positioned to withstand the current volatility and access capital once market conditions improve.

## Options and Warrants

### 1. Options:

As of September 30, 2008

<u>Exercise Price</u>	<u>Number</u>	<u>Expiry Date</u>	<u>Comments</u>	<u>Potential Equity</u>
\$0.30	2,050,000	June 29, 2012	Out-of-the-Money	\$615,000
\$0.30	1,510,000	June 29, 2012	Out-of-the-Money	\$453,000
\$0.40	250,000	August 2, 2012	Out-of-the-Money	\$100,000
\$0.35	105,000	August 20, 2012	Out-of-the-Money	\$36,750
\$0.45	112,500	November 28, 2012	Out-of-the-Money	\$50,625
\$0.33	37,500	January 30, 2013	Out-of-the-Money	\$12,375
\$0.30	387,500	June 11, 2013	Out-of-the-Money	\$116,250
	<u>4,452,500</u>			<u>\$1,384,000</u>

### 2. Warrants:

As of September 30, 2008

<u>Exercise Price</u>	<u>Number</u>	<u>Expiry Date</u>	<u>Comments</u>	<u>Potential Equity</u>
\$0.60	350,000	March 13, 2009	Out-of-the-Money	\$210,000
\$0.10-\$0.30	250,000	June 30, 2009	Out-of-the-Money	\$50,000
	<u>600,000</u>			<u>\$260,000</u>

Source: Company

Note: Stock price is \$0.045 on February 23, 2009.

**COMMENT:** *The March 2009 warrants outstanding are not likely to be exercised. Some from the June 2009 tranche may be exercised, but the dollar amount would be insignificant. Regardless, from a financing perspective, because the expiry dates on the options are more than three years out, we do not expect the Company to obtain new equity through the exercise of options and warrants over the next 12-15 months, even if Adex's stock price increases significantly.*

**Financial Statements:** Set out below, with accompanying commentary, are abbreviated financial statements of income, cash flow, and the balance sheet.

**TABLE 4: SELECTED FINANCIAL INFORMATION**

Adex Mining Inc. (CAS)	9 Months Ending		For the Year Ended			
	Sep. 30 2007	Sep. 30 2008	Dec. 31 2006	Dec. 31 2007	Dec. 31 2008E	Dec. 31 2009E
<b>Statement of Income (Loss)</b>						
Revenues	0	0	0	0	0	0
Administrative & General	(920,854)	(735,830)	(376,978)	(1,194,426)	(988,000)	(1,000,000)
Depreciation	(764)	(882)	0	(3,107)	(3,300)	(3,600)
Mineral Property Expenses	(216,851)	(336,248)	178,079	(360,363)	(440,000)	(400,000)
Stock-based Compensation	(558,325)	(431,776)	0	(678,355)	(431,776)	(400,000)
Interest Income	71,435	109,883		139,683	120,000	40,000
Interest Expense	(91,887)	0	(380,317)	(157,205)	0	0
Non-cash items adjustments	(52,963)	(5,813)	0	1,005,000	(8,000)	0
<b>Net Income/(Loss)</b>	<b>(1,770,209)</b>	<b>(1,400,666)</b>	<b>(579,216)</b>	<b>(1,248,773)</b>	<b>(1,751,076)</b>	<b>(1,763,600)</b>
Total Shares Outstanding	67,909,015	88,117,361	21,019,975	74,659,015	88,117,361	108,117,361
Weighted Average Shares Outstanding	42,263,631	83,349,711	21,019,975	49,546,058	83,349,000	98,117,361
Earnings (Loss) Per Share	(\$0.04)	(\$0.02)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.02)
<b>Cash Flow Statement</b>						
Net Income (Loss)	(1,770,209)	(1,400,666)	(579,216)	(1,248,773)	(1,751,076)	(1,763,600)
All Non-Cash Items	612,052	444,288	263,209	(273,530)	448,894	403,600
<b>Cash Flow from Operations</b>	<b>(1,158,157)</b>	<b>(956,378)</b>	<b>(316,007)</b>	<b>(1,522,303)</b>	<b>(1,302,182)</b>	<b>(1,360,000)</b>
Capital Expenditures (Properties)	(56,302)	(4,331,425)	(84,907)	(252,081)	(5,000,000)	(5,000,000)
Other Investing Items	0	(1,154)	0	(178,087)	(1,154)	0
<b>Free Cash Flow</b>	<b>(1,214,459)</b>	<b>(5,288,957)</b>	<b>(400,914)</b>	<b>(1,952,471)</b>	<b>(6,303,336)</b>	<b>(6,360,000)</b>
Working Capital Changes	33,598	(191,634)	(443,667)	(1,212,187)	(327,582)	(226,915)
<b>Cash Flow before Financing</b>	<b>(1,180,861)</b>	<b>(5,480,591)</b>	<b>(844,581)</b>	<b>(3,164,658)</b>	<b>(6,630,918)</b>	<b>(6,586,915)</b>
Equity Financing	8,470,669	1,345,745	556,810	11,683,678	1,345,745	4,000,000
Debt Financing	0	0	50,000	0	0	0
Other Financing	0	0	0	0	0	0
<b>Change in Cash</b>	<b>7,289,808</b>	<b>(4,134,846)</b>	<b>(237,771)</b>	<b>8,519,020</b>	<b>(5,285,173)</b>	<b>(2,586,915)</b>
Cash, Beginning of the Period	66,410	8,585,430	304,181	66,410	8,585,430	3,300,257
Cash, End of the Period	7,356,218	4,450,584	66,410	8,585,430	3,300,257	713,342
<b>Balance Sheet As At:</b>						
(CAS)						
	Sep. 30 2007	Sep. 30 2008	Dec. 31 2006	Dec. 31 2007	Dec. 31 2008E	Dec. 31 2009E
Cash	7,356,218	4,343,899	66,410	5,827,894	3,300,257	713,342
Committed Cash	0	106,685	0	2,757,536	106,685	
Other Current Assets	215,951	759,857	195,968	316,044	780,000	750,000
Mining Properties	619,772	5,146,976	563,470	815,551	5,815,551	10,815,551
Capital Assets and Reclamation Bonds	695,422	693,471	536,072	704,829	700,000	700,000
<b>Total Assets</b>	<b>8,887,363</b>	<b>11,050,888</b>	<b>1,361,920</b>	<b>10,421,854</b>	<b>10,702,493</b>	<b>12,978,893</b>
Short-term Debt	0	0	0	0	0	0
Current Liabilities	232,457	507,985	1,622,884	255,805	510,000	550,000
Long-Term Debt	959,769	0	158,504	0	0	0
Shareholders' Equity	7,695,137	10,542,903	(419,468)	10,166,049	10,192,493	12,428,893
<b>Total Liabilities &amp; Equity</b>	<b>8,887,363</b>	<b>11,050,888</b>	<b>1,361,920</b>	<b>10,421,854</b>	<b>10,702,493</b>	<b>12,978,893</b>
Book Value (S.E.) Per Share	\$0.11	\$0.12	(\$0.02)	\$0.14	\$0.12	\$0.11
Source: <i>Company and eResearch</i>						
		(*) E = Estimated by eResearch				

**COMMENT:** *Net Income and Cash Flow from Operations are expected to continue in deficit through our forecast period to the end of 2009, as none of Adex's projects are expected to be in production during this period. We are assuming that the Company will need to raise at least \$4 million in 2009 to complete planned capital expenditures, which could range between \$3 million and \$7 million depending upon market conditions and financing ability. With the shares of mining companies, particularly junior exploration companies, having been savaged in the market, many of them, including Adex, see their share prices trading substantially below their book value. Thus, we see a substantial recovery in share prices once the market stabilizes and global economic recovery begins. Book value per share is estimated to be around \$0.11 - \$0.12 per share for year-end 2008/2009.*

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## VALUATION

We have valued Adex Mining Inc. using two methodologies:

- (1) Peer Comparison (Property Valuation Approach); and
- (2) Peer Comparison (Enterprise Value per Attributable Resource Approach).

### 1. Peer Comparison: Property Valuation Approach

This method determines an appropriate valuation for the shares of Adex based on:

- (1) Current and expected market value of the Company in the next 12 months;
- (2) Book value of the mineral properties of the Company compared to those of peers;
- (3) Expected capital expenditures for the Company for the next 12 months;
- (4) Debt outstanding; and
- (5) Expected number of shares to be issued to finance capital expenditures.

Our selection of peers includes the following Canadian companies:

#### **Geodex Minerals Ltd. (GXM: TSX-V)**

Geodex Minerals is a Canadian-based exploration and development company focused on New Brunswick, Canada. The company's flagship project, Sisson Brook, has an open-pit structure with existing infrastructure in place, positioning the project to become one of the largest and least expensive tungsten mines in North America. Geodex is expected to complete a pre-feasibility study, which will compile the results of an upgraded resource calculation on the project. Production is expected in 2011. The Sisson Brook project will contribute approximately 5% of the world's current tungsten production. Geodex Minerals also owns the Mount Pleasant West Camp, a potentially large indium property.

#### **Largo Resources Ltd. (LGO: TSX-V)**

Largo Resources is a Canadian junior mining company focused on natural resource exploration and development. The company has two advanced-stage properties: Northern Dancer (tungsten-molybdenum) in Yukon Territory and Maracas (vanadium-platinum) in Brazil. Largo Resources also owns the Macuchi gold-copper project in Ecuador.

#### **North American Tungsten Corporation (NTC: TSX-V)**

North American Tungsten Corporation (NAT) is North American's most significant producer of tungsten concentrates. NAT owns the operating Cantung mine in the Northwest Territories, the Mactung mineral property in Yukon Territory, and other tungsten prospects. It also owns a development-stage processing facility in Minnesota, USA.

#### **Playfair Mining Ltd. (PLY: TSX-V)**

Playfair Mining, Ltd., an exploration-stage company, engages in the acquisition and exploration of mineral properties in Canada. The company explores primarily for tungsten, gold, and copper in Newfoundland, and in the Yukon and Northwest Territories. The company is based in Vancouver, Canada. Playfair Mining owns the Grey River and Risby projects (with NI 43-101 Inferred Resource estimates of over 81 million tonnes of tungsten ores) and Lened and Clea projects (with historical resource estimate of 23 million tonnes of tungsten ores).

**Strategic Metals Inc. (SMD: TSX.V)**

Strategic Metals Inc. is a Canadian junior mining exploration and development company with several base and precious metals properties located in Canada. The company has no producing mines, currently has 26 of its properties optioned out, and holds royalties interest in five others. Strategic Metals is in a farm-out agreement with Largo Resources, in which Strategic has granted Largo the right to earn a 70% interest in the Northern Dancer project for (1) a 1% net smelter return royalty; (2) 4 million Largo shares (public company); and (3) \$5 million in work expenditures over three years.

**Table 5: Peer Comparison**

(C\$1 = US\$0.85)	Adex Mining Ltd. ADE: TSX-V September-08	Geodex Minerals Ltd. GXM:TSX-V September-08	Largo Resources Ltd. LGO: TSX-V September-08	North American Tungsten Corp. NTC: TSX-V September-08	Playfair Mining Ltd. PLY: TSX-V November-08	Strategic Metals Inc. SMD: TSX September-08
Financial Statement Date:						
Corporate:						
Share Price (February 23, 2009)	C\$ 0.045	C\$ 0.14	C\$ 0.08	C\$ 0.17	C\$ 0.045	C\$ 0.20
Share Price (50 day average)	C\$ 0.053	C\$ 0.205	C\$ 0.073	C\$ 0.159	C\$ 0.052	C\$ 0.177
52-Week High-Low	\$0.385-\$0.02	\$0.89-\$0.075	\$1.58-\$0.045	\$1.39-\$0.10	\$0.475-\$0.015	\$0.95-\$0.13
Shares O/S	88,117,361	68,364,849	142,949,575	126,827,000	49,932,000	57,322,000
Market Cap	C\$ 4,670,220	C\$ 14,007,958	C\$ 10,435,319	C\$ 20,178,176	C\$ 2,611,444	C\$ 10,117,333
Mineral Properties:						
Book Value (Cost) (1)	C\$ 9,490,875	C\$ 22,730,775	C\$ 39,335,857	C\$ 36,795,614	C\$ 10,684,356	C\$ 19,640,783
Market Value	C\$ 3,110,207	C\$ 12,607,811	C\$ 9,034,926	C\$ 3,526,997	C\$ 3,631,813	C\$ 5,371,635
Difference	-C\$ 6,380,668	-C\$ 10,122,964	-C\$ 30,300,931	-C\$ 33,268,617	-C\$ 7,052,543	-C\$ 14,269,148
Property Ratio	0.33	0.55	0.23	0.10	0.34	0.27
Average Ratio (Peers)	0.30					
Adjusted Book Value (Cost)(1)	C\$ 14,490,875					
Adjusted Property Ratio	0.63					
Selected Ratio	3.00					
Common Equity (Per Statements)	C\$ 10,452,903					
Adjusted Common Equity (Selected Ratio)(2)	C\$ 43,234,653					
Equity Per Share (Per Statements)	C\$ 0.12					
Adjusted Equity Per Share (Selected Ratio) (3)	C\$ 0.40					

Note 1: Book Value is adjusted for debt, and Adjusted Book Value is adjusted for expected capital expenditures over the next 12 months less depreciation.

Note 2: Shareholders' Equity is adjusted for additional equity (estimate) issued to finance capital expenditures over the next 12 months.

Note 3: Adjusted Equity Per Share is calculated on shares O/S at February 23, 2009 plus estimated new shares to be issued within 12 months.

Source: eResearch

**Analysis**

The Property Valuation Approach is based upon an analysis of the Property Ratio, which measures the premium the market currently places on a company's mineral properties. All else being equal, a higher premium indicates the market is anticipating greater future value from the assets in the ground, while a lower premium may represent an undervalued asset. Our analysis utilizes the latest available financial statements for the respective companies.

In the table above, we have estimated the value of Adex's mineral property portfolio 12 months forward by adding the anticipated capital expenditures for the forecast period to the existing mineral property value. Then we apply, to the Adjusted Book Value of the mineral property, the selected Mineral Property Ratio, as determined by analyzing and comparing the relative merits of the peer companies with the subject company.

In this respect, in order to smooth out any abnormal short-term price fluctuations, we have taken the 50-day price average (as of February 23, 2009) for all companies. As shown, the 50-day average is, in most cases, close to the current share price which, in comparison to the respective 52-week high-low range, underlines the severity of the stock price declines suffered by the junior mining sector.

Although there has been few fundamental changes at any of these companies, the liquidity squeeze, the fear of a protracted global economic downturn occurring, and the sharp fall in commodity prices with uncertain timing of recovery have all contributed to this decline.

The Property Ratio for the peer group is an average of 0.30x, while the Property Ratio of Adex is 0.33x.

The 52-week high for Adex was \$0.385. At this price, the Property Ratio for Adex would have been 3.40x. Although it is unlikely that Adex's Property Ratio will return to this level, we believe that, should Adex obtain sufficient financing to be able to commence its feasibility study, there could be sufficient investor interest that could result in the Property Ratio approaching 2.00x, which yields an intrinsic value price of \$0.27 per share. At 3.00x, the intrinsic value is \$0.40 per share. We believe that this is tenable when the market recovers for the junior mining sector.

Shown below is a table indicating the intrinsic value over the next 12 months for Adex at Property Ratio levels ranging between 1.00x and 3.00x (last three items).

<b>Adex Mining</b>	<b>Property Ratio</b>	<b>Intrinsic Value</b>
Current Book Value	1.00x	C\$ 0.12
Current Property Ratio	0.33x	C\$ 0.05
Adjusted Property Ratio	0.63x	C\$ 0.08
Property Ratio: Next 12 Months	1.00x	C\$ 0.13
Property Ratio: Next 12 Months	2.00x	C\$ 0.27
Property Ratio: Next 12 Months	3.00x	C\$ 0.40

## 2. Peer Comparison: Enterprise Value per Attributable Resource Approach

**Table 6: Enterprise Value and Resources Data**

(50 day price average as of February 23, 2009)

<b>Company</b>	<b>Stock Symbol</b>	<b>Stock Price</b>	<b>Shares O/S (M)</b>	<b>Market Cap (M)</b>	<b>EV (M)</b>	<b>Tungsten MTU's (M)</b>	<b>EV (\$) / Tungsten MTUs</b>	<b>% Cut-Off Grade (WO3)</b>
Adex Mining	ADE	\$0.053	88.1	\$4.7	\$4.7	4.67	\$1.000	0.33
Geodex Minerals	GXM	\$0.205	68.4	\$14.0	\$17.8	13.02	\$1.370	0.13
Largo Resources	LGO	\$0.073	142.9	\$10.4	\$11.2	(*)	(*)	
North American Tungsten Corp.	NAT	\$0.159	126.8	\$20.2	\$21.8	37.85	\$0.577	0.50
Playfair Mining	PLY	\$0.052	49.9	\$2.6	\$3.0	3.72	\$0.804	0.20
Strategic Metals	SMD	\$0.177	57.3	\$10.1	\$10.1	17.14	\$0.591	0.10
Peer Average						15.28	\$0.869	

Source: The Company and eResearch

(\*) No data available

The second column from the right shows the ratio of the enterprise value of the company to the MTUs for these companies (MTU is a metric tonne unit of tungsten trioxide (WO<sub>3</sub>), with one MTU containing 10 kg of WO<sub>3</sub>. MTU is the standard weight measure of tungsten grade). The last column shows the cut-off grade for tungsten in our table.

MTUs are estimated based on source estimates reported by companies, the higher the MTUs, the higher the potential value of the mine. However, MTUs do not take into account whether resources are “measured”, “indicated” or “inferred”. The FTZ has a scoping study completed, and the resources are one of the highest grades in the group at 0.33%.

If we conservatively assume the market price at US\$200 per MTU, the potential value of the FTZ would be calculated as follows:

- Revenues: US\$200 x 4.67 million MTUs = US\$934 million
- Costs at 75% (conservative): US\$700 million (including capital expenditures)
- Cash flows to the Company: US\$234 million
- We take another 25% discount for the pre-feasibility stage: Pre-tax NPV is US\$175 million, or C\$140 million at the current exchange rate of US\$1.00 = C\$0.80. This is equivalent to C\$0.44 per share (assuming a financing strategy of a mix of debt and equity that would give the Company 320 million shares outstanding).
- However, looking ahead over the next 12-15 months, eResearch assumes that the average exchange rate will be US\$1.00 = C\$0.85. On this assumption, the equivalent pre-tax NPV is C\$149 million, or \$0.46 per share (on assumed 320 million shares outstanding.)

### 3. NPV According to the Aker Solutions Scoping Study on the FTZ

Our valuation methodologies, particularly the Enterprise Value Approach, strongly support the conclusions of the recently-prepared scoping study conducted by Aker Solutions, which were:

- Indicated Resources are estimated at 13.489 million tonnes, grading 0.33% WO<sub>3</sub> and 0.2% MoS<sub>2</sub>;
- Inferred Resources are estimated at 841,700 tonnes, grading 0.26% Wo<sub>3</sub> and 0.21% MoS<sub>2</sub>;
- Revenues are estimated to be C\$1.16 billion over 13 years;
- Assuming US\$215 per MTU WO<sub>3</sub>;
- Assuming US\$23.17 per lb MoS<sub>2</sub>;
- Discount rate at 8%;
- Pre-tax NPV is expected to be C\$164.6 million; and
- Pre-tax NPV per share is C\$0.50, using 320 million shares outstanding.

**COMMENT:** *Thus, the pre-tax NPV calculated by Aker Solutions of C\$164.6 million is not far different from the eResearch calculation of C\$140 – C\$149 million under our Enterprise Value method.*

### 4. Summary

The respective intrinsic values calculated using the different approaches are summarized as follows:

<u>Method</u>	<u>Value Per Share</u>
Property Valuation Approach	\$0.40
Enterprise Value Approach	\$0.44-\$0.46
Aker Solutions Scoping Study	\$0.50

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## APPENDIX 1: MANAGEMENT & DIRECTORS

The following abbreviated biographies have been sourced from the Adex Mining website.

### **Kabir Ahmed, MBA, LLB - President, CEO and Director**

Kabir Ahmed, a corporate and securities lawyer for over a decade, has been focused for the past six years on building junior mineral exploration companies and taking them public. He was the founding CEO of Southampton Ventures Inc. Mr. Ahmed is also a former independent director of RNC Gold, which was subsequently sold to Yamana Gold. He has an LLB from Osgoode Hall Law School and an MBA in corporate finance from the Schulich School of Business at York University.

### **Errol Farr, CMA - CFO and Director**

Errol Farr has over 10 years' experience with publicly listed junior mining companies, including MagIndustries Corp., Tribute Minerals and Dumont Nickel. He has been involved with Adex Mining since its acquisition of Mount Pleasant in 1995. Mr. Farr attended Queen's University and received the CMA designation in 1990.

### **Will C. Burton, BBA, CA - Controller**

Will Burton has extensive public company accounting and audit experience. He worked as an audit manager with Deloitte & Touche LLP, and currently serves as Corporate Controller of MagIndustries Corp. Mr. Burton has a Bachelor's Degree in Business Administration from Wilfrid Laurier University and is a Chartered Accountant.

### **Victor Hendricken, BA, MA - Mount Pleasant Operations Manager**

Victor Hendricken has over 25 years' experience in the operation of mine and milling plants. He was Mill General Foreman (1984-1985) when the Mount Pleasant Mine was in operation. Mr. Hendrickson also worked as a Technical Consultant for the Beaver Brook antimony mine in Newfoundland.

### **J. Dean Thibault, P.Eng, M.Sc. - Project Manager, Metallurgy and Environmental Planning**

Dean Thibault's experience includes working or consulting with Billiton/Royal Dutch Shell, Gulf Canada, Inco Smelter Division, Iron Ore of Canada, Syncrude, Rio Tinto and Tiberon Resources. He has an M.Sc. in chemical engineering and a B.Sc. in transition metal chemistry - both from the University of New Brunswick. Mr. Thibault is a member of the Association of Professional Engineers of the Province of New Brunswick.

### **Trevor Boyd, Ph.D., P.Geo - Project Manager for Exploration and Drilling**

Dr. Trevor Boyd, a professional geologist with two decades of resource-industry experience, has worked with Noranda, Falconbridge, Westmin Resources and Tri Origin Exploration. He is a Qualified Person for the purposes of NI 43-101 standards of compliance for mineral projects of the Canadian Securities Administrators. Dr. Boyd earned a Ph.D. in geology from the University of Toronto.

### **William B. Burton, B.Sc. (Hon.), Geology - Technical Advisor, Director**

William Burton, a former President and CEO of Adex Mining, has worked extensively with a number of publicly traded mining and industrial companies. He is currently President, CEO and a Director of MagIndustries Corp., and a Director of Erdene Gold Inc.

**Alan T. Marshall, MBA - Director**

Alan Marshall, a faculty member of the School of Business and Economics at Wilfred Laurier University, teaches finance to MBA and BBA students. He has also taught professional courses for the Society of Management Accountants. Mr. Marshall holds an MBA, with concentration in finance and operations management.

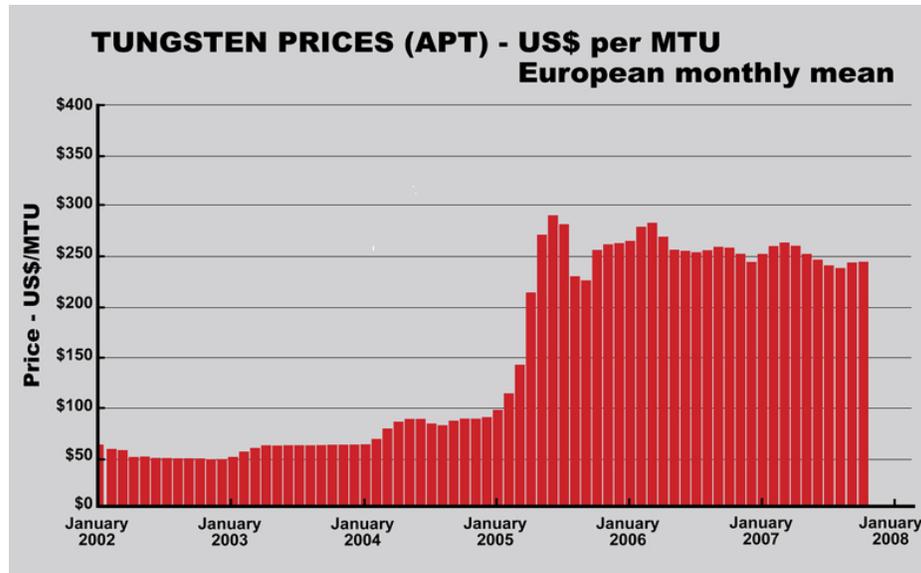
**Norman Betts, Ph.D., FCA - Director**

Dr. Norman Betts, a former Minister of Finance and Minister of Business for New Brunswick, is an Associate Professor in the Faculty of Business Administration at the University of New Brunswick. He is also Chairman of the Board of Starfield Resources Inc. and serves on the boards of Tembec Inc., Tanzanian Royalty Exploration, Chairman Capital Inc., Rtica Inc., New Brunswick Power Corporation and Export Development Canada. Dr. Betts has a Ph.D. in Management from the School of Business, Queen's University and is a fellow of the New Brunswick Institute of Chartered Accountants.

## APPENDIX 2: THE GLOBAL TUNGSTEN MARKET

### 1. Historical Tungsten Prices

Chart 1: Historical Tungsten Prices



Source: Resource Investor sourced from Primary Metals Inc.

Ammonium paratungstate (APT) is a product of tungsten concentrates; it is a material that is used to produce tungsten carbide. The chart above shows the monthly price of APT between January 2002 and January 2008. In 2005, the APT price jumped sharply from US\$100 per MTU to nearly US\$300 per MTU and has remained within a range of US\$230 to US\$275 per MTU since. The current price is about US\$255 per MTU. (*Source: Metals Place.*)

In the 1990s, tungsten prices were depressed as a result of two main factors: (1) Increases in Chinese production; and (2) the change in the former Soviet Bloc from importer to exporter. During this period, a majority of Western miners were driven from the market. Tungsten prices did not reflect true costs of production, as many Chinese mines were supported by the government. As a result, a number of exploration and development projects outside of China were abandoned (including the Mount Pleasant mine - the subject of this report). (*Source: Goodall Business and Resource Management Pty Ltd.*)

Since mid-2005, tungsten has risen significantly, reflecting the following:

- China is the world's largest tungsten producer, accounting for roughly 86% of total global supply (2007), and has tightly controlled the production and limited export of tungsten to maintain reserves.
- Rapid shift in demand, including increases in demand in support of military activities and demand for both hard-metals and steel inputs.
- Fluctuations in production by a large number of widely dispersed small producers; the tungsten industry is very fragmented, as most countries that produce tungsten are not large consumers (except China).
- Past tungsten prices (prior to mid-2005) discouraged capital investment in exploration and development of tungsten mining projects. Recent strong prices have attracted substantial investments in tungsten projects around the world; however, these projects moved slowly, as a result of regulatory requirements, financing difficulties, and technological issues. Typically, it would take between five and ten years for a mineral project to go into production.

## 2. Demand - The Uses of Tungsten

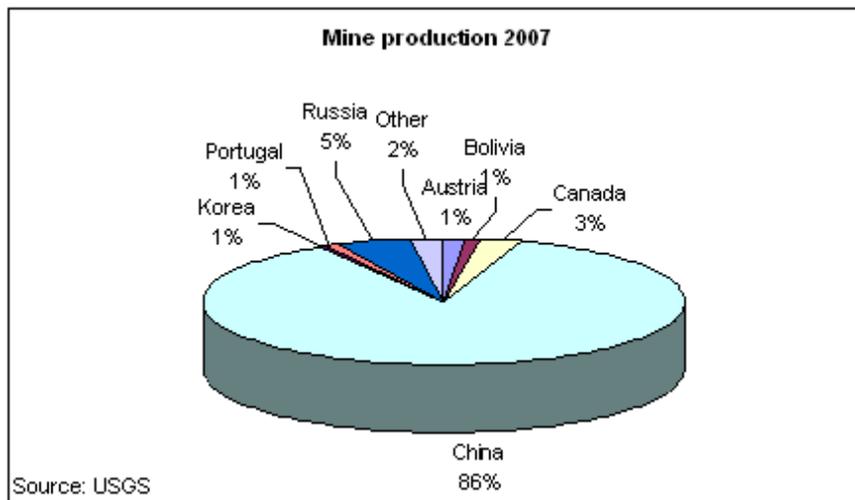
Over the past decade, demand for tungsten has increased significantly with the economic growth of China, India and Russia. Tungsten can be used to make the following products:

- High-strength, high-speed steel for cutting, stamping, and casting tools and dies;
- Alloy-steel armour for military vehicles and naval warships;
- Specialized armour-piercing ammunition for the U.S. military;
- High-temperature coating materials used in the construction of jet engines;
- High-temperature materials used in the construction of nuclear weapons;
- Filaments for incandescent lamps; and
- Special surgical instruments.
- U.S. 2007 consumption was approximately 20,000 tonnes, of which 75% was imported. This creates great opportunities for Canadian companies such as Adex Mining, North American Tung, and Playfair Mining.
- Global consumption increased to over 90,800 tonnes in 2007 from 62,100 tonnes, an increase of over 50% in five years.

## 3. Supply

The chart below shows production of tungsten by country in 2007.

**Chart 2: Tungsten Mine Production, by Country, 2007**



China still dominates the world market with 86% of total production. Clearly, any manipulation or export restriction from China could significantly influence the market price. China also has the largest tungsten reserves (62% of world total), as shown in the table below:

**Table 6: World Tungsten Production & Reserves**

<b>World Mine Production and Reserves</b>			
	<b>Mine Production</b>	<b>Mine Production</b>	<b>Reserves</b>
(metric tons)	<b><u>2003</u></b>	<b><u>2007</u></b>	<b><u>2007</u></b>
United State	-	-	140,000
China	52,000	79,000	1,800,000
Canada	2,750	2,560	260,000
Russia	3,900	4,000	250,000
Australia	1,400	1,300	10,000
Rest of world	2,050	3,940	440,000
<b>World Total</b>	<b>62,100</b>	<b>90,800</b>	<b>2,900,000</b>

Source:USGS

#### 4. Outlook for Tungsten

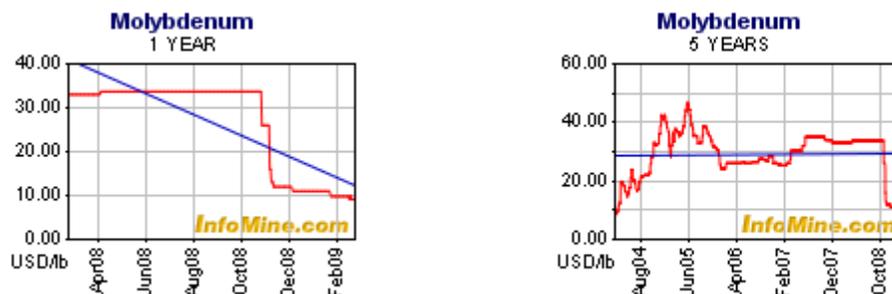
Although global economy growth will be slow over the next two years, we believe the long-term price of tungsten will likely remain strong in the US\$200-US\$250 per MTU range. Our expectation is based on the following factors:

- Asia outlook.** China remains committed to maintaining its reserves for future domestic consumption, as the Chinese government is expected to continue to pursue tungsten supply reliability. The Chinese domestic economy, however, is absorbing more and more tungsten each year. China is rapidly eliminating the export subsidies it used to pay its tungsten producers, and it has closed almost half of its disclosed mines due to either exhaustion of the ore deposits or because of government regulations. However, China could be the “wild card” in the tungsten market, as it could potentially pursue a predatory pricing strategy aimed at driving prices down and western world producers out of the market. If tungsten prices decrease, the economics of the Mount Pleasant project would be adversely impacted. Given that China is currently an importer of tungsten, it likely will not pursue this strategy at this time but, if it continues to develop its own resources of tungsten, this could change.
- United States.** The United States’ industrial usage of tungsten is today around 20,000 MT per year. About 15,000 metric tonnes, 75% of the total, is now imported. The balance, 5,000 metric tonnes, or 25%, is recovered domestically by recycling from scrap. We do not see any change in this picture going forward. Tungsten mining in the U.S. has ended completely, due to predatory pricing and environmental issues. The United States has numerous sites on which commercial quantities of tungsten have been identified. Some are former operating mines closed due to the activity of environmentalists or, before that occurred, closed due to low tungsten prices, but now unable to reopen due mainly to environmental issues. Others, simply, were never opened or started-up, although it might now be economically feasible.
- Industry Outlook.** New projects in Western countries continue to face delays due to lack of financing, regulatory requirements and technological difficulties. None of the projects (Mactung, Sisson Brook, Grey River) in Canada has any possibility to be in production until after 2011.

## APPENDIX 3: MOLYBDENUM MARKET ANALYSIS

The following table, courtesy of InfoMine Inc., shows the trend in molybdenum prices over the last five years. After a dramatic run-up in 2004-2005 to a high of around US\$47.00/lb., the price remained fairly range-bound between US\$25.00 and US\$35.00 per pound, before falling off a cliff in late 2008. The price of molybdenum is closely tied to the price of crude oil, which also fell precipitously since July 2008.

**Chart 3: Historical Molybdenum Prices**



Source: InfoMine.com

### 1. Structural Changes and Impact on Molybdenum Price

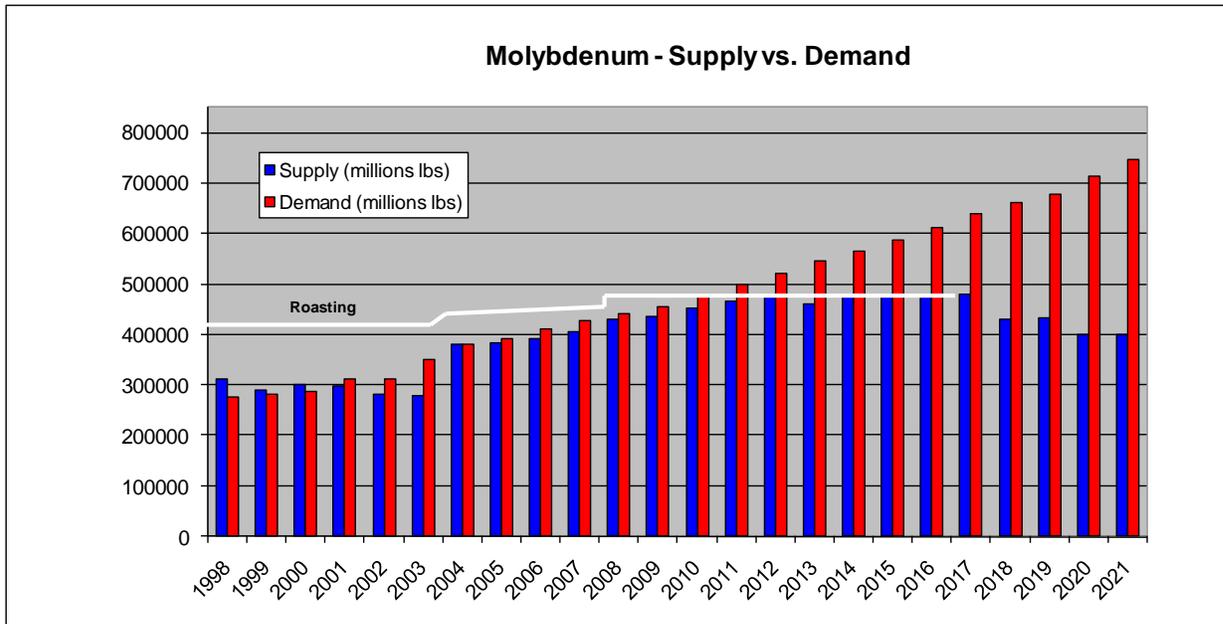
For a 20-year period that ended in 2003, molybdenum prices were relatively stable in the \$5 per pound area - except for a short period in 1995 when the price rose, largely as a result of increased Chinese demand for steel. The 1995 price spike, however, could not be sustained due to (i) increased copper production (which increased by-product molybdenum) and (ii) increased exports from Russia along with increased output from China and South America. These factors depressed molybdenum prices until 2002.

Molybdenum prices began a sharp upward trend in 2003, reaching \$40/pound in 2005. The \$40/pound peak did not last long, but the three-year price average (May 2005 to October 2008) remained strong in the \$30/lb area. The strong molybdenum prices reflect the following factors:

- Increasing demand for molybdenum.** This is largely due to the following factors: (1) growing demand for crude oil and the need to build pipeline systems; (2) the change in the crude oil feed quality that requires additional processing in which molybdenum-based catalysts are used to remove sulfur from petroleum; and (3) higher demand from the principal users of molybdenum (the steel, transportation and construction industries, which account for over 70% of molybdenum consumption) due to rapid industrialization growth in China, Russia, India and Brazil.
- Reduction in global molybdenum production.** China, the world's third-largest molybdenum producer, has shut down mines in Huludao, thereby reducing the country's production by 40%. China has also imposed export duties and tightened export quotas on molybdenum over the last two years, putting upward pressure on prices.
- Lack of new primary mining supply.** Approximately 55%-60% of total molybdenum supply, as by-product mining, comes from the larger copper producers, which are known as swing producers. As demand increases, swing producers may not increase their output if copper prices are at a level at which it does not make economic sense for these producers to increase their copper production. On the other hand, primary producers (Phelps Dodge, Thompson Creek, Endako and China) have not increased their output to a level that could meet high demand. (We see this as a great opportunity for Adex Mining).

- Roasting capacity bottlenecks.** Before molybdenum is sold, it must be converted to an oxide. The processing of converting to oxide is known as roasting. As shown in Chart 4 below, global roasting capacity was more than sufficient to meet demand during the 1998-2008 period. Over the next several years, however, roasting capacity is expected to remain flat while demand is forecast to increase significantly. Demand is expected to outpace capacity in 2011. This shortage of roasting capacity should put upward pressure on molybdenum prices unless substantial capital expenditures are made.

**Chart 4: Molybdenum: Supply and Demand and Roasting Capacity**



Source: Existing producers, CRU, IMO

## 2. Demand

**Table 7: 2007 Molybdenum Market**

<b>2007 Moly Market</b>	
Construction Steel	32%
Stainless Steel	31%
Catalysts & Chemicals	14%
Cast Iron	6%
Molybdenum Metal	6%
Tool Steel	6%
Superalloys	5%
<b>Total</b>	<b>100%</b>

Source: General Moly

The above table indicates the sources of demand for molybdenum. Construction steel and stainless steel are the largest molybdenum consumers. Increases in stainless steel and construction steel production in China and India over the past several years have significantly supported molybdenum demand. Demand has also been boosted by higher crude oil prices and increased demand for pipeline systems. Scotia Capital projects molybdenum demand growth rates of 8.4% for 2008, 6.7% for 2009 and 6.5% for 2010. Chart 4, as projected by CRU Group, shows a big gap between demand and supply beginning in 2017.

### 3. Supply

The following table shows global mine production of molybdenum for 2006 and 2007, and the world's ten largest producers.

**Table 8: Molybdenum Global Mine Production/Top Ten Producers**

(Tons)	Mine Production		Top 10 Producers
	2006	2007	
United States	59,800	59,400	Anglo American
Chile	43,900	46,000	Antofagasta
China	43,278	41,100	China
Peru	17,209	17,500	Codelco
Canada	7,270	8,000	Freeport McMoRan
Russia	3,100	3,100	Grupp Mexico
Armenia	3,000	3,000	Rio Tinto plc
Iran	2,000	2,500	Southern Copper
Rest of the world	4,443	6,400	Teck Cominco
			Thompson Creek
<b>Total</b>	<b>184,000</b>	<b>187,000</b>	Total supply between 87% and 91%

Source: USGS

Molybdenum production is dominated by a small number of companies. The top 10 producers account for between 87% and 91% of global molybdenum supply. A major portion of supply (55%-60%) is produced by swing producers. As copper prices rise, swing producers are more likely to increase their production levels since it makes economic sense. China, the third-largest producer, limits its molybdenum exports. This has a significant impact on supply and, as a result, molybdenum prices. Over the next 10 years, supply is expected to remain stable and, assuming no new mines are coming on line, is expected to decline significantly after 2017.

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#### 4. Outlook for Molybdenum

We believe molybdenum prices will remain strong over the next several years, in the US\$30-US\$40 range. Our expectation is based on the following:

- Continued strong molybdenum demand growth from China, India and Russia, as stainless steel production capacity is expected to remain strong.
- There may be a decline in Chinese supplies to the West, as Chinese demand increases and China's production either plateaus or even declines because of restructuring of the domestic mining industry.
- Molybdenum production in the USA and South America will not be able to increase rapidly to meet increased demand, because production plants there are running at nearly full capacity. New projects may take some time to come into production.
- The price of crude oil has fallen but the long-term outlook for oil prices we believe should be in the US\$70-US\$90 range, which is still high. As a result, highly corrosion-resistant molybdenum-bearing stainless steel appears to be a good substitute for other types of stainless steel and this should help to increase demand; and
- Any labour unrest or disruptions at copper mines in Colombia or Peru would reduce copper production, and thus the by-products of copper production - including molybdenum.

**Figure 1: Adex Mount Pleasant Mine Site**



## ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that:

- (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and
- (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

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## eResearch Recommendation System

<b>Strong Buy:</b>	Expected total return within the next 12 months is at least 40%.
<b>Buy:</b>	Expected total return within the next 12 months is between 10% and 40%.
<b>Speculative Buy:</b>	Expected total return within the next 12 months is substantial, but Risk is High (see below).
<b>Hold:</b>	Expected total return within the next 12 months is between 0% and 10%.
<b>Sell:</b>	Expected total return within the next 12 months is negative.

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## eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

<b>High Risk:</b>	<p><i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.</p> <p><i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.</p>
<b>Medium Risk:</b>	<p><i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.</p> <p><i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.</p>
<b>Low Risk:</b>	<p><i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.</p> <p><i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.</p>

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