

18th August 2008

World Mining Services Limited* – Speculative buy at 8p with target price of 26p

World Mining Services Limited (WMS) is a mining technology company which made its debut on PLUS today and which is likely to be generating positive cashflow within months. The company owns investments in Poland, Canada and the UK but is incorporated in the Isle of Man. It was formed in October 2006 when PLUS listed Fundy Minerals* spun off its technology asset (Minex Technologies Limited) so as to concentrate on its core business of mineral exploration. With the strategy of developing a range of mineral extraction and technology services for the mining sector, WMS has already stated it is only interested in cash flow positive (or very near) projects and will not sponsor those at a developmental stage. Its lead project near the Janina mine in Poland will be generating positive cashflows within a couple of months.

Having originally acquired a 40% stake in Fundy's Minex Technologies Limited business, the company currently maintains a passive 10% interest in the company which is in the advanced testing phases of its proprietary mineral and metal extraction technology. The technology is a water-less vapour chlorination extraction process which can extract valuable components from a source material. Current applications are focused on the recovery of precious metals from the tailings and other 'waste' material at either operational or historical mining sites.

However the key asset of WMS is a 50% stake in Afri-Pal, a Polish based operation operating at the Janina site which uses patented technology to

Key Data

EPIC	WMSP
Share Price	8p
Spread	7-9p
Total no of shares	56,553,630
Market Cap	£4.52 million
12 Month Range	7.5p-10p
Net Cash	£100,000
Market	PLUS
Website	www.worldmining.co.uk
Sector	Mining
Contact	Jeff Michel, Director Tel: +1 561 575 1720

produce briquetted coal from coal fines (small sized coal). The operation uses widely available off the shelf equipment together with the patented binding technology to convert the cheaper coal fines into a more widely useable and higher value briquette of coal. Coal is the primary fuel in Poland, with domestic and light industrial users requiring lump rather than the fine coal as is acceptable by utility companies. It is Afri-Pal which will drive the massive ramp up in sales and profits which the directors believe is likely to happen over the next 28 months.

The third business is the 100% owned True North Drilling & Geological Services Ltd which will provide drilling and geological services to the mining industry in the New Brunswick province of Canada. With a concentration of lead, zinc and copper properties in the north of the province, gold, nickel and tin in the south west and coal, potash, and natural gas in the south, New Brunswick is currently experiencing a shortage of mining equipment. True North hopes to profit from this excess demand, as it steadily looks to build upon its solitary asset, a crawler BQ drill rig.

Our valuation of WMS takes the form of an earnings multiple based on our estimated earnings for the 12 months to 30 September 2009. Because the company is only expected to start earning revenue late in the second half of its 2008 financial year, in an effort to get a more representative profile for the company, we chose to use 2009 earnings. With consistent cash flows expected from the Polish Afri-Pal coal business, and small contributions from True North, our forecast of pre-tax profits for the 12 months to 30 September 2009 is £1.4 million which equates to earnings per share of 2.6p. However, as Janina ramps up to full production, then in the following year we believe that sales could almost double to £20 million, profits could reach £5 million and earnings per share could hit 9.4p. Our valuation of 26p per share is based on a multiple of 10 times forecast September 2009 earnings and allows nothing for the value of Minex which, recent corporate action suggests, could be meaningful. At 8p per share we rate World Mining Services as a **speculative buy** with an initial price target of 26p. As Janina ramps up its production and we gain additional confidence in our 2010 forecast we may well increase that valuation significantly.

Forecast Table

Year to 30th September	Sales (£ million)	Pre-tax Profits (£ million)	Basic Earnings per share (p)
2007A	0.0	(0.034)	(34.0)
2008E	0.2	(0.1)	(0.2)
2009E	11.0	1.4	2.6
2010E	20.0	5.0	9.4

** World Mining Services is a client of Rivington Street Corporate Finance, a subsidiary of GEGR's parent Rivington Street Holdings and RSH also owns shares and warrants in WMS as does its CEO Tom Winnifrith and its chairman Malcolm*

Burne. RSH, Tom Winniffrith and Malcolm Burne are not locked in and reserve the right to reduce their holdings post flotation. Fundy Minerals is also a corporate client of Bishopsgate Communications, which is owned by RSH.

Operations

WMS owns stakes in three businesses: the Polish coal briquette company Afri-Pal, the New Brunswick based mining services company True North and the vapour chlorination extraction technology of Minex.

Afri-Pal

Holding a 50% stake in the operations of Afri-Pal, WMS believes coal is, and will continue to be, entrenched as the major source of power in Poland.

This must be viewed as the key investment of WMS. The essence of Afri-Pal is that it buys fine coal at 200 zlotys per tonne, processes it into a more user friendly briquette at a cost of 50 zlotys per tonne, and sells it to the retail and light industrial market for around 400 zlotys per tonne.

The company has an exclusive agreement for the use of a patented binder technology in Poland which it uses in conjunction with off-the-shelf briquetting machines to transform fine coal into larger coal. The unique characteristics of the licensed binding technology are that it works well in Poland's moist conditions and creates a briquette robust enough to survive transportation and burns more efficiently. The machine is capable of producing different sizes of coal briquettes or nuggets, with the company planning to use 8 of the machines in parallel at its plant in Janina, about 200 kilometres south of the capital Warsaw. Fine coal will be purchased from the nearby Janina and other coal mines, and after a 14 day trial run in mid-September, the coal briquetting plant is expected to be fully operational. Rounding off the process will be an automatic bagging machine which is expected onsite in Poland later in the year. The machine is capable of bagging up to 1,400 twenty five kilogramme bags an hour, well in excess of the projected 800 per hour required in the first year.

Poland is the largest producer of coal in the European Union, and has an estimated 140 years of coal reserves. 96% of its electricity is generated by coal powered stations, and although technology is lowering the undesirable emissions from coal stations, they remain environmentally unpopular. The restructure of the coal industry since 1989 has seen many inefficient communist era plants closed which lowered emissions by 32% over 1988 levels. However, the European Commission has undertaken to reduce the greenhouse gas emissions of its member countries by 20% by 2020, yet because of the abundance and low price of coal in the country,

together with its lack of financial resources to convert to other power sources, Poland is vigorously defending its use of coal. It would certainly appear that even if a decision was made to reduce coal use, it would take years to implement and there would still be the domestic and light industrial use, for which Afri-Pal is targeting. Indeed, the Russians had piped gas into the country, but the cost was not competitive, so households converted back to coal.

True North Drilling & Geological Service Ltd (True North)

Resource exploration in the Canadian province of New Brunswick has historically shunned the modern trend of remotely dividing plots based on a detailed area map, for the traditional approach of physically pegging, staking and tagging the topography. A recent staking rush in the area has created a major imbalance in the market for exploration equipment, and with companies mandated to do a certain amount of exploration work to justify their permit, WMS was quick to identify this opportunity and hence the creation of True North. Currently the company has a single crawler BQ drill rig. Under the business model, the client pays all operational expenses including the operator's accommodation, fuel and travel, and thus the whole operation has very little overhead for True North. The rig is run by the man who built it and typically requires 2 people to operate at any one time. The fact that the rig's builder also operates the machine is a major benefit for True North, since his intimate knowledge of its capability and construction allows him to keep it in top operational shape – not something all operators can balance in the rush to drill, drill, drill.

The company is proceeding cautiously at the moment as it judges the market, but with other companies paying 'ransom' money to keep a drill on site regardless of whether they are using it or not, WMS is confident it is in the right market.

True North is planning ultimately to provide geological drilling services, excavation services for mineral trenching, claim staking and line cutting to mining companies and geophysical services. The nearby University of New Brunswick has a large and well recognised geological department, and thus True North is anticipating a consistent flow of quality graduates from which to build its resource services business.

Minex Technologies Ltd. (Minex)

Originally owning 40% of Minex Technologies, WMS has subsequently reduced its holding to a 10% passive interest, as capital requirements in other business areas increased. 10,000 shares of the current holding could yet be sold for £1.5 million as the previous purchaser of WMS' divested stake holds a 12 month option (which expires 7th April 2009) over the company's remaining 11,600 share interest.

Established with the initial objective of re-processing the tailings of mining companies using its vapour chlorination extraction process, Minex Technologies is currently refining the process to a broader range of applications, including tailings and slag re-processing, primary ore processing, and electronics and white-goods recycling.

The vapour chlorination extraction process was developed by Minex, but progressed by Cardiff University and overseen by the independent Cardiff based SRK Consulting Group. The Research and Productivity Council (RPC) in New Brunswick, an independent contract R&D and technical services organisation, built Minex a pilot plant which has been used to test 8 real world problematic source materials. The process is a closed loop system where ground-up material is introduced into a chlorinated solution at temperature, with the refined product being expelled at the other end. Temperature is currently the critical factor, with different temperatures, currently ranging from 500°C to 900°C, required to optimise the processing and extraction of the desired material. For example extracting gold from metamorphic rock could require a different temperature than extracting gold from sedimentary rock or indeed extracting lead from mobile phones.

The current pilot test plan is testing a range of applications under a number of situations. A tier one gold producer is testing the process of extracting refractory gold from ore and tailings as it looks to clean up its mine site. Two other tier one producers are testing the recovery of zinc and polymetallics from a volcanic massive sulphide tailings pile and zinc concentrate from smelter slag respectively. Other tests are being conducted to extract polymetallic ores from an African and Spanish mine, metals from incinerated waste material and rare earth elements from a new mine in North America. Early results have shown recoveries of up to 97% in the ores and tailings tested, confirming that the Minex process has the potential to extract economic levels of silver, copper and gold from highly complex sulphide ore. Current intentions within the next 12 months are to increase the pilot's size to a scalable commercial version with a 5 tonne a day capacity, while the testing of a rainbow of other possible applications will continue.

The potential of this technology is evident when one looks at the inability of even the largest producers to effectively recover their targeted resource. For example, Barrick Gold Corporation announced the 'Unlock the Value' program in September 2007, which offers \$10 million to anyone who can propose an economically viable way of significantly increasing the amount of silver it can recover from its Veladero gold mine in Argentina. Geologists have defined a silver resource of 180 million ounces of silver, but because of the silica surrounding material, Barrick has only been able to recover 6.7% of the metal. A rough calculation on the elusive resource is that at a price of \$15 per ounce, there is around \$2.5 billion worth of silver yet to be recovered.

Current competition resides with the major resource producers and larger engineering firms. Miners Xstrata, Teck Cominco, Vale Inco, Rio Tinto and BHP among others, are increasingly committing funds to improving their recovery rates, but for obvious reasons have tended to focus on their own operational applications. Engineers including the Hatch Group, Mintek and Outokumpu are more external client focused and develop proprietary technologies and processes, and thus pose a more direct challenge to Minex. However the directors believe that the company's vapour process is unique enough to differentiate itself from its rivals.

Strategy

World Mining Services will in the longer term acquire other technologies which are close to, or already, generating free cashflow, however the medium term aim is to ensure a ramp up in the output at Janina to ensure that WMS itself is generating free cashflow.

Afri-Pal is looking to grow organically from its current base in Janina. Expanding capacity and throughput can be achieved at a relatively low capital cost. We do not regard it as inconceivable that WMS will seek to buy out the 50% of Afri-Pal which it does not own at some stage.

Management / Directors

Chairman – Jeff Michel. After an honourable discharge from the US Coast Guard, Michel has since held a variety of positions in the retail investment banking, small cap retail broker and dealer fields. Specific skills have been developed in business development, compliance, cost containment and various corporate finance functions including equity financing, IPO's, PIPEs, debt raisings, RTO's, convertible debt and mergers & acquisitions. Currently Michel is the Chairman and CEO of PLUS listed exploration company Fundy Minerals Limited, and Managing Director of finance consultancy Southwood Partners Limited.

Director – Daniel Vanrenen. Initially employed by Walton Asset Management, where he traded a private account on the UK futures market, Vanrenen was a co-founder of the South African based small technology fund, Waltech Services PLC. Having gained valuable experience in a number of private equity transactions, Vanrenen helped establish Aladdin Partners, a Black Economic Empowerment project investment vehicle in South Africa which is currently looking to raise capital on London's AIM.

Director – Jonathan Harrison. Finance director of AIM listed Sirius Exploration and private company Crystal River Resources Limited; Harrison is a registered Chartered Accountant. Having worked his way up to Vice President of Finance over a 16 year period at Intercontinental Hotels Corporation, Boddington Group PLC poached his services for their Operations Director of the Village Leisure Hotels division. Harrison has since led a management buy-in of 25 hotels from Queens Moat Houses PLC, managed the refinancing of Country Hotels Group PLC and overseen Topnotch Health Club PLC's admission to AIM.

Director – Roy Harding. CFO of Walpay Limited IOM and a former Finance Manager of Diab Engineering in Australia, Harding is a chartered accountant with a track record of developing business opportunities while maintaining sound financial controls. Harding's recent appointment to the board of WMS not only strengthens the company's financial control and management skill set, but also provides tangible evidence of its aggressive growth strategy.

Significant Shareholders

There are 56,553,630 shares on issue and 3.3 million warrants outstanding convertible at 6p. Mark Edey and David Hume are the directors and founders of Afri-Pal. Among those investing, albeit on a small scale, in the pre IPO fund raising were mining veterans Malcolm Burne and Colin Bird and Tom Winnifrith, the CEO of Rivington Street Holdings, the owner of GE&CR.

Name	Ordinary Shares	% of Ordinary Shares
Fundy Minerals Limited	28,003,828	49.5
Management	15,675,767	27.7
Mark Edey	4,729,299	8.4
David Hume	4,729,299	8.4
Total Ordinary Shares	56,553,630	100%

SWOT Analysis

Strengths

There would appear to be few genuine competitors to Afri-Pal's reconstituted coal business in Poland. Of the alternatives to genuine lump coal, an inability to cope with a damp environment or lack of transportability means competitor's products are inferior without offering a real cost saving. Afri-Pal is likely to be cashflow positive within three months

and its business can be scaled up at a low cost and with minimal technical risk.

The mining rush in New Brunswick has left the area with a dearth of equipment, and with permitting rules preventing permit holders from sitting on their claim until supply balances out, there is a fundamental need for machinery.

Weaknesses

The vapour chlorination extraction process being developed by Minex, although in the advanced testing phase, is yet to produce an income and until it has passed the ultimate commercialisation test of someone actually paying for the product, it will remain in the 'great potential' basket.

True North's entire business is currently based on the success of its lone drill rig. The sooner it can diversify its revenue base into other mining service areas, or at least across multiple assets, the more robust the business will be. Although unlikely, as it stands now, were the New Brunswick excess demand for drill rigs to diminish or global commodity price changes made prospecting unviable, True North would be highly vulnerable.

Opportunities

Minex's vapour chlorination extraction process has real blue-sky potential if it can be shown to be commercially viable. The potential value of a higher yielding refining process to Barrick's Veladero gold mine alone is immense, and that is just for extracting silver from a gold mine. And the application could have global potential. However with WMS having agreed to a £1.5 million option on its remaining stake, the upside for WMS is capped.

The current situation in New Brunswick offers great opportunities for True North to profit. With a lack of suitable equipment, True North would do well to procure anything worthwhile, but if it did, the rewards are obvious. However, it is important to stress that our group valuation is almost entirely dependent on Janina where Afri-Pal has the opportunity to rapidly create a cash generative, scaleable growth business.

Threats

The EU's environmental regulations may yet impact Polish coal demand, despite the current resistance. Afri-Pal is insulated somewhat because of its focus on the retail and light industrial markets, but any excess lump coal supply in the utility market will immediately flow down to Afri-Pal's market and thus present additional competition.

Although the current drill rig has performed well for True North, any problems, preventable or otherwise, will cut the flow of cash and leave the

business accumulating costs while it awaits the problem's resolution. This again underpins the advantages of broadening True North's revenue base.

Valuation

At a corporate level, WMS has a reasonable level of diversification with three unique, but strategically consistent businesses. True North currently has a highly prized asset in its local environment, with the potential to increase hire out fees and broaden its service offerings over time but it is currently a small business. Minex offers blue-sky upside but at present we attribute no concrete value. The 50% stake in Afri-Pal is what should attract investors and we value WMS almost entirely on the basis of the profits which it will generate.

In the year to September 30th 2008 WMS is set to report a small loss since the income from True North and Afri-Pal will be minimal. Corporate and IPO costs will be partially offset by the £247,000 profit achieved on the sale of a 28.5% interest in Minex. In the 2009 financial year the company will benefit from a rapid ramp up of operations at Janina and the directors believe that sales could reach £11 million which would translate into a pre-tax profit of £1.4 million and earnings per share, on a zero Isle of Man tax charge, of 2.6p. In 2010 the directors believe that a full year of Janina operating at full capacity will see revenues hit £20 million, pre-tax profits reach £5 million and earnings per share hit 9.4p. We will need to see evidence of the cashflow generated by Janina to have full confidence in the 2010 forecast so at this stage, conservatively attributing no value to Minex, we value WMS on 10 times forecast 2009 earnings of 2.6p. At 8p we initiate our coverage with a stance of **speculative buy** and a target price of 26p.

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