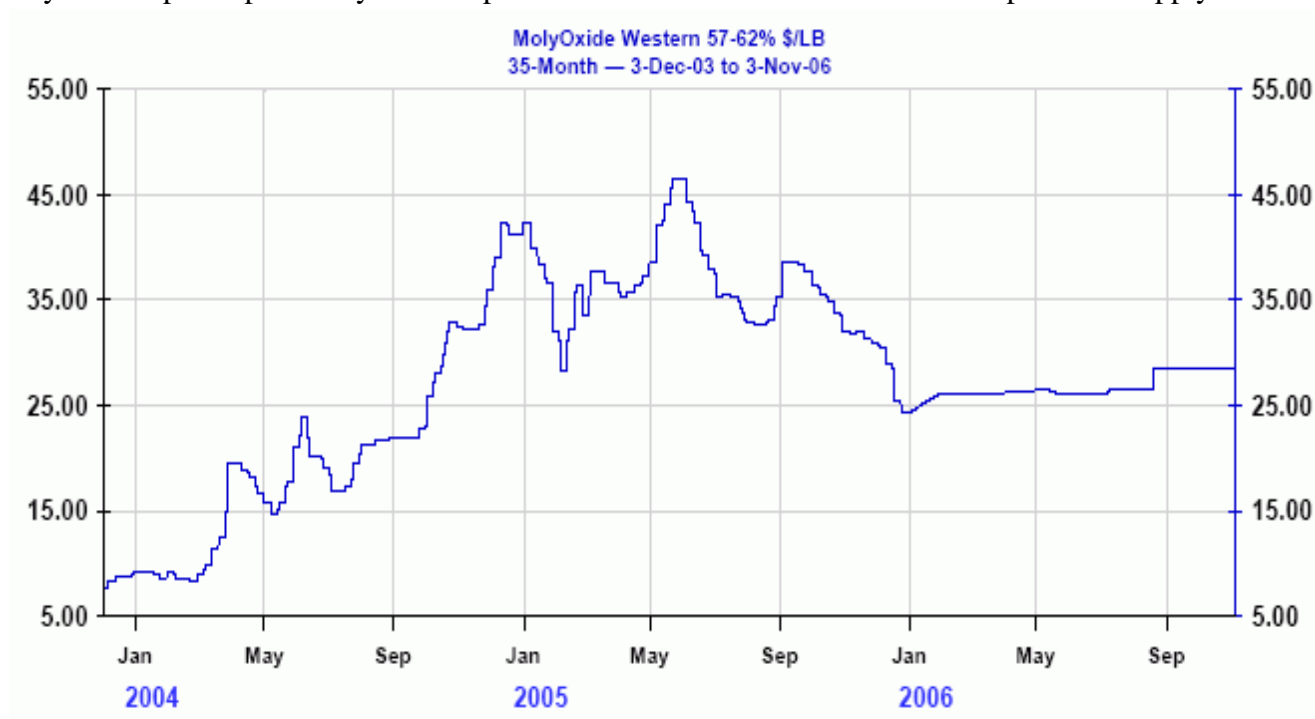


JOHN KAISER'S BOTTOM FISH REPORT ON WESTERN TROY NOVEMBER 7, 2006

WESTERN TROY TO BENEFIT FROM THE LONG AWAITED MOLYMANIA

Context: In January 2005 I published **Express 2005-01** titled "Will MolyMania hit the Juniors in 2005?" The price of molybdenum had run from its multi-decade rut in the \$3-\$5 per lb range to the \$25-\$30 per lb level. There were certain parallels with uranium, which at the time had run past \$20 per lb after also spending many years in a price rut created by a glut of supply from pre-Three Mile Island stockpiles and from post Cold War decommissioning of Soviet nuclear warheads. Molybdenum's market had been under pressure since the eighties from price insensitive byproduct supply from the Chilean copper mines that had come on stream. In the case of uranium the price broke out as stockpiles declined, the Russians decided to keep their highly enriched uranium in house, and Asia initiated plans to develop nuclear power plants whose uranium consumption would be in excess of projected global mine production. As with molybdenum there are very large undeveloped uranium resources in the world, but unlike molybdenum, the permitting cycle for uranium mines is lengthy and fraught with resistance. Uranium juniors took off in 2004 and have remained strong as their numbers climbed to 200 plus and the price of uranium soared to \$60 per lb. With the recent flooding accident at Cameco's Cigar Lake development project delaying production startup to 2008 or beyond, the supply squeeze in the uranium spot market has no near term relief in sight. Uranium will very likely climb to \$100 per lb over the next couple years, shielding uranium plays from the anxiety created by commodity price retrenchments. No such structural barriers protect molybdenum producers.

The price of molybdenum hit \$45 per lb in 2005, and while a couple dozen juniors latched onto molybdenum projects, they did not attract anywhere near the speculative market interest generated by uranium plays. The market's reluctance was due to the general feeling that the molybdenum price spike was a short term phenomenon related to a shortage of roaster capacity and a decision by China to shut down small mines for safety reasons. In my MolyMania article I argued that it was inappropriate to rely on \$20 per lb plus molybdenum prices because at that level an enormous potential supply was



economic, and if pushed into production, would glut the market and push the price back below \$5 per lb. I suggested a better speculative scenario would be to look for a basing of molybdenum in the \$10-\$15 per lb range and target juniors with projects which work at that price range. The problem with this scenario is that unlike the "onwards and upwards forever" scenario that favors uranium, molybdenum junior speculators had to live with the anxiety that once molybdenum prices started to retreat, investors would bail out of moly juniors for fear that the price would plunge right through the \$10-\$15 per lb range and settle back to historical levels. At these historical prices a few fantastic world class deposits like Henderson remain economic, but the rest die on the grapevine as molybdenum byproduct production from copper mines floods the market. These concerns cautioned speculators from getting caught up in MolyMania.

For this reason I argued that MolyMania could not really snowball until the price retrenchment had been fulfilled and \$10 per lb was established as the new long term base. During 2005 molybdenum did spike as high as \$45 per lb, but then it began a downtrend which managed to stabilize in the \$20-\$25 per lb range during 2006 even though the Chilean mines activated their molybdenum circuits to full capacity. Because molybdenum is an additive to steel alloys thanks to its hardening and corrosion resistance properties, its demand was seen as a function of infrastructure buildup related steel demand, which the Cyclical Bears argued would sag as higher interest rates subdue the American housing boom and undermine China's export dependent economy. MolyMania has thus been hobbled by anxiety that the metal price boom would become a bust as the American dog that wags the Chinese tail lies down for a recessionary nap. Molybdenum juniors have thus enjoyed nowhere near the market attention enjoyed by uranium juniors.



Blue Pearl's acquisition of Thompson Creek Mining Company is big news.

The tide, however, changed on September 1, 2006 when **Blue Pearl Mining Ltd (BLE-T: \$7.28)** announced a deal to purchase Thompson Creek Metals Company for US \$575 million. This was interesting not because a private company was willing to unload its molybdenum assets at a rich valuation, nor that a junior with a high grade molybdenum underground development project (Davidson) wanted to jump beyond the

permitting logjam, but mainly because UBS Investment Bank was willing to provide a \$450 million long term loan facility, and a group of brokerage firms was able to place \$230 million worth of Blue Pearl stock at a price of \$5.50 per unit. The Blue Pearl transaction represents a major bet favoring a victory by the Structural Bulls over the Cyclical Bears. So far the implications of the Blue Pearl acquisition have not yet washed into the other molybdenum juniors. One important implication is that Blue Pearl has overnight become an intermediate molybdenum mining company with a market capitalization in excess of \$700 million.

Blue Pearl fills a niche as an intermediate pure molybdenum producer

Blue Pearl is in a unique position to become for the molybdenum sector what "Silver Standard" and "Pan American" have become for the silver sector. Blue Pearl has a problem that is good news for

other molybdenum juniors. Blue Pearl's Endako Mine in British Columbia runs out of ore in five years, while the Thompson Creek Mine in Idaho can operate until at least 2015. Both facilities have roasting capacity. Blue Pearl thus has incentive to grow itself by acquiring and developing additional molybdenum deposits. It can do this by acquiring for stock other juniors with advanced molybdenum deposits. Prior to Blue Pearl's acquisition of Thompson there were no buyers for pure molybdenum deposits. Phelps Dodge has sufficient in-house molybdenum production capacity to not need additional deposits, or so would this diligent forward seller of copper have us believe. All the other major molybdenum producers are major mining companies which produce molybdenum as a byproduct of copper mines and are not interested in owning a pure molybdenum mine. Now we have an intermediate pure molybdenum mining company with a need to grow itself and a management team that understands the mergers and acquisition game. MolyMania did not sweep the juniors in 2005 because the market saw no exit strategy for juniors with molybdenum deposits that had high capital costs, large scale permitting cycles and required aggressive long term molybdenum price assumptions. Now they have Blue Pearl as a potential aggregator of molybdenum deposits in the manner done for uranium by **Energy Metals Corp (EMC-T: \$9.00)**.

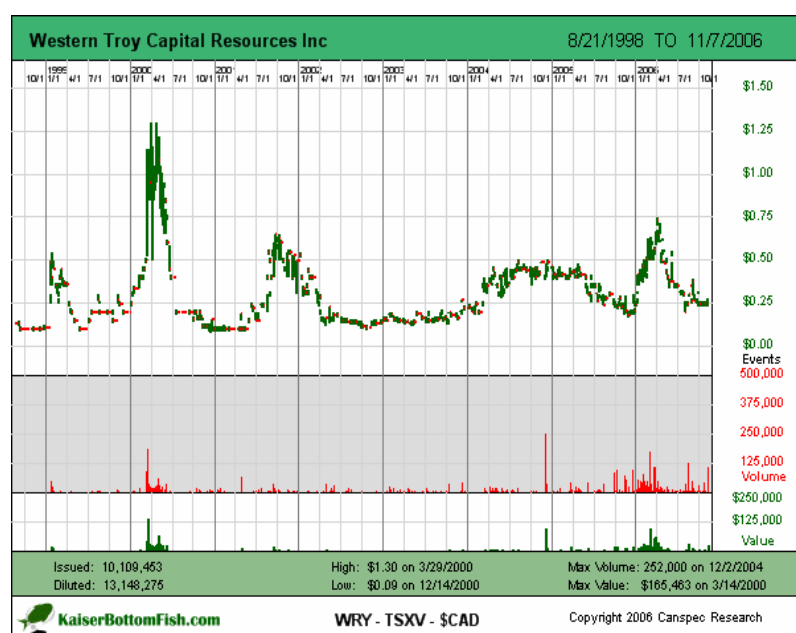


Blue Pearl is an old top priority bottom-fish buy recommendation in the \$0.30-\$0.49 range made on January 5, 2000 on the basis of the company's then business model of being a patent violation shakedown artist. Blue Pearl's "patent enforcement" business model failed, and in late 2004 it changed business direction by acquiring the Davidson molybdenum deposit nestled inside Hudson Bay Mountain on the outskirts of the northern British Columbia town of Smithers. This schizophrenic town quintuples as a wannabe ski destination for West Coasters in search of powder snow, a tourist destination for travelers seeking a comfortable glimpse of a genuine shrinking glacier, a home base for people

involved in servicing the mining and exploration industry of northern British Columbia, a refuge for all manner of near destitute eco-freaks, and home to a substantial native community which is unanimous in its desire for expanded cash flow but conflicted over the most effective means to achieve this goal. I visited Blue Pearl's Davidson project in September 2005, and while I felt underground mining of the Davidson deposit's high grade core could indeed become a cash cow that benefits the Smithers community, the need to rumble truckload after truckload of high grade ore to the railhead in town for transport to Huckleberry or Endako struck me as out of sync with the multiple personalities of Smithers. This did not stop the Frankfurt machine from burying German speculators in Blue Pearl stock, which traded more than \$25 million worth of paper on one frenzied day in February 2006. But Blue Pearl's Kerry Knoll and Ian McDonald are not a pair of banal pump and dumpers. They knew that Blue Pearl had to become more than a permitting play with hopeless odds. They leveraged the fundamentals of the Davidson project and the support of their German audience into a gutsy acquisition that puts them at risk of being pilloried as the bozos who bought at the top, or heralded as the bold geniuses who dared to cast aside the mining industry's dogged conviction that the more things change the more they stay the same.

Blue Pearl Mining Ltd has almost overnight become the stock to own if you think China's economic expansion has a long way to go, that the world's thirst for energy will overcome its aversion to pipelines that deliver natural gas and oil to target markets, and that the days of massive molybdenum byproduct production from copper mines are over. At the current price of \$7.28 Blue Pearl is 1,386% above its ancient bottom-fish accumulation limit of \$0.49, but for the sake of any bottom-fisher who by chance should still own this stock, I confirm that Blue Pearl should be held 100% for higher gains as we enter the third leg of the resource sector bull cycle.

The possibility that Blue Pearl will emerge as an aggregator of molybdenum deposits that do not face hopeless permitting obstacles could give the market the will to bankroll the advancement of molybdenum deposits owned by juniors. Blue Pearl will be the impetus that kicks MolyMania into gear. One junior that the market has overlooked is **Western Troy Capital Resources Inc (WRY-V: \$0.28)**, which I am recommending as a top priority bottom-fish buy in the \$0.30-\$0.49 range.



Synopsis: Western Troy Capital Resources Inc (WRY-V: \$0.28) is a very obscure junior which controls 100% of the MacLeod Lake project in central Quebec. Western Troy has only 13,148,275 shares fully diluted, which at the current \$0.28 stock price gives the MacLeod Lake project an implied value of just under \$4 million. MacLeod Lake hosts a small copper-molybdenum deposit with a NI 43-101 compliant indicated resource of 23.7 million tonnes of 0.52% copper, 0.08% molybdenum, and minor gold and silver credits in the Main Zone, and 877,000 tonnes of 0.84% copper, 0.22% molybdenum, 0.59 g/t gold and 16 g/t silver in the South Zone. The

deposit was discovered by Western Troy's predecessor between 1988-1992 but since then has received only intermittent exploration until 2005 when high molybdenum prices encouraged management to revisit the project. Western Troy sponsored a 43-101 technical report in October 2005 which became the basis for recruiting Rex Loesby in January 2006 as the new president. Loesby is a Colorado based mining engineer whose career includes working for Climax Molybdenum Company, operator of the Henderson and Climax mines now controlled by Phelps Dodge. Ed Thompson, another mining engineer, also sits on Western Troy's board. When Loesby joined Western Troy molybdenum was in a downtrend which the market expected to continue until the price hit \$10 per lb where it would either stabilize and form a new base, or crash through it towards the \$3-\$5 per lb range of the eighties and nineties where junior moly plays were worthless. Loesby did not believe we would see a return to old prices, but felt that at \$10-\$15 per lb molybdenum the MacLeod Lake project would be more robust if its resource were doubled.

Rex Loesby proposed a two prong drilling program which sought to make a Main Zone equivalent discovery in the Northeast area, and establish a high grade resource of about 2 million tonnes in the South Zone. At the time spot copper was about \$2.25 per lb with everybody predicting its collapse once the Chinese had resolved their "rogue" trader's short position. Loesby was thus thinking of copper

development economics. All affected parties, including the town of Chibougamau, are keen to see this road built. Once a formal decision is made it will take about a year to produce an environmental impact statement, and another couple years to construct the road. That is about the time it will take for Western Troy to upgrade the MacLeod Lake resource with infill drilling, nail down the flow sheet and recoveries through metallurgical studies, and conduct environmental baseline studies leading to a production decision.

At the current metal prices of \$28.50 per lb for molybdenic oxide and \$3.30 per lb for copper, the 23.7 million tonne Main Zone, which is open pit, has a rock value of about US \$88 per tonne for an in situ value of about US \$2 billion. At \$10 molybdenum and \$1.50 copper the rock value drops to \$35 per tonne. The higher grade 877,000 tonne South Zone, which would have to be mined from underground, has a rock value of \$199 per tonne for an in situ value of US \$175 million. Bench scale metallurgical testing conducted in 1990 produced a 33.8% copper concentrate using flotation with a 92.1% recovery, and a 40.8% molybdenum concentrate with an 85.8% recovery. Assuming that followup metallurgical studies confirm these numbers, the recoverable rock value for the Main Zone at today's metal prices drops to US \$78 per tonne.

Are we an exploration junior or an asset development company?

Western Troy is currently rethinking its going forward strategy. Whereas a year ago doubling the resource was a priority, today management is considering that carrying out a scoping study and conducting infill drilling on the Main and South zones should be a priority. In other words, Western Troy is considering switching the story from exploration to asset development. Normally that is a signal for speculators to bail out and find something more exciting, but in my view the current circumstances are right for jumping into Western Troy. As the resource sector inflects from expecting the usual business cycle bust after a tremendous boom to realizing that this time is different and what the world needs are more mines, new capital entering this sector will be drawn towards advanced plays such as MacLeod Lake which have significant economic potential based on the price assumptions underpinning the new outlook.

Liquidity is a problem with Western Troy

Western Troy has about \$1 million working capital left, and expects to receive about \$500,000 in exploration rebates from the Quebec government over the next 12 months. The junior is thus in reasonable financial shape. Liquidity is poor at current prices, which is why I have recommended \$0.30-\$0.49 as the bottom-fish accumulation range. Even that price range may not yield much satisfaction for bottom-fishers unless the placees from the \$0.50-\$0.60 financing in early 2006 go looking for tax losses. Most of the financing, however, was done as flow-through stock, which reduces the cost base to zero for Canadian investors. The Canadian flow-through tax strategy works best as a tax deferral mechanism, meaning that it would be counter-productive to sell flow-through stock during the same year it was bought. I suspect that Western Troy could jump back into the \$0.50-\$0.75 range were it started off in 2006 once bottom-fishers start chasing after the stock.

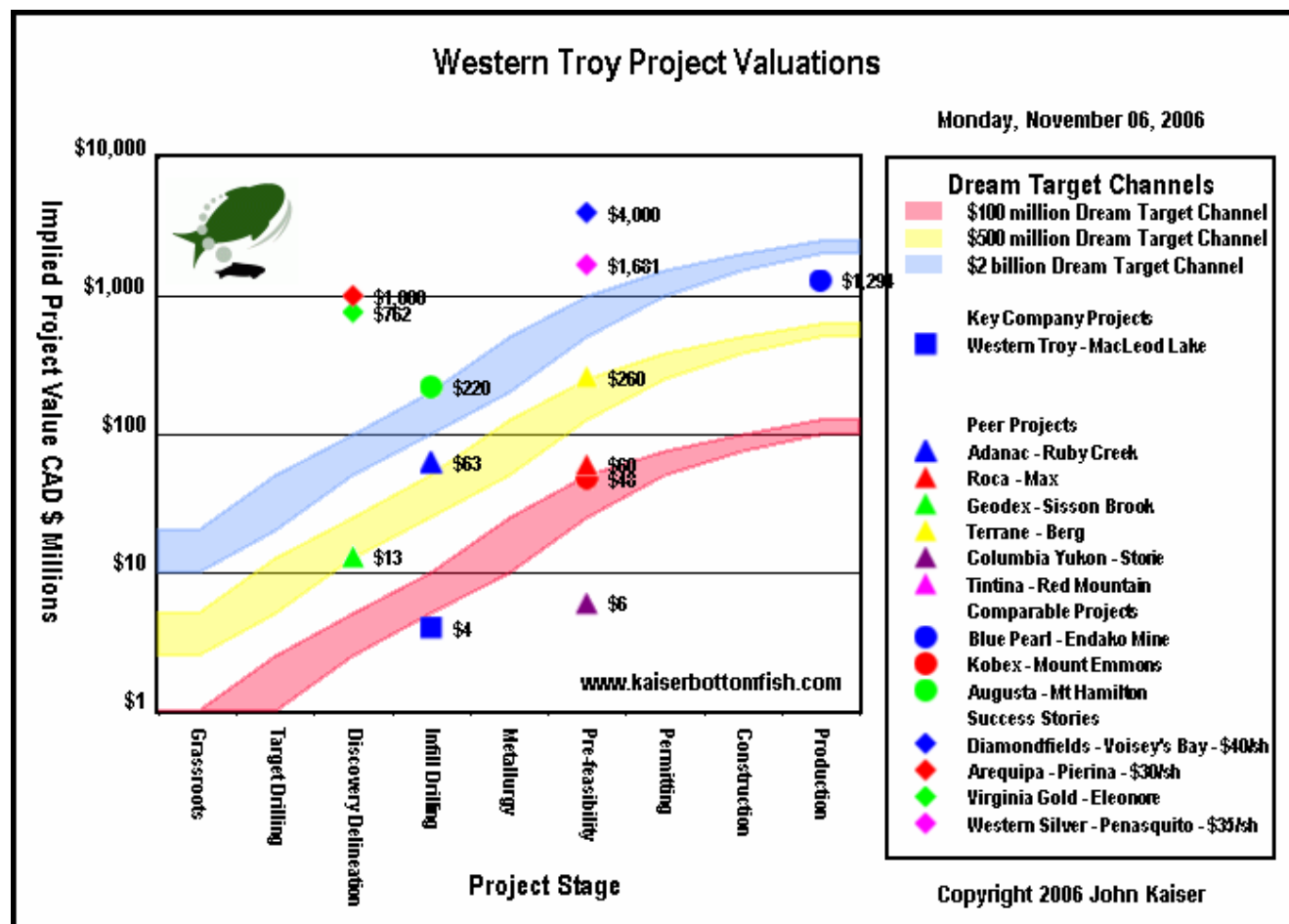
A \$100 million dream target offers 20 fold upside potential for Western Troy.

The possible "Kaiser Effect" will no doubt trigger queries about whether the stock should still be bought above the recommended accumulation range. Obviously it would be silly for me to suggest in advance that bottom-fishers should continue to buy the stock at prices more than double the recent trading level. My interpretation is that Western Troy is currently suffering from investor indigestion and the perception that this junior is out of the loop because it does not deserve to be in any loop. For reasons presented I believe that MacLeod Lake has legitimate development potential, and that the junior's cheap valuation is a function of perception rather than fundamentals. At \$0.75 Western Troy's MacLeod Lake project has an implied project value of about \$10 million. If you take today's metal

prices seriously, the ultimate project value of MacLeod Lake would come in at the \$100-\$200 million range, or roughly 5-10% of its in situ metal value. So even at \$0.75 Western Troy has potential to increase 10-20 times in price, subject to adjustment for dilution related to financing the advancement of the project through the exploration cycle.

Use the rational speculation model to assess speculative value

If bottom-fishers discover that Western Troy has risen above the bottom-fish accumulation range, the key question to ask is whether or not the new price range invigorates the main stake holders and motivates them to provide Western Troy with the \$3-\$5 million financing needed to turn MacLeod Lake into a serious asset development play. Should that happen, then we would have reason to believe management and Western Troy's financial backers have the will and means to drive the copper-molybdenum MacLeod Lake project through the exploration cycle toward a production decision. And if Western Troy reaches the stage of a production decision, it would become of interest to a molybdenum aggregator such as Blue Pearl which has the means to fund development of MacLeod Lake. That this is no slam dunk is evident in the current \$4 million implied project value, and even the \$10 million implied project value at three times the current stock price. Finding such situations where there is high reward potential with going nowhere as the primary downside risk is the objective of the rational speculation model.



Wildcat zinc target on adjacent Eastmain River project

One wildcard possessed by Western Troy is a zinc target on the 87% owned Eastmain River portion of the overall MacLeod Lake project. This target is represented by a 3,000 m by 500 m IP anomaly whose source has been estimated at a depth of 300-400 metres. Most of this target is covered by overburden, but channel sampling of outcrop has yielded values up to 0.88% zinc, and float boulders have graded up to 5.5% zinc in the form of sphalerite. Management is not sure what type of deposit this target might represent in the geological context, because other metal values one might associate with a VMS deposit have not been picked up in the soils or samples. Further work is required to develop this zinc target, which could turn into a bonus side bet if Western Troy raises additional funds for MacLeod Lake. Should management decide to turn Western Troy into an asset development play, the zinc target could serve as an exploration style distraction.

