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Moly Mines
46 – 50 Kings Park Road
WEST PERTH, WA, 6005

Date of lodgement: 14-October-2008

Title: Open Briefing®. Moly Mines. Project Update on Spinifex Ridge

Record of interview:

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Moly Mines Ltd (ASX code: MOL) has executed full financing documentation for the provision of a US\$150 million debt financing facility for the 100% owned Spinifex Ridge Molybdenum Project. What are the details of the facility? How will these funds be allocated? What additional financing is being pursued?

MD Dr Derek Fisher

The US\$150 million facility enables the Company to continue to progress the Spinifex Ridge Project and maintain its status as a fully completed package to take to the financial markets when the current upheaval stabilises. It is clearly the best financing alternative available to the Company and represents the most attractive form of financing to shareholders, ranking well ahead of the effect any style of comparative equity financing would have had on shareholders, particularly with respect to dilution.

The financing is supported by full loan documentation and will be drawn down in two tranches. We have drawn down the first tranche of US\$30 million. The second tranche of US\$120 million is subject to certain conditions mostly related to the completion of standard security documentation. We are expecting to draw down the remaining US\$120 million by the end of October.

The debt facility is with the Trust Company of the West (TCW). Under the agreement we will issue Notes that are repayable in 12 months and in addition,

issue Warrants to Note subscribers representing 15% of the fully diluted issue capital of Moly Mines based on the capital structure of the Company at the time the Warrants are issued. The maximum number of Warrants that will be issued is 17.9 million based on the likely capital structure at the time of the Warrants issue. Approval for the Warrants will be sought at the Company's annual general meeting.

TCW have a long term view on Spinifex Ridge and provision has been made within the loan documentation to roll their financing facility into the full Project funding.

The funds are being carefully allocated towards the completion of manufacture of the major long-lead items, which include the ball mill and primary, secondary and tertiary crushers and to continuing detailed engineering and site preparation. It's important for Moly to proceed with the manufacture of that equipment in order to secure our position in the queue and maintain the momentum of the Spinifex Ridge Molybdenum Project.

The capital cost for the Project remains at A\$1.26 billion if we include the power station, so we're currently pursuing the remaining financing and talking to a number of parties.

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The Warrants are exercisable into 1 new ordinary share in MOL for each Warrant held at an exercise price of \$0.0001. Why do the Warrants have such a low exercise price?

MD Dr Derek Fisher

This is part of the cost of raising finance in the current credit market and reflects "market terms". The Company undertook an extensive marketing process to raise the Interim Financing and was assisted in the process by the Company's investment banking advisors Morgan Stanley and JP Morgan. We reviewed a range of financing structures and analysed various equity offerings in detail. We found that a new equity issue in the current market was unattractive. Further the investment banks are not underwriting large rights issue style equity financings. With no firm underwriting available, we could not undertake this kind of financing.

We concluded that a debt offering was likely to be far more attractive to shareholders and preserves far greater equity value than any comparative type of financing.

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Moly Mines released an independent Technical Report on its Spinifex Ridge Project. Can you provide a summary update on project financials and parameters, including your assumptions, particularly for the moly price?

MD Dr Derek Fisher

The Project is based on an initial open pit mining and processing operation of 20 million tonnes per year with a low strip ratio of 1.1:1. Initially, it's expected to produce an average of 24 million pounds of molybdenum in concentrate and 26 million pounds of copper in concentrate and interestingly, we're now finding some tungsten in the ore body, and we'll have something to report on that shortly.

The moly price assumption is supported by 2 independent studies including one from a leading metals analyst based in London. Our modelled prices are well below the 3 and 5 year average molybdenum prices and the current spot price trading around (US\$30-31/lb).

The Project has an attractive pre-tax NPV at an 8.5% real discount rate of A\$3.3 billion and a pre-tax IRR of 32%. That valuation is based on increasing throughput to 33 million tonnes per year in 2015 and applying 3 year average commodity prices and adopting relevant forward curves as at 7 October 2008.

The expansion studies are supported by the increase in resource and reserves for the Project announced mid year. Our reserves are now around 450 million tonnes of ore. Our measured and indicated resources total more than 650 million tonnes and inferred resources are 399 million tonnes. This ore body has a history of converting inferred resources into measured and indicated resources. We're confident that we have an ore body that's somewhere in the vicinity of one billion tonnes, which will support a very long mine life.

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What is the state of the molybdenum market? Can you explain what supply and demand factors drive the price? What factors have held up the Moly price relative to the recent volatility experienced amongst other commodities?

MD Dr Derek Fisher

The moly price has remained very stable for quite some time and reflects the tightness of global supply. The moly price is largely driven by the steel industries and increasingly by the hydrocarbon and automobile industries. Moly is closely tied to the hydrocarbon industry and it tends to be tied to hydrocarbon prices. We're seeing a decreasing amount of sweet hydrocarbon production globally and replaced with an increasing amount of poorer quality, sour gas and oils. Poor quality hydrocarbons tend to be sulphurous and therefore corrosive. Moly is required for the steels used in handling those sulphurous oils and gases.

Moly is also used as the catalyst that strips out the sulphur from the hydrocarbons. The use of catalysts in oil refineries globally has doubled in the last twelve years on a per barrel of oil basis. Moly is also used in drill stems and well heads.

The automobile industry has also supported the moly price. Unlike Europe, North America and Australia, the car industry in China, India and Africa is experiencing massive expansion. Motor vehicles are increasingly using high tensile steels to reduce weight. You can put a much narrower gauge of high strength steel into a car, versus standard carbon steel, and thereby reduce the weight.

Another important factor is China. China accounts for about 25% of the world's moly production and approximately 35% of the world's steel and 25% of the world's specialty steels. Previously, China used to export significant quantities of moly, but is now consuming a far greater percentage, and has affected export quotas, duties and tariffs on molybdenum. China has really changed the dynamics of the world molybdenum industry.

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The capital cost for the Project now stands at A\$1.26 billion versus the previous A\$1.08 billion. Can you explain the difference? How confident are you of achieving this number? To what extent have you locked in this capital cost?

MD Dr Derek Fisher

As mentioned, the additional capital includes the cost for the power station. We had a deal with an infrastructure company to build the power station on-site and sell power to us at the mine gate. Unfortunately this provider was unable to meet financing hurdles imposed by our lenders due mainly to the uncertainties in the global credit markets. We have now taken over responsibility for the engineering and design of the power station to ensure continuity of the design work. However, we remain in discussions with two other parties to replace the previous provider.

We remain confident that we will achieve the target budget of A\$1.26 billion. We will have locked in 70% of our capital cost with contracts prior to financing with over 50% of capital cost already contracted. Although we are experiencing some delays at the moment and some variation in steel prices, we're confident that we can remain on budget. We also have A\$110 million in contingency that was included in the initial A\$1.08 billion. This will now apply to the remaining 30% of the total capital cost not locked in at financing.

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An offtake agreement was announced with ThyssenKrupp Metallurgie (TKMet) for all the molybdenum production, with TKMet agreeing to participate in the equity financing component for the Project, subject to final board approvals. Can you provide an update on where TKMet stands on financing and their intended investment strategy?

MD Dr Derek Fisher

We have just returned from visiting TKMet in Germany and despite the volatility in global markets, they are still supporting the Project and have not indicated otherwise. The offtake agreement remains intact as does the intended equity financing component for the Project. We will re-visit that when we undertake the main financing.

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WorleyParsons is conducting engineering scoping studies for the expansion of the current nameplate capacity of 20 million tonne per annum to 30-33 million tonnes per annum. Can you provide an update on the WorleyParsons study?

MD Dr Derek Fisher

The scoping study is largely complete and we continue to work closely in-house with WorleyParsons. We expect the expansion in throughput to commence in year five (2015), when we will install a crusher in the open pit and convey the ore rather than truck it. This will also involve an expansion of the mill by 50% to 30-33 million tonnes per annum. Concurrently, the surface primary crusher will be used to process lower grade material previously stockpiled, and both streams of material will then be blended at the plant to achieve our target 30-33 million tonne per year capacity.

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Can you outline the next major milestones for the Project?

MD Dr Derek Fisher

All Project milestones to date have been achieved, including full permitting. Everything is in place to commence construction on site. With the interim financing behind us, we will be in a very strong financial position which will ensure the continued advancement of the Project. The main short-term milestone is the completion of the full financing for the Project. There's a lot of uncertainty in the market at the moment. We currently see the debt and equity capital markets as difficult, however, we're talking to various parties in respect to taking a position in the Project.

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Thank you, Dr Fisher.

For further information on Moly Mines please call Dr. Derek Fisher or Company Secretary Andrew Worland on (08) 9429 3300 or visit www.molymines.com

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