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Fundamental Research Corp.

Investment Analysis for Intelligent Investors

May 11, 2009

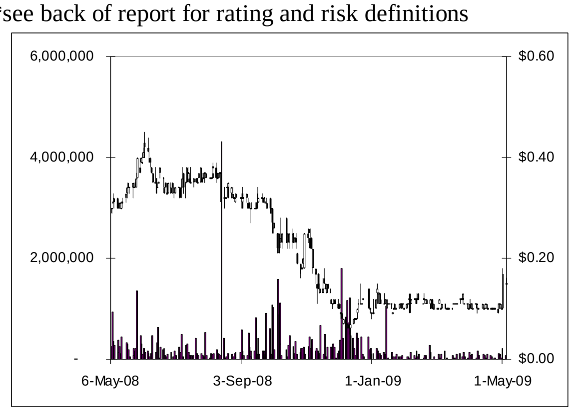
Creston Moly Corp. (TSXV: CMS) – Drop in molybdenum price forecasts impacts economics; Downgrading to HOLD

Sector/Industry: Junior Mining **www.crestonmoly.com**

Market Data (as of May 8, 2009)

Current Price	**$0.14**
Fair Value	**C$0.15 (↓)**
Rating*	**HOLD (↓)**
Risk*	**5 (Highly Spec)**
52 Week Range	$0.05 - $0.45
Shares O/S	121.77 mm
Market Cap	$17.05 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	0.39
YoY Return	-54.8%
YTD TSXV	-57.9%

*see back of report for rating and risk definitions



Investment Highlights

- The company received a positive preliminary feasibility study on the Main Zone of the Creston Moly project in Sonora, Mexico. While the report has a publication date of March 23, 2009, many of the factors incorporated such as labor and material costs are considered to be on the higher side as they were based on mid to late 2008 figures. The study also used high molybdenum (Mo) price forecasts.
- The after-tax Net Present Values (@10%) was $35 million (at a Mo price of US$12.50/lb), $232 million (at a Mo price of US$15/lb) and $625 million (at a Mo price of US$20/lb) for the owner mining case.
- Based on current market conditions and molybdenum prices, the project is essentially on care and maintenance to conserve cash while the company is in the process of re-assessing the pre-feasibility study with current figures and forecasts.
- At the end of Q2-2009 (quarter ended January 2009), the company was in a sound cash position with $3.03 million on hand. However, in a recently completed arbitration, the company has been ordered to pay $4.14 million to the finders of the Creston acquisition. This has put the company in an uncertain cash position even though it has initiated legal proceedings to appeal the decision. Liquidity issues might arise if the company's appeal is rejected and the company fails to raise sufficient capital through debt or equity.

Key Financial Data (FYE July 31) (C$)	**2006**	**2007**	**2008**	**2009 (6 mo)**
Cash	233,344	14,930,859	7,220,728	3,030,913
Working Capital	147,720	12,953,264	5,112,325	(1,198,774)
Property, Plant and Equipment	40,361	75,134	86,681	75,047
Mineral Assets	2,026,180	49,216,145	55,734,477	58,549,152
Total Assets	2,381,073	64,313,993	64,108,724	62,225,812
Net Income (Loss)	(1,195,210)	(4,909,492)	(3,209,891)	(4,304,295)
EPS	(0.04)	(0.09)	(0.03)	(0.04)

An FRC Analyst has visited CMS's El Creston project in the past 12 months, please see the back of this report for additional disclosures

Creston Moly Corp. owns 100% of the El Creston deposit in northern Sonora, Mexico. This advanced stage project has recently received a positive pre-feasibility study from M3 Engineering & Technology Corporation of Tucson, Arizona. We believe the aspects of the project are good, due to the project's accessibility, infrastructure, and potential for expansion.

Pre-feasibility Study

Overview:

A pre-feasibility study, underway at the time of our previous update, has now been completed by M3 Engineering & Technology Corporation of Tucson, Arizona ("M3") based on the Main Zone at the company's flagship Creston molybdenum property. The study included the design of the mine, processing plant, ancillary facilities, infrastructure and processing techniques, and also delineated the portion of mineral resources viable as mineral reserves. No additional drilling beyond the 53 diamond drill holes completed in 2008 was necessary for the completion of the study.

Coinciding with the mine plan evaluation, a financial analysis was completed assessing the project as both a contract mining and an owner mining operation. In both scenarios, the study returned a positive assessment with the owner mining option giving higher NPVs. The after-tax Net Present Values (@10%) were $35 million (at a molybdenum price of US$12.50/lb), $232 million (at a Mo price of US$15/lb) and $625 million (at a Mo price of US$20/lb) for the owner mining case.

Mine Plan:

As we anticipated in our previous reports, the Creston project would be mined by open pit methods based on the shallow overburden and continuity of mineralization. M3 recommends a three phase conventional truck-shovel operation and has calculated a life-of-mine stripping ratio of 1.23.

Figure 1 depicts a plan view of the open pit after Phase 3. Figures 2 and 3 indicate MoEq grades in cross sections A-A' and B-B' respectively. Through observation of Figures 2 and 3, the reader will notice a higher grade core that the pit design attempts to exploit. In their mining plan, M3 recommends the company selectively process the higher grade material and stockpile any lower grade material for processing at a later date. This selective processing will increase both concentrate quality and production, which in turn reduces the project payback period. The stockpiled lower grade ore will then be processed at the end of the mine life possibly enhancing the value of the project.

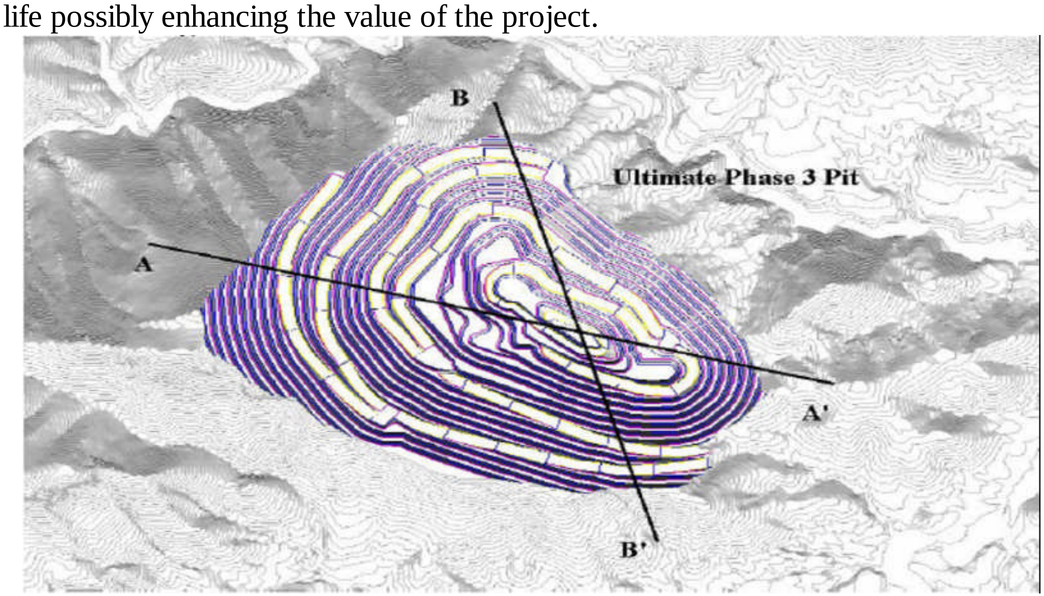


Figure 1: *Plan view after complestion of phase 3 (Source: Creston Moly Corp)*

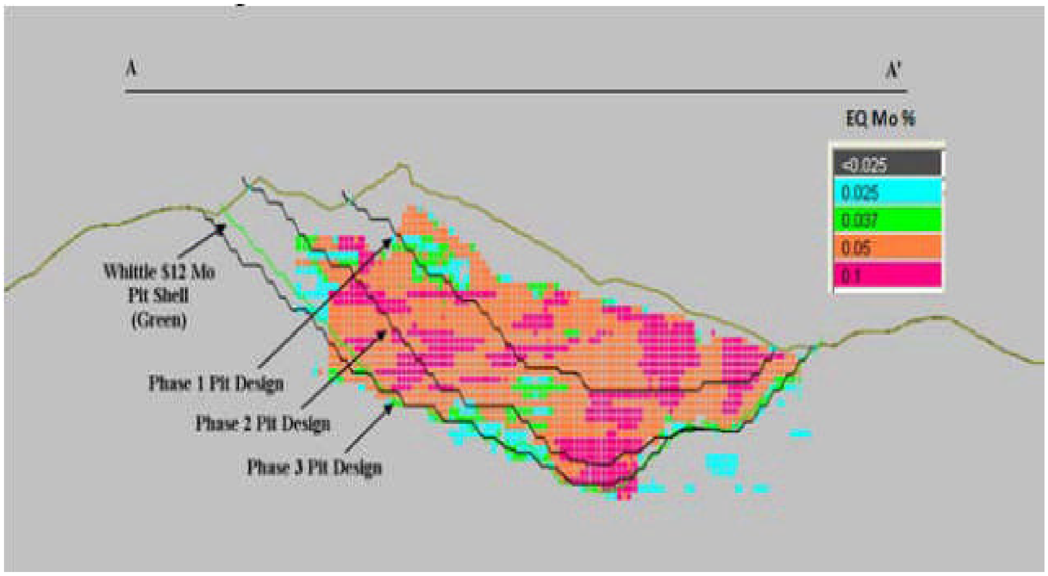


Figure 2: A-A' cross section of Main Zone (Source: Creston Moly Corp)

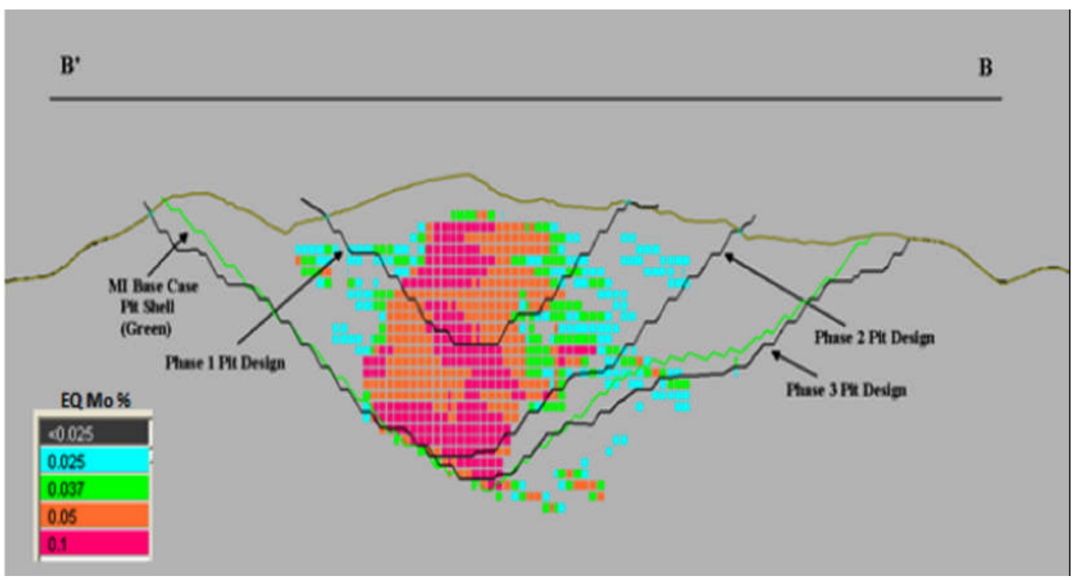


Figure 3: B-B' cross section of Main Zone (Source: Creston Moly Corp)

In determining the mine plan, M3 calculated proven and probable reserves and in-pit inferred resources at a 0.037% Mo equivalent cut-off grade as summarized the in the following tables.

Category	Tonnes (000's)	Mo (%)	lbs Mo (000's)	Cu (%)	lbs Cu (000's)
Proven Reserves	44,736	0.079	78,024	0.053	52,217
Probable Reserves	101,968	0.076	171,924	0.047	106,614
Proven and probable reserves	**146,705**	**0.077**	**249,948**	**0.049**	**158,831**
In-pit Inferred Resources	8,718	0.065	12,464	0.063	12,158

*Mo equivalent: Mo% + (Cu%/7.5)

Figure 4: Main Zone proven, probable reserves and in-pit inferred resources (Source: Creston Moly Corp)

Current resources (which includes the above reserve estimates) are as follows:

Category	Tonnes (000's)	Mo (%)	lbs Mo (000's)	Cu (%)	lbs Cu (000's)
Measured	52,240	0.074	85,490	0.050	58,080
Indicated	124,650	0.070	192,720	0.044	121,060
Total (M + I)	**176,890**	**0.071**	**278,210**	**0.046**	**179,140**
Inferred	16,300	0.051	18,320	0.061	21,860

*Mo equivalent: Mo% + (Cu%/7.5)

Figure 5: Main Zone resources (Source: Creston Moly Corp)

Ore processing would be done via a sulphide plant with a capacity of 0.04 million metric tonnes per day equaling production of 14.6 million dry tonnes per year (dtpy), also equivalent to 20 million lbs of molybdenum and 12 million lbs of copper production annually. At current proven and probable reserves, ore would be mined for approximately nine years plus a year of preproduction. Over the nine years of commercial ore extraction, lower grade ore would be stockpiled for milling in the mines last two years of life. **The total mine-life of the project is currently approximately 11 years plus one year of preproduction.**

The sulphide plant will process minerals via crushing, grinding and flotation to form saleable concentrates of both molybdenum and copper. Recent metallurgical work has been completed by METCON Research on the deposit material determining average recoveries of 88.4% for molybdenum, and 84% for copper, with concentrate grades of 55% and 28% respectively. **In our opinion, these are strong recovery and concentrate numbers considering the overall grade of the deposit.**

Financial Analysis

Based on the production of 14.6 million dtpy, the prefeasibility study was positive for both contract mining and owner mining scenarios, with owner mining returning the higher NPV despite higher capital costs. The following tables show the after-tax NPV and capital cost estimates.

	NPV @ 0%	NPV @ 5%	NPV @ 8%	NPV @ 10%	IRR	Payback Years
Contract Mining Option $15.00	$707.3	$409.3	$285.2	$218.8	21.0%	3.6
Molybdenum Price $12.50	$324.9	$139.3	$62.7	$22.0	11.3%	4.9
Molybdenum Price $20.00	$1,472.1	$949.1	$730.2	$612.4	36.5%	2.4
Owner Mining Option $15.00	$780.0	$444.9	$306.0	$231.9	20.2%	3.6
Molybdenum Price $12.50	$397.7	$175.0	$83.6	$35.1	11.7%	4.9
Molybdenum Price $20.00	$1,544.8	$984.7	$751.0	$625.4	34.0%	2.5
$ in millions						

	(millions)
Mine (including pre-stripping)	$95.7
Process Plant	$197.5
Tailings	$20.4
General Site and Ancillaries	$58.9
Camp	$8.4
Direct Cost	**$380.9**
Contractor Indirects	$15.0
Freight, IMMEX	$32.2
Engineering & Management	$50.0
Contingency	$67.0
Owner's Costs, CFE and Startup Spares	$31.1
Total Capital Cost	**$576.2**

Figure 6: Capital costs, owner mining scenario (Source: Creston Moly Corp)

The M3 study also anticipates lower operating costs for the owner operator scenario:

	Owner Mining Option $ per Mo Equivalent Lb	Contract Mining Option $ per Mo Equivalent Lb
Mining	$1.36	$2.19
Processing	$3.91	$3.91
General and Administration	$0.47	$0.47
Total	**$5.74**	**$6.57**

Figure 7: Operating cost per Mo equivalent lb (Source: Creston Moly Corp)

In reviewing the prefeasibility financial analysis completed by M3, it is critical for the reader to consider that while the report has a publication date of March 23, 2009, many of the factors incorporated such as labor and material costs are based on mid to late 2008 figures.

In addition, capital costs are estimated based on the use of new equipment. With the recent economic downturn, used equipment is more readily available and is now a viable option. **We anticipate the company will re-evaluate the study, applying more current numbers, which is likely to have a positive impact.**

That being noted, the reader must also consider that the analysis is based on commodity prices of US$15/lb for Mo and US$1.75/lb for Cu. Our long-term prices for these metals are US$10/lb and US$2.03/lb, respectively (current prices: U$9/lb for Mo and U$2.06/lb for Cu). Our evaluation of the project based on these forecasts is presented later in the report.

Prefeasibility Study Conclusions

As part of its conclusions, M3 presents several opportunities for the company to enhance the project's economics including:

- Increasing the overall resource
- Refined engineering during the feasibility study
- Inclusion of revenue from the recovery of silver

At current molybdenum prices, we feel that increasing the overall resource is the company's most viable option and expect future work will focus on the Red Hill Zone. The Red Hill Zone, which we have discussed in previous reports, is located just south of the Main Zone, and has revealed mineralization similar to the Main Zone through diamond drill testing. Should a deposit of economic mineralization be delineated at the Red Hill Zone, it would be processed in the currently proposed facilities building on the Creston project's mine life.

Current Status/Development Timeline

Based on current market conditions and molybdenum prices, the project is essentially on care and maintenance to conserve cash while the company is in the process of re-assessing the pre-feasibility study with current figures and forecasts.

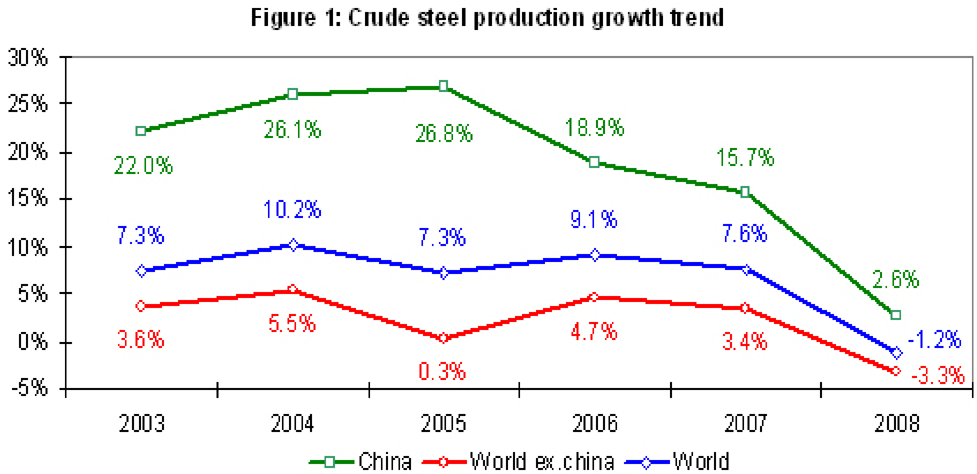
We feel that Creston Moly is not the only company in this situation, and believe that other molybdenum and molybdenum/copper projects in North America are being slowed by weak molybdenum prices. It would appear that Molybdenum production in Mexico is largely coming as a byproduct in copper projects.

Management Appointments

Wayne Johnstone, CA, previously a director of the company, has been appointed as CFO replacing Kim Phillips, who will remain with the company as a director.

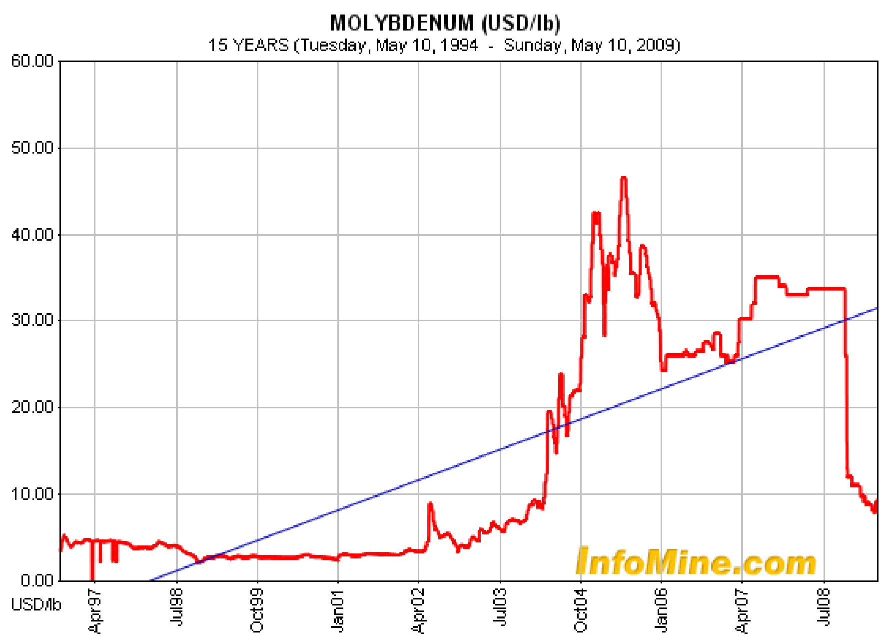
Outlook on Molybdenum

Increasing demand for steel has been one of the major drivers of demand for molybdenum. Therefore, molybdenum prices experienced a significant decline in 2008, as global steel production dropped 1.2% YOY (shown in the following chart) versus production growth of 7.6% in 2007, and 9.1% in 2006. Crude steel production growth in China dropped to 2.6% in 2008, versus 15.7% in 2007, and 18.9% in 2006.



Source: World Steel Association

We believe the slowdown in emerging countries, and recession in developed countries, will lead to lower demand for steel, resulting in soft molybdenum prices in the near-term, as the molybdenum market continues to remain in surplus in 2009, and 2010. The following chart shows molybdenum prices since 1997. Although prices have dropped significantly in the last six months, they are still well above the historic average (as shown in the chart below).



As CMS is not in production, our valuation on the company depends more on our long-term outlook for molybdenum prices. We have a positive long-term outlook on molybdenum prices and expect prices to stay well above the historic average due to the following factors:

- Demand from BRIC countries
- Demand from the oil sector despite a recent decline in short term oil demand

forecasts
- Increasing capital expenditures and higher production costs.
- Delays in new molybdenum and molybdenum/copper mines going into production
- Expected decrease in Mo exports by China.
- Longer lead times to build new molybdenum mines.
- Not easily substitutable due to its unique characteristics, availability and versatility

Long-term price forecast - Our regression model, based on Mo prices during 1971 – 2008, and several other independent variables, including the US$, global annual mine production growth, global GDP growth, etc., gave a long-term price forecast of US$8.5/lb. However, considering all the price drivers we listed above, we have used a higher forecast of US$10/lb in our valuation models (for 2012+), which is inline with the average price of US$10.25/lb during 1991 – 2008.

Financials

At the end of Q2-2009 (quarter ended January 2009), the company had $3.03 million in cash. The working capital deficit and current ratio were $1.20 million and 0.75x, respectively. The company posted a net loss of $4.30 million (EPS: -$0.04) in the first six months of FY2009. We estimate CMS had a burn rate (including mineral property costs) of $0.79 million per month in the first six months of FY2009. The following table shows the company's cash and liquidity position at the end of January 2009.

(C$)	2006	2007	2008	2009 (6 mo)
Working Capital	147,720	12,953,264	5,112,325	(1,198,774)
Current Ratio	1.89	7.26	2.61	0.75
LT Debts/ Assets	-	-	-	-
Burn Rate/Month (incl exploration costs)	(62,135)	(123,099)	(682,344)	(788,302)
Cash from financing activities	1,616,423	38,536,185	478,000	539,999

The company had a working capital deficit at the end of January 2009, because it had $4.80 million in accounts payable and accrued liabilities as a result of the following:

1. Management and consulting agreements, which we believe account for $1.38 million per annum.
2. Recorded $2.32 million of the fee awarded in arbitration – CMS was initially required to pay US$1.50 million (payment in cash/shares at the option of the finder) as a Finders' Fee with regard to the Creston acquisition. The TSXV Exchange had determined a price of $0.70 per share to be used in determining the number of shares to be paid. However, as a result of the significant decline in CMS's share price, the Finder claimed that $0.15 per share should be used instead. The Finder entered into arbitration proceedings, and the arbitrator awarded the finder $4.14 million. CMS recorded the additional amount awarded in the arbitration as an expense of $2.32 million in the period.

CMS believes the award is in error, and is seeking leave to appeal the award and has initiated legal proceedings. CMS has also registered a General Security Agreement over the assets of the company in favor of the Finder.

Announced Debt Settlements: In order to cut costs, on May 1, 2009, the company announced it had entered into settlements with certain individuals for the termination of their agreements (with regard to the consulting agreements mentioned above) for total consideration of $0.25 million and 2.45 million shares at a deemed price of $0.10 per share. CMS expects to lower operating costs by $70,000 per month as a result of this settlement.

Stock Options and Warrants: We estimate the company currently has about 9.85 million stock options (weighted average exercise price of $0.36) and 39.34 million warrants (weighted average exercise price of $0.90) outstanding. None of the options and warrants are currently 'in-the-money'.

Conclusion: Although the company currently has a working capital deficit, most of the deficit is due to the amount awarded in the arbitration. As a result, the company's cash requirements for the next 12 months depends heavily on the results of the legal proceedings it has initiated to appeal the award. The company is in a sound cash position excluding the amount required to be paid to the finder. However, it is very important to note that the company will face liquidity issues if its appeal is rejected, and it fails to raise sufficient capital through debt or equity.

Valuation

The most significant change in our DCF model is the change in our molybdenum price forecasts. We have lowered our price forecasts from US$16/lb in 2012, to US$10/lb for 2012+. Although we made a few other changes to our inputs to bring them in line with the recently completed pre-feasibility study, we have maintained our operating cost and capital cost estimates at US$5.57/lb and US$500 million, respectively, versus US$5.74/lb and $576 million (owner mining scenario) in the pre-feasibility study. This is because we feel the cost estimates in the pre-feasibility study were overly conservative.

Our revised DCF model (which is based on US$10/lb Mo and US$2.03/lb Cu) gave a negative NPV versus $74 million in our previous report. The following table shows a summary of our valuation model.

DCF Valuation	Revised	Previous	Change
Mineral Resources (in tonnes)	185,040,000	185,040,000	-
Grade (Mo)	LOM - 0.070% (Years 1 -5: 0.088%)	0.070%	-
Grade (Cu)	LOM - 0.047% (Years 1 - 5: 0.066%)	0.047%	-
Recovery (Mo)	88.4%	87%	↑
Recovery (Cu)	84.0%	78%	↑
Recovered Mo (lb)	252,861,783	248,857,185	↑
Recovery Cu (lb)	159,658,800	148,254,600	↑
Production	2013	2012	↓
Mine Life (years)	13	20	↓
Operating costs (US$/lb Mo eq.)	$5.57	$5.57	-
Discount rate	12.98%	12.98%	-
Capital Costs (US$)	$500,000,000	$500,000,000	-
Net Asset Value (C$)	**($51,876,136)**	**$74,109,388**	
Working Capital (C$)	($1,198,774)	$3,752,607	
Fair Value (C$)	($53,074,910)	$77,861,994	
No. of Shares (diluted)	121,768,146	120,918,000	
Fair value per share (diluted) - C$	**-$0.44**	**$0.64**	

Our DCF valuation is highly sensitive to our long-term Mo price forecasts. The following table shows the sensitivity of our valuation to changes in our molybdenum and copper price forecasts. As shown in the table, our DCF valuation is negative when molybdenum is below US$10/lb. Maintaining all other inputs, we estimate the break-even Mo price for the project is US$10.75/lb. Our valuation increases to $0.79 per share if the Mo price is increased to US$12/lb.

Mo (US$/lb) - 2012+** / **Cu (US$/lb) - 2012+	**$8.00**	**$10.00**	**$12.00**	**$14.00**	**$16.00**
$1.50	(1.88)	(0.65)	0.58	1.81	3.04
$2.03	(1.67)	**(0.44)**	0.79	2.02	3.25
$2.50	(1.47)	(0.24)	0.98	2.21	3.44
$3.00	(1.27)	(0.04)	1.19	2.42	3.65

Real options valuation - Unlike a DCF model, our real options valuation model accounts for the volatility in commodity prices, and also management's ability to pursue or abandon a project. Our real options valuation model, using the same inputs as we used for our DCF model, gave a fair value estimate of $0.15 per share.

Real Options Valuation				
Inputs relating to the underlying asset				
Estd.Value of Minerals if extracted today (US$)				$376,715,455
Annualized Standard Deviation of Mineral prices				25.1%
Capital Investment (US$)				500,000,000
Estd. Mine Life (years)				13
Riskfree Rate				3.50%
Output				
Stock Price	$376,715,455		T.Bond rate	3.50%
Strike Price	$500,000,000		Variance	0.06
Expiration (in years)	13		Annualized div yield	8%
d1 =	-0.463		Value of Option (C$)	$20,019,332
N(d1) =	0.322		Working Capital - Debt (C$)	-$1,198,774
d2 =	-1.368		No of outstanding shares	121,768,146
N(d2) =	0.086		**Value per share (C$)**	**$0.15**

Comparables Valuation: Since our previous report, the average ratio of EV/Mo eq. resources dropped from $0.05/lb to $0.03/lb, as the share prices of comparables dropped during the period.

CMS continues to trade at a premium which we believe reflects the fact that its project is of high Mo grade and is one of the largest undeveloped molybdenum resources in the western hemisphere with good accessibility and infrastructure. Based on a valuation metric of $0.03/lb, we estimate the fair value of CMS to be $0.07 per share (down from $0.21 per share in our previous report).

	Company	Symbol	Price	EV / Resource (Mo eq.)
1	Creston Moly Corp	CMS	$0.22	$0.084
2	Inca Pacific Resources Inc.	IPR	$0.66	$0.030
3	Bard Ventures	CBS	$0.09	$0.028
4	Torch River Resources Ltd.	TCR	$0.10	$0.025
5	International PBX Ventures Ltd.	PBX	$0.12	$0.019
6	Western Troy Capital Resources Inc.	WRY	$0.19	$0.016
7	Virgin Metals Inc.	VGM	$0.07	$0.009
	Average			**0.030**
	Fair value per share (diluted)			**$0.07**

* Share prices are 12-month averages
* Resources = Measured and Indicated + 50% Inferred/Historic Resource Estimates
* Molybdenum equivalent was determined based on copper price of US$2.03/lb, and molydenum price of US$10/lb

Conclusion & Rating

Our revised Mo price forecasts have resulted in a significantly lower fair value. The company recognizes this lower price environment, and as a result, has put the El Creston project on hold. This move also helps them to conserve cash. The company is currently in the process of re-assessing the pre-feasibility study with current figures and forecasts.

The recently completed arbitration has put the company in an uncertain cash position. Liquidity issues might arise if the company's appeal is rejected and the company fails to raise sufficient capital through debt or equity. **Since we cannot predict the outcome of the appeal, and as a result of our revised valuation, we have decided to downgrade our rating from BUY to HOLD. We have also lowered our fair value estimate to $0.15 per share. Higher molybdenum price forecasts, resource expansion and improved cash position will bring upside potential to our fair value estimate.**

Risks

The El Creston project is in early stages of development and is subject to numerous risks, including the success of economic studies. We believe the high capital cost of the project could be quite dilutive at the present share price. However, the company is evaluating many options for the advancement of the project, which could minimize this risk. The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- The company is subject to delays impacting the entire mining industry.
- The value of the company depends heavily on molybdenum prices.
- The success of drilling, expansion and determination of favorable resource estimates are important long-term success factors for the company.
- Access to capital and share dilution

We rate the shares a **RISK of 5 (Highly Speculative).**

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

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

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

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

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

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

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