

November 2007 Market Update

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Market Observations

The US Dollar

We have witnessed a range of emotions in the market since early August. There was deep despair in August, euphoria in September and now uneasiness in October. Treasury Secretary Hank Paulsen, Fed Chairman Ben Bernanke and major brokerage houses earlier in the year told us sub-prime effects were contained and would not affect the economy or other credit markets. Over the summer, we found out that the trouble in sub-prime spilled over all the way to the highest AAA graded mortgage credit. Central Banks all over the world began injecting hundreds of billions into markets to keep them from literally freezing up. Even the asset backed commercial paper market, the instruments purchased by money market funds, began to contract. At the height of these events, equity markets around the world sold off.

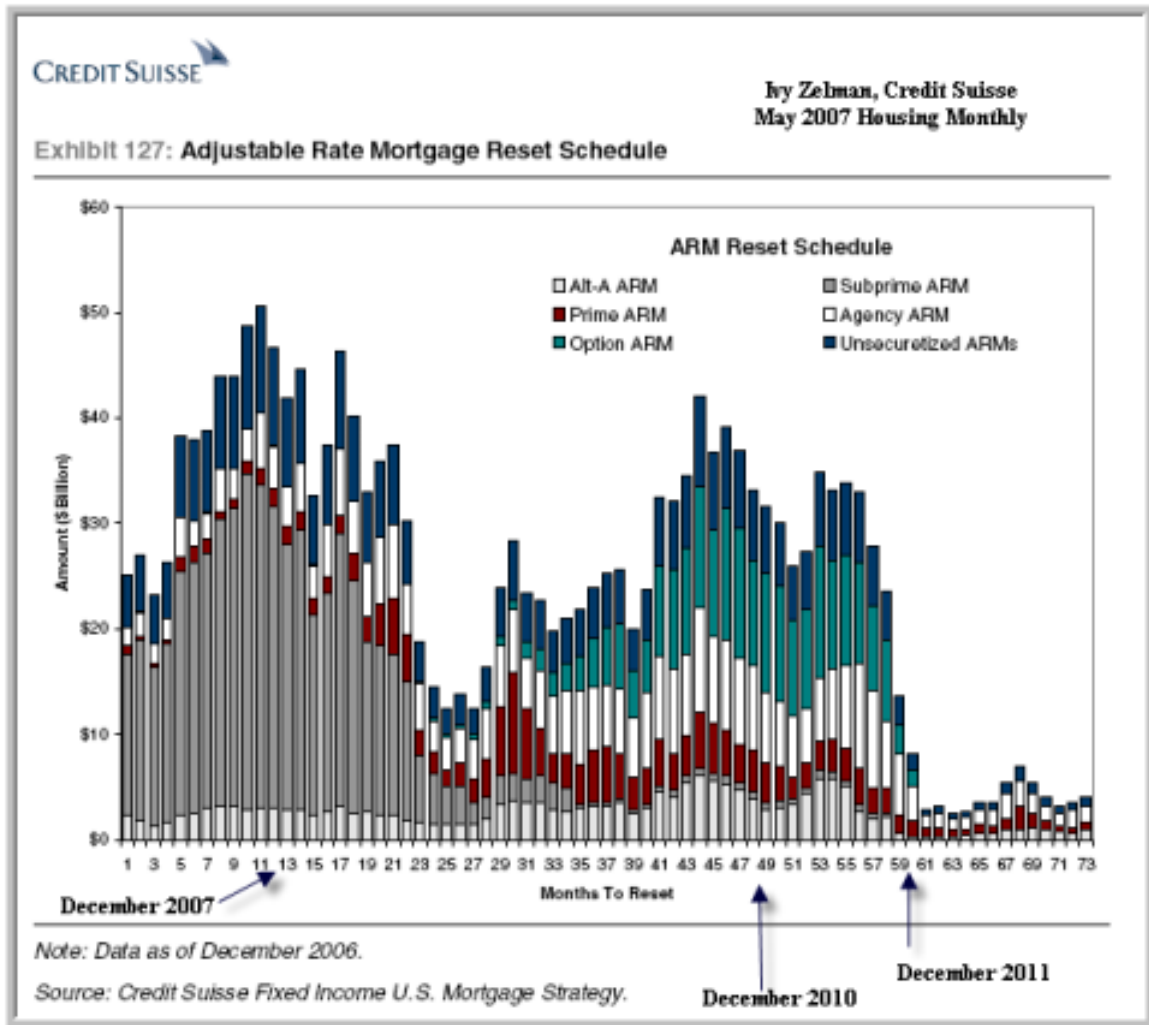
Enter the Federal Reserve. Bernanke and other Fed governors decided the time was ripe to act and cut rates 0.50%. Equity markets hailed the event as the cure all for things sub-prime or market upsetting. The Dow Jones soared recouping all of its losses in August and reaching a new all-time high in October.

Now that the afterglow of cutting rates has dimmed markets are beginning to take notice that despite the rate cut, mortgage delinquencies are still setting new records, the asset backed commercial paper market is continuing to contract and the mortgage backed security market is still frozen. I wish the issues raised in this Newsletter could be solved so easily by a small adjustment in rates.

The fundamental nagging problem the US economy is facing originates from housing. Thanks to the mortgage backed security market, trillions of investment dollars are tied to the US housing industry. These dollars are held widely by banks across the world. As foreclosures increase it has been putting pressure on balance sheets. Late summer saw many casualties with over 100 mortgage lending institutions going into bankruptcy and about one multi-billion dollar hedge fund closing its doors per week. I believe that the reason for markets turning more bearish since the Fed cut rates is rate cuts do not have a material effect on the core issue: rising mortgage defaults.

Below is a repost of the value of adjustable rate mortgages that will reset to market rates. The credit market horror show is one that is not going away quickly. This month, November 2007, will see over \$50 billion in mortgages reset. The high rate of resets does not truly subside until October 2008. The most problematic is the large number of sub-prime and Alt-A mortgages that are resetting. These mortgages are what fueled the housing boom in its final years and are the ones laden with the most fraud. The market has affectionately labeled these loans as "Liar Loans" or "Ninja Loans". The term Liar Loans comes from mortgage originators taking applications at face value, not checking the

truthfulness of the loan applicant. The other, Ninja Loan, is just an extreme version of the Liar Loan standing for **No Income, No Job or Assets**.



My intention is to not bore you with a lengthy discussion about the often over-played problem in the housing or credit markets, but to set the foundation of how all of this affects the US Dollar (USD).

The US economy has been able to attract foreign capital easily even though it has an enormous annual current account deficit. Roughly \$70 billion per month of foreign investment is required to balance payments for the trade imbalance and for the outflow of US citizen capital investing overseas. Foreign investors have been willing to put their money here due to highly liquid equity and bond markets, and because the US market is one of the most highly regarded in the world.

As mentioned earlier, many of the mortgages originated in the end of the housing boom were to low credit rated borrowers. US investors had been largely tapped out after buying trillions in mortgage back securities. Wall Street needed ways to

sell sub-prime mortgages to a new pool of investors. Foreign investors had participated in mortgage back securities but were largely an untapped investment pool. Many foreign institutions have in their charters to only invest in AAA credit grade investments. Wall Street put their heads together working with credit agencies to find a solution and viola; they found one. Investment banks decided to package together high grade and several low grade mortgages. With the credit agencies corroborating with them, now sub-prime mortgages could be bundled together such that the resultant investment package had an AAA rating. Foreign investors flocked in droves to these new AAA, high yield securities. After all, the highly regarded investment banks said they were AAA instruments and the US housing market was booming with little to worry about; until the housing market slowed.

Now what foreign investors have found out is the highly regarded US marketers were selling them toxic waste in a nice pretty package. Several banks and hedge funds from Germany to Australia have gone under. The mortgage backed security market continues to be largely frozen with little money coming into the market. The ABX index that tracks that market has some credit grades selling for under 20 cents on the dollar, where earlier in the year they were over 90 cents on the dollar.

The realization by foreign investors that they were duped into buying illiquid junk is striking at the very heart of why they put money here: confidence in US markets. I believe Goldman Sachs, Bear Sterns, JP Morgan et al may have done serious damage to our reputation with the rest of the world. Foreign investors have largely over-looked Enron, Worldcom and our military excursions as they have not affected their bottom line. Now with tens of billions of losses being incurred this year with more likely to come, they are going to be more cautious and restrained about putting their money into the US.

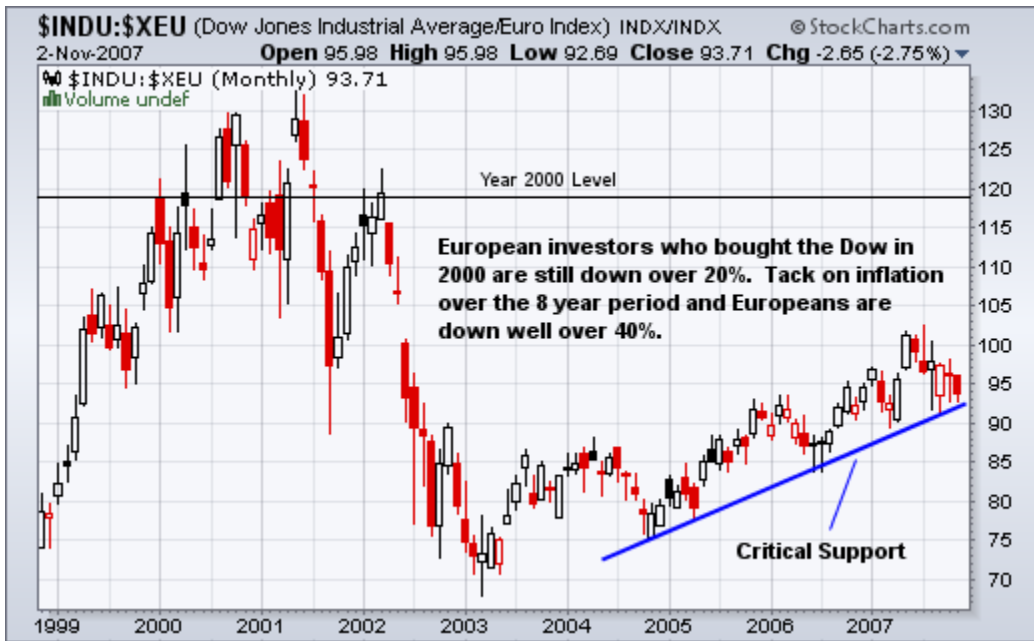
Recent data suggests that we have seen the beginning of the loss of confidence in our markets by foreign investors. Every month the US Treasury publishes the Treasury International Capital (TIC) report for the balance of payments between the US and the rest of the world. This data lags the time it is reported by two months. The TIC report for August came out showing that the US had a net capital outflow of a whopping -\$163 billion. Typically, this figure ranges from + \$50 to \$90 billion, covering the US trade deficit. Granted, August figures originated at the height of the mortgage backed security problem, however there are alarming details in the data. China and Japan have relentless purchased US Treasury Bonds in an effort to devalue their currencies. About a year and a half ago, Japan halted pouring more money into US bonds. China for the most part continued to increase their holdings in Treasuries until now. August's TIC data shows that both these countries were large net sellers of US Bonds.

Not many people realize this but the US Dollar (USD) has recently made new life-time lows against the major currencies in the USDX. The US currency had

been tied to gold and silver throughout its history until August 1971. President Nixon cut the tie to gold establishing the USD's value to a floating basket of currencies. Hence, the USD went from being backed by a finite, rare metal to that of confidence by a stroke of a pen. The USD for the last few years had been supported by currency traders due to its higher interest rate differential relative to other countries. Bernanke's capitulation to saving Wall Street in cutting interest rates 50 basis points has seriously undercut the US Dollar. The following is the chart of the widely followed USDX.



What is remarkable is the rapid drop in the USDX through 36 year support just below 80. Most Americans are more likely to yawn at this event but I believe it may become the most important issue for the US in coming months. The US has enjoyed very low interest rates for many years largely due to foreign buying of US bonds. We have discussed damaged confidence in US markets by the sale of junk, pseudo AAA securities. However, the fall in the USD has created problem in bonds. Any European that has purchased US Treasury bonds since 2002 has lost money because the face value has declined more rapidly than the interest accrued. Loss of capital due to the falling USD is not only confined to Europe but many other parts of the world and in particular for Australians, Canadians and New Zealanders, who have had enormous increases in their currencies. The following two charts show the performance of the Dow and US 10 year treasury bonds denominated in Euros.



The risk to the US economy from a falling USD is likely to come from bonds. There will come a time when the fall in the USD has gone too far and will create a dollar crisis where the USD drops in a panic driven fashion. This is where I believe that capital losses suffered by foreign investors will hit a breaking point and a wholesale capital exodus from the US begins. What will stem a flight out of US debt instruments is a rapid rise in interest rates. The 10 year bond yield will have to increase to compensate foreign investors for the currency exchange loss of the face value. Rising 10 year bond rates will translate to a rise in mortgage, auto and credit card rates. It's not much of a stretch of the

imagination that this will further exacerbate the housing and credit market issues already present, compounding a slow down in the US economy. All of this leads to a vicious cycle of a lower dollar, higher rates and slower economy; otherwise known as stagflation.

This is why I believe the fate of the USD is one of the most crucial issues to affect the economy. I would highly encourage any investor to tune themselves into the fortunes of the USD. We certainly cannot rely on economic pundits or officials to give us the true health of the economy; they already failed miserably earlier in the year with the "sub-prime is contained" rhetoric. The direction of trade of the USD will speak volumes as to the confidence of foreign investors in the US, which lately looks pretty weak.

Money can be made in several ways to take advantage of the falling USD or even a currency crisis. Many such strategies include advanced trading approaches such as buying foreign currencies, shorting US Treasury Bonds or market indexes, or trading commodity futures market. Taking advantage of a falling USD for most investors is fairly confined to foreign mutual funds, commodity funds, base metal and precious metal stocks. I have had many people ask me if they should just put their money into foreign mutual funds since they would get the foreign exchange gain on top of the funds performance. While this is quite logical thinking, my answer has been to avoid foreign mutual funds. The reason is quite simple. Foreign markets usually magnify returns of US markets. As the Dow falls, foreign markets tend to fall more and conversely, foreign markets tend to rise more when the Dow rises.

Base metals such as aluminum, copper, zinc etc. are widely recognized with the commodity group to be good investments during dollar weakness. You can see this influence by looking at commodity indexes which began to move up in 2002 (after the USD peaked). These indexes are virtually hitting all-time highs on a weekly basis. Most investors would think the good times will continue particularly with a sudden fall in the USD sparked by a currency crisis. My answer is probably not, at least at the beginning. I have often warned that Wall Street will go out of its way to sell off commodities. What I have observed is when the Dow gets a sniffle, base metals get a cold. When the Dow gets the flu, base metals get down right slaughtered. The reason for this is the thought process that a fall in the Dow directly means economic activity is slowing and therefore base metal demand is falling. Base metals should after an initial slide and following the broader market down, begin to decouple from them and move higher.

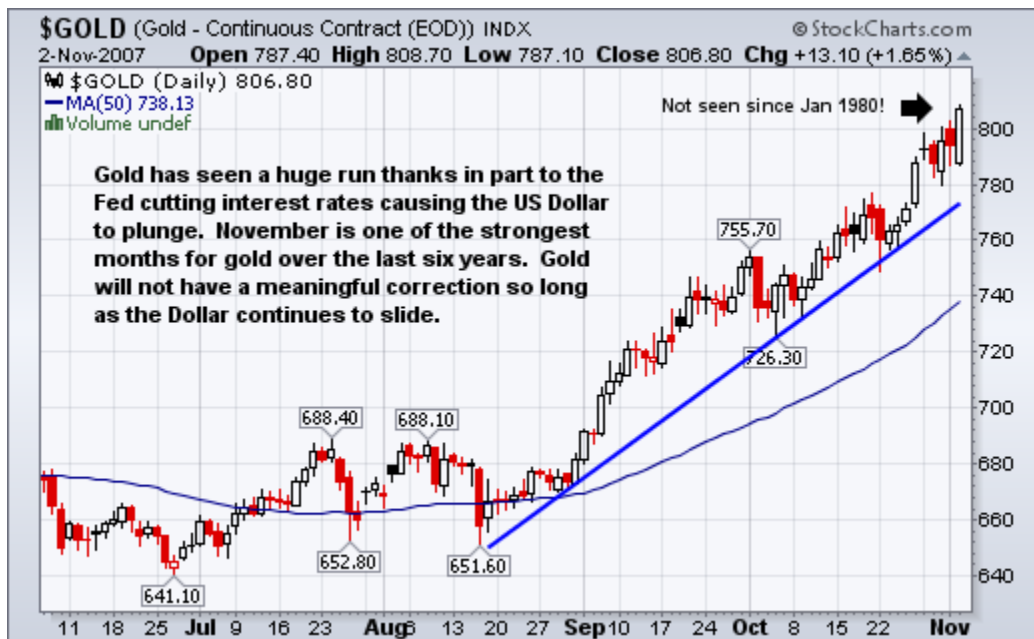
One of the most sensitive commodities to a falling dollar are precious metals. Silver is primarily an industrial metal with some tie to a falling dollar. Platinum is a very rare, industrial metal also used some as an indirect hedge against a falling USD. Gold is the widely acknowledged counter investment to a falling US Dollar. Strong physical demand from the Middle East and Asia has created solid support for gold. The metal since late summer has broken out to the upside in many

currencies and its rise is not merely a function of being the “anti-dollar”. However, its day-to-day price direction is reflected in the strength or weakness of the dollar. I believe gold has broken out in many major currencies reflecting an investment countering wholesale debasement of currencies around the globe. Many nations are expanding their money supplies at 10% or more (including the US) per year. What will happen in a currency crisis is gold will rise and likely rally strongly. Gold stocks unlike the metal will likely follow the broader market down at first because traders tend to sell everything then ask questions later. Gold stock weakness should be shallower and have a shorter duration, than any other equity class. This is the sector you should seriously consider going forward.

Precious Metals Market

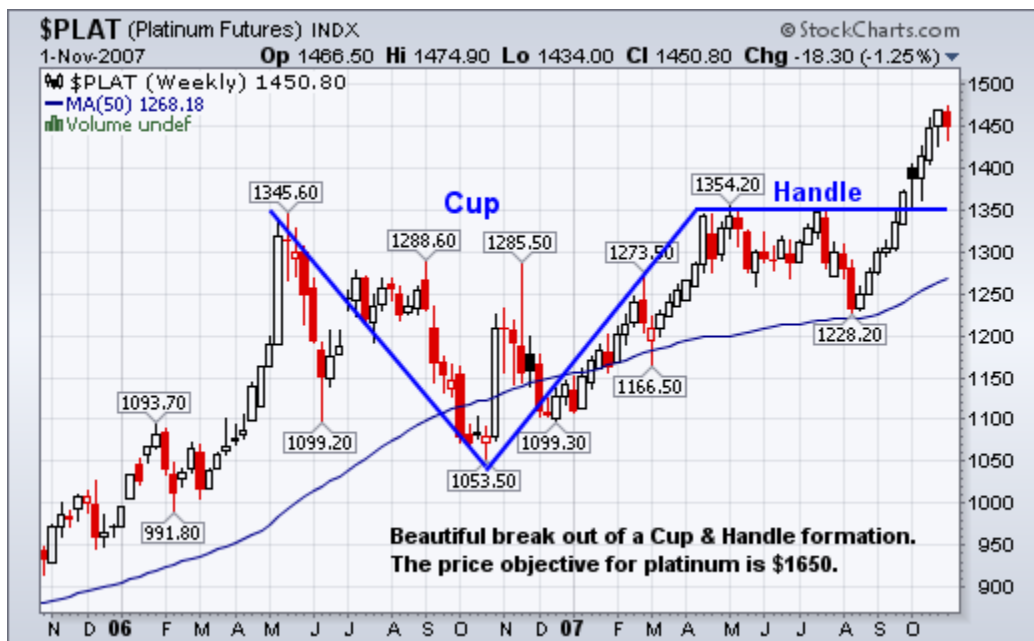
All three major precious metals, gold, platinum and silver have soared since August. I noted the Fed and other Central Banks were preventing gold from breaching \$700. There was a consistent increase of European Central Bank sales every time that level was approached. What has tipped the scales is the Fed's easing of interest rates causing the US dollar to fall constantly for the last few months. In fact 10 minutes after the Fed cut rates, gold blew through \$700 and has not looked back. While a falling dollar sets the direction for gold it does not create the order of magnitude for which it rises. Gold has broken out in several major currencies as buyers around the world realize that in order to strengthen the dollar; their own currency has to be trashed. What we are seeing is an explosion in global liquidity and gold in particular has been a big beneficiary. Market turmoil emanating from the credit markets is also underpinning gold recent move.

Gold's trading behavior has fundamentally changed in the last three months. It used to be that gold bullion banks would sit on the price by feeding the market all of the gold contracts it wanted, and then pushed gold down abruptly causing panic selling and a huge drop in price. New market participants have now entered the fray and any engineered sell off is being met by a wall of solid buying. Open interest (i.e. number of open outstanding contracts) is at an all-time high. The gold shorts have been losing theirs as they are underwater well over \$2 billion since gold began its run in August. Gold bulls presently have control of the market and continue to make road pizza of any sellers in their path.



Friday gold closed over \$800 for the first time since 1980 with little fan fare. I was anticipating gold testing \$800 in 2007 but not this early in the year. Gold for the last several years has moved the most in November. Long term technical charts indicate that closing over \$810 for a few days will bring in a strong likelihood for a test of the all-time high of \$875. Should the US dollar find its way to a major currency crisis, it's not beyond the realm of reason that gold will blow through \$1000.

Platinum as expected has followed gold up since August rallying over \$200. There have been several supply side problems taking small but numerous bites out of production from several producers. The platinum market is fairly opaque in terms of actual supply and demand figures. Johnson Matthey is a refiner of precious metals and will be coming out with their report on the platinum market soon. This respected report may show a large platinum supply deficit and cause prices to surge further. The chart for platinum is simply superb with the price breaking through the handle of a Cup & Handle formation. The price target of the pattern is the depth of the Cup plus the price of the Handle, which equals \$1650.



Silver has been the laggard this year. Part of the reason may stem from the fact only 8 trading institutions make up more than 80% of short contracts. There is very strong evidence that collusive trading has kept silver in check for many years. While gold continues to make 3 decade highs, silver continues to trade as though a boat anchor is tied to it. One key observation is back in 2005 when gold made its stunning move from \$440 to \$730; silver's price explosion lagged about two months behind, eventually rising substantially and more than gold's in terms of percentage.

Silver is trading just below major resistance at \$15. Gold is dragging silver kicking and screaming upwards. A key technical event will be when silver closes over \$15. Trading funds will pour into the metal in droves. One reason is it will be an event not experienced since the early 80's. The primary reason for funds pouring in is that the chart pattern measured price objective is \$20. Considering each silver futures contract represents 5000 ounces, the profit potential is a staggering \$25,000 per contract for a move from \$15 to \$20/ounce.

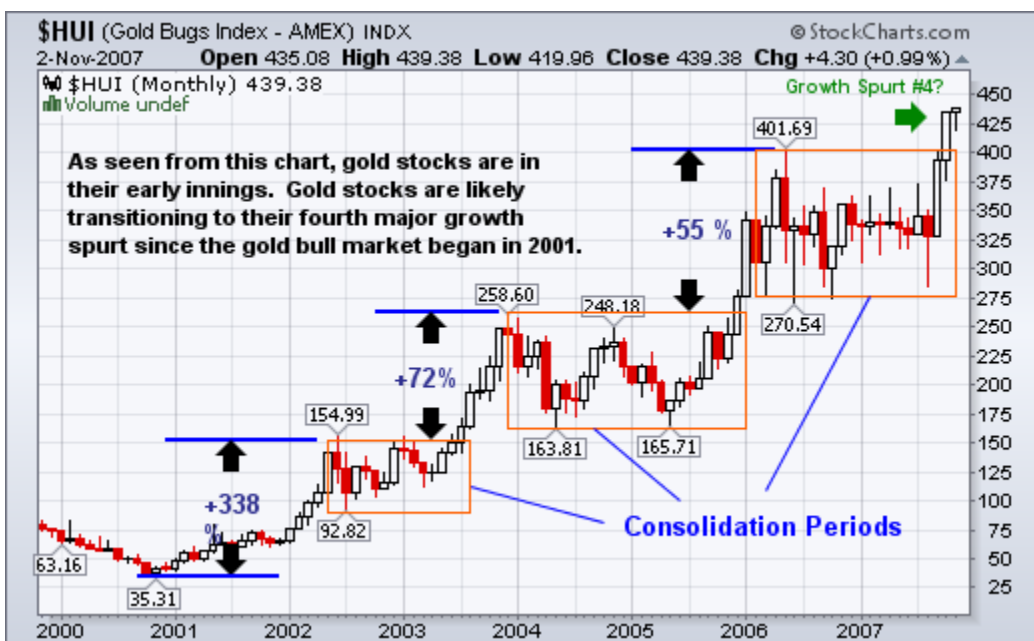


Gold and Silver Mining Stocks

Precious metal stocks have roared since their August lows. The HUI, an index of gold and silver mining companies, has blasted up almost 160 points and has broken severe resistance at 370.



Many readers probably feel they have missed THE move in precious metal stocks, but in actuality the party is only getting started viewing it in historical terms. The following chart is a historical picture of the HUI since the gold bull market began in 2001. There have been several growth spurts followed by long consolidation patterns digesting the substantial gains. Each growth spurt has moved approximately 125 points for each of the three that have occurred. What is clearly indicated in the chart is the most recent move in the HUI is barely underway.



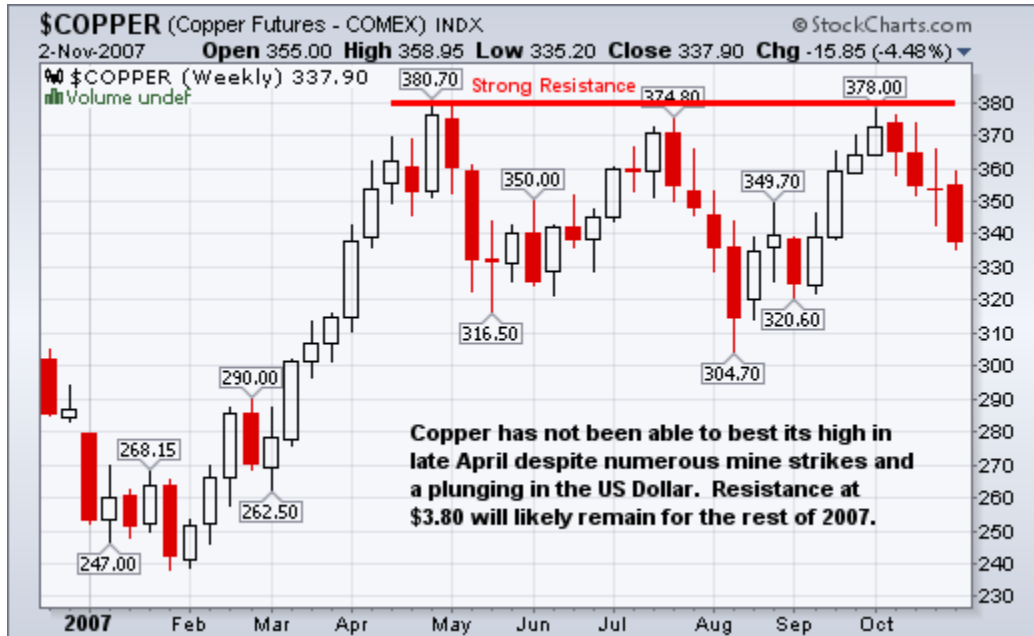
I believe one reason the HUI has not moved in earnest recently is because of the gold advisor community. Just like in 2005, all sort of newsletter writers have been calling a gold top and are expecting a correction to \$700. They have been saying this since gold was \$740 and their clients have been largely out of gold stocks since then. It has been said bull market moves fight a wall of worry and this is a classic case here. Once investors begin to realize they are missing a major move, then the HUI should begin a spectacular climb like it has several times before. A higher valuation for gold miners is justifiable considering gold is trading \$130/ounce higher today in Q4 than the average for Q3. The earnings magnification for this type of move is immense for a gold producer and particularly gold majors.

This discussion has mainly focused on gold mining stocks but I need to address silver stocks also. I think there is high likelihood silver will break its major resistance at \$15. Silver could propel to \$20 if gold was to find its way to \$900. Silver stocks are the "internet" equities of the mining sector. Silver company's price to cash flow multiples are higher than that for gold or any other metal. Once silver stocks begin to move, they result in eye popping returns making those gains in gold or platinum stocks look like chump change. I believe you should seriously consider adding silver miners to your holdings while enthusiasm remains subdued.

Base Metal Review

Copper Market

Copper topped out nearly the exact same time as May 2006. The price has been stuck in range bound trade for the last seven months unable to overcome resistance at \$3.80. Copper has had a very positive backdrop for it to push through resistance and establish new highs: several mine strikes, large drop in copper production from the world's largest copper mine and a plunging dollar. Instead it has traded much the same way as it did in 2006.



LME copper storage, which essentially establishes world prices, hit a low late July as I expected and has been increasing relentlessly higher. The chart below is of the 5 year LME copper storage. Noted on the chart is that peak storage levels for the last two years has occurred in the spring. Copper storage has increased in the second half of each of the last two years and looks to be repeating the trend in 2007. The rise in storage from July 2006 to early March of 2007 corresponded to copper dropping from \$4 to \$2.50/lb. Presently copper storage levels are roughly 30,000 tons higher than this time last year. This could be the result of reduced copper demand in the US from the slowdown in the housing sector.

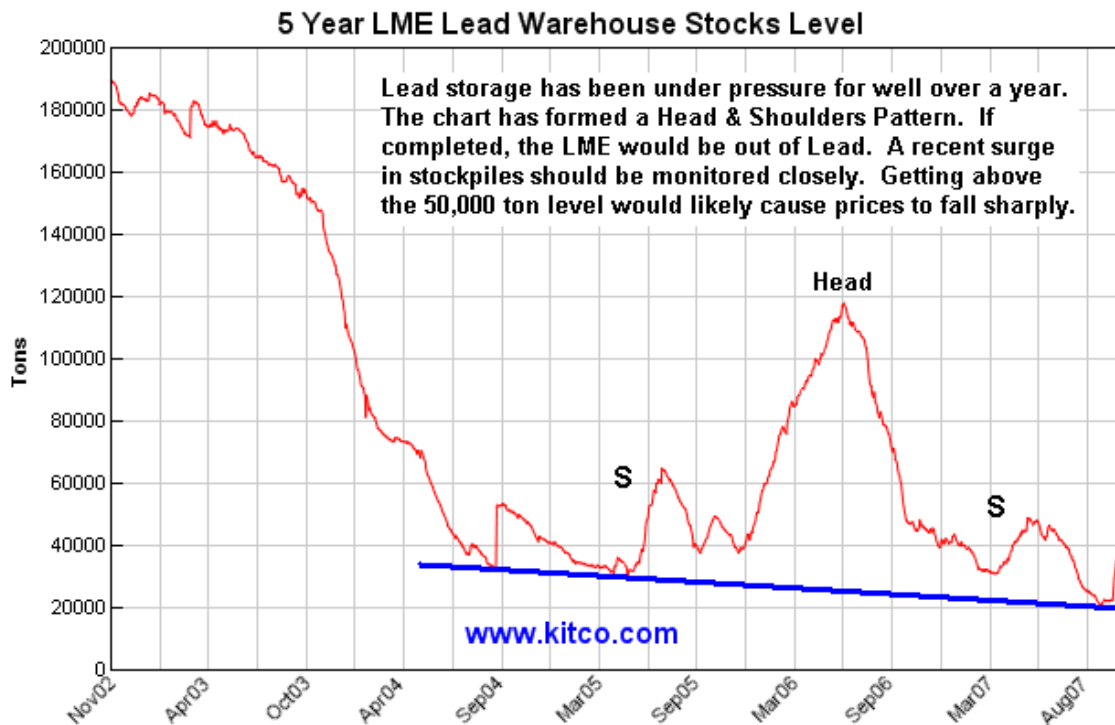
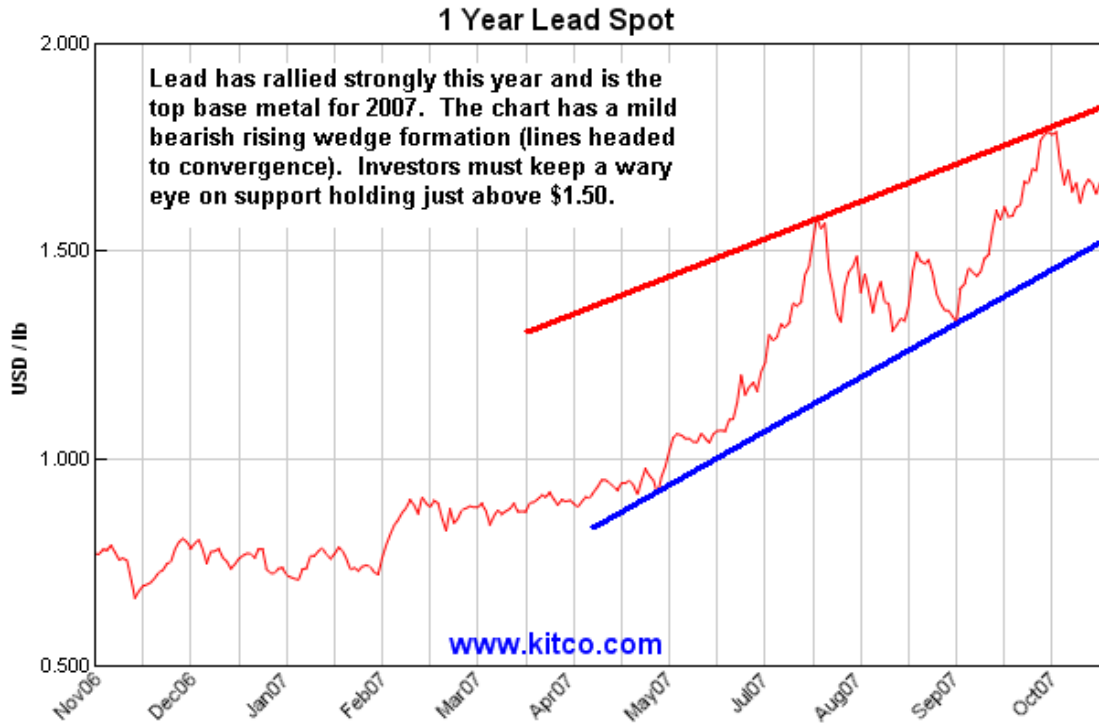


I have now moved from my neutral sentiment to bearish on copper for the near term. There are too many bullish factors that have occurred to not have seen copper respond price wise. I could be convinced otherwise if a major negative supply side event occurred. My guess is if a US Dollar crisis was to occur; copper will be one of the first base metals to get creamed. The logic (?) would be that the US economy is headed for a recession and therefore copper should fall. I'd also like to see how the US housing market is affecting copper. We all know China and India have voracious demand for the metal but will they be able to keep global demand strong while a major consuming country pulls back?

Lead Market

Lead has risen in a spectacular fashion this year and is shown in the chart below. The price has been trading in a slight wedge channel for the last six months hitting a life-time high early last month. The price has been supported by falling LME storage and continued news that Ivornia, responsible for 3% of the world's Lead supply, still cannot ship metal. Thus far, Lead's price action is still bullish and could make a retest of its high. At issue is a recent surge in Lead inventories on the LME. It could be a very short term spike from a user selling inventory back to the LME at its elevated price.

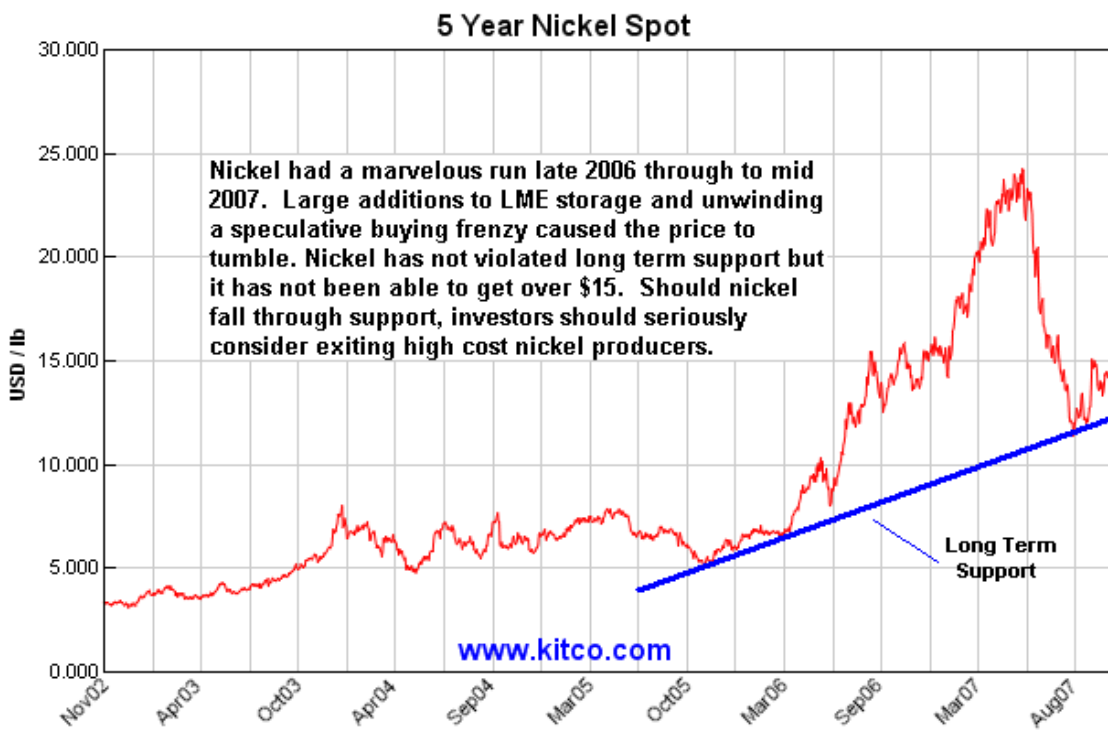
Fundamentals remain solidly firm so long as Ivornia continues to have production shut in due to an inability to ship Lead. Here lies the risk for Lead. I believe the price spike this year has been strongly influenced by the absence of Ivornia's production. If they begin to ship Lead again, it may tip the psychological balance for traders and cause the price to fall substantially.

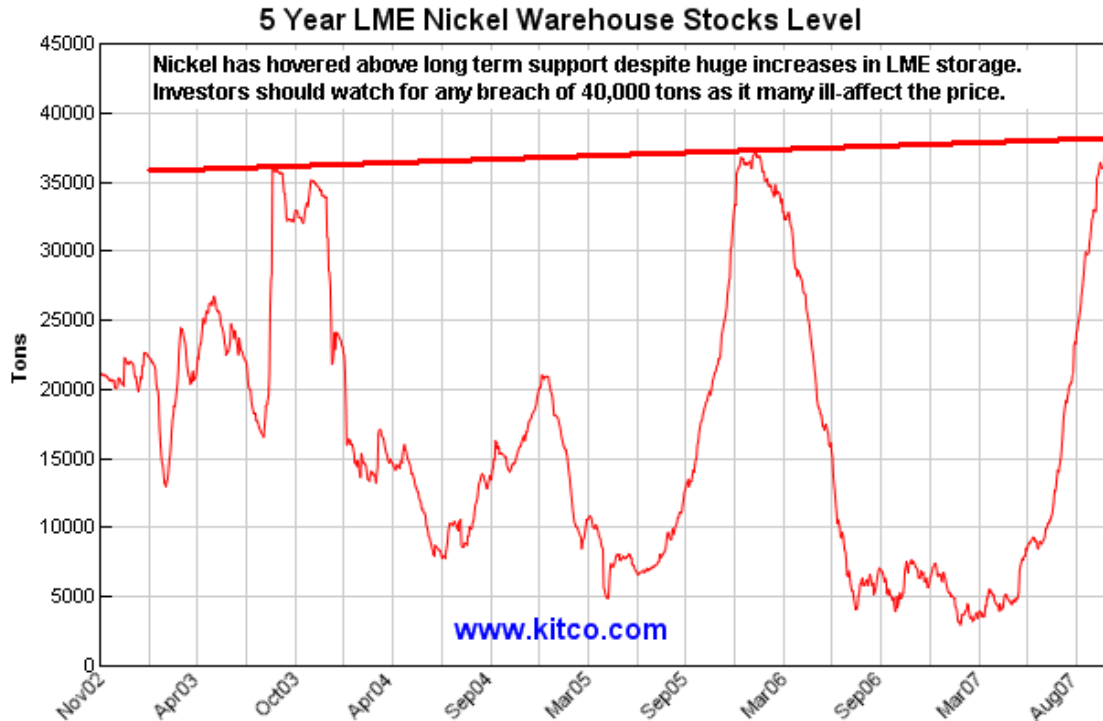


I remain firmly bullish on Lead as continued demand for automobiles in Asia will continue to pressure supply. There are some risks such as Ivernia resolving their shipping issues and de-stocking from users to earn extra income after Lead has exploded in price. We have to keep a keen eye on LME inventory for clues if the recent spike will be short lived or a beginning of a new trend.

Nickel Market

Nickel's price has held up well since August. There has been a dramatic increase in storage levels over the last several months, which looks eerily similar to 2005. July through late winter has for the last several years been where nickel storage has increased. Some of the large increase in nickel could be attributed to users consuming inventory instead of going to the open market to buy expensive metal. LME inventories have to now be watched carefully, present levels are just under the 5 year resistance line. In light of inventory being at 5 year highs, the price has done remarkably well. Long term support resides at approximately at \$12.50. Keep this number in your head because if it falls through this level closing under \$12/lb, exiting high cost nickel producer stocks while be a prudent action to preserve investment capital.

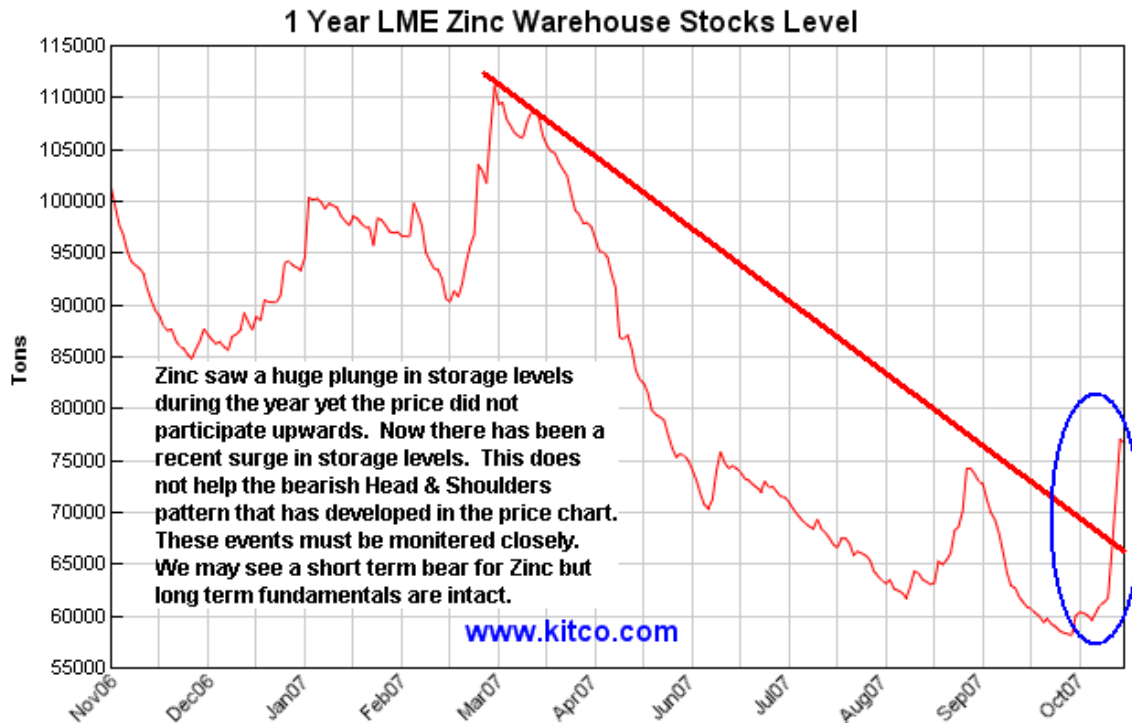
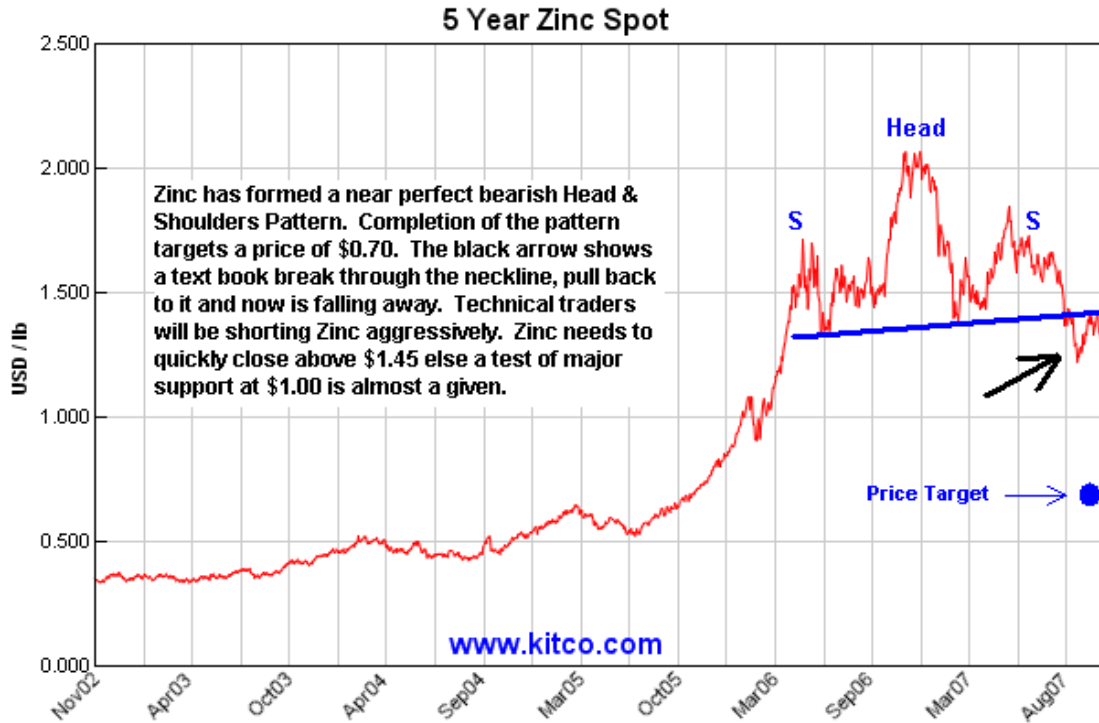




Nickel remains above price support although LME inventory increases have made me a little wary. I remain neutral on the metal and will only invest in miners who are producing now and have high growth profiles. The next six months will be critical for this market. More supply is coming online but the buoyancy of the spot price leads me to believe a tight balance between supply and demand still exists.

Zinc Market

What a difference a few months makes. LME storage levels were dropping in line with my expectations where I was looking for a price surge to retest the old highs of \$2.10. However, Mr. Market decided they would not bid up the price despite plunging Zinc supplies. Now the price of Zinc has formed a very alarming, well defined bearish Head & Shoulders Pattern. The price has punctured through the neckline, tried to get back over it and has failed. This development has made me rethink my bullish position on the metal. In fact, of all the metals mentioned here, Zinc looks like the weakest of them all. To add insult to injury, LME inventory levels have recently soared to levels not seen since May. Market observers have commented that Zinc producers have ramped up production in 2007 to take advantage of the high prices. We have always heard through the bull market in metals that gloom and doom were right around the corner with supplies swamping the market; yet this scenario has not materialized. I don't intend to join that camp but let the market give me clues as to the health of the Zinc market. From the price perspective, the market is telling us that expected supply is coming and further price weakness is likely.



I have gone from a ragging bull to one with serious hesitation. Head & Shoulders patterns are one of the most reliable technical indicators and followed religiously by technical traders. Surging inventory levels are certainly not helping the bull case. If you are over-weight Zinc producers, now would be a good time to reduce your exposure and find a new home for your capital.

Stock Recommendations

New recommendations will have the Company name highlighted in blue. A short description of each stock is given to make you aware of the company's highlights. Simple charts are presented to give a snapshot of the trading picture of each stock. Red is used to denote resistance and blue is generally used to highlight support. To the right of each Canadian listed stock, is the symbol US investors use to purchase the stock online.

I do appreciate all of the readers sending in stock investment ideas and some of those in this report are from reader recommendations. Several gold producers such as Eldorado Gold and Red Back Mining aren't included in my list due to their fully valued stock prices. Precious metal stocks are an odd bunch to evaluate. Some stocks are handsomely rewarded while seemingly a similar stock is grossly under valued. I like to use comparisons of gold stock peers to establish potential values of the stocks I'm evaluating. Eldorado and Red Back both have market caps well in excess of their peers who produce similar levels of annual gold production. In fact, their market caps are more than double that of Golden Star Resources, who will have 2008 production significantly higher than Eldorado or Red Back.

In the Gold producer section, I have one platinum producer just to place it in a category. I'd like to add more platinum producers in my recommendation list but hesitate for now since few actual producers are traded in the western hemisphere and/or are illiquid. Most platinum producers are listed in Australia, London or South Africa. Like many Canadian stocks, there are proxy symbols US investors can use to get at these markets. I have heard complaints of spreads between bid and ask can be huge for overseas platinum stocks and market makers take a chunk off the top. This Newsletter is read by all types of investors from beginners to seasoned professionals and I want stock recommendations here to be reasonably accessible and come with my confidence they will do well.

All base metal recommendations come with a certain level of trepidation considering the short term deteriorating price and supply fundamentals. These developments have to be monitored closely particularly what has been going on with Zinc recently. My advice for you is to not have your entire portfolio in base metals at this time but at least some level of exposure to the more promising miners. I would certainly not be over-weight a base metal stock where the company is not producing within the next 6 months.

Precious Metals – Gold Producers

1) **Dundee Precious Metals (DPM.TO, DPMLF):** Dundee has the most unique business of all the gold producers in this report. They were founded by precious metal mutual fund managers a few years ago. Gold operations and mine development in Bulgaria is funded by their appreciable earnings from gold mining equity investments. Dundee should make well over \$1 per share earnings in 2007, primarily coming from their investment portfolio. The company is guiding 130,000 ounces gold production at a cash cost of \$55 (net of copper credits). Dundee is largely off the radar of investors; just the way I like it. Today, their income is derived via investments and their one Bulgarian mine. They have two promising properties in Bulgaria where they could bring their total production to 300,000 ounces gold per year fairly quickly. The biggest hurdle they are facing is iron curtain style political issues. A minister in the Bulgarian government refuses to let the company go forward with their other Bulgarian properties. Dundee has initiated legal action against the minister and his department and won before the Bulgarian Supreme Court earlier this year. Yet, the minister still refuses to comply. Dundee is now bringing this matter up to the European Union to enforce their rights in Bulgaria. My take is it's only a matter of time and Dundee will get their permits. I suspect the minister was probably looking for kick backs and Dundee refused. Consequently, he has stood in the way even going against his Country's Supreme Court. While this issue looms over the stock near term, I believe it has excellent potential for significant gains going forward. The number of gold companies earning over \$1 per share are very few. Company Website: www.dundeepreciousmetals.com

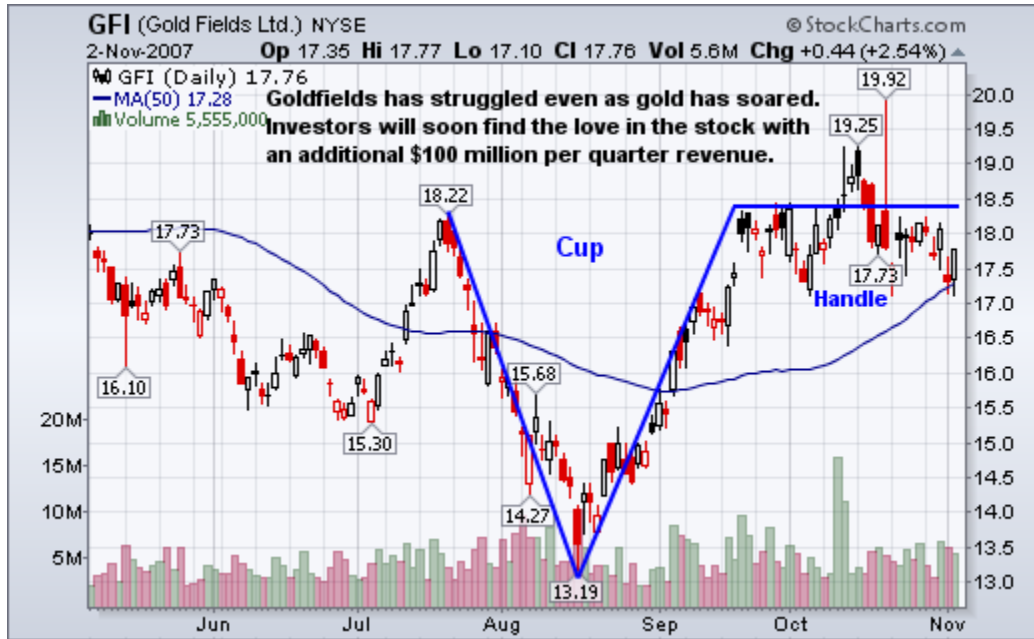


2) **Eastern Platinum (ELR.TO, ELRFF)**: Eastern Platinum based upon its industry's valuation metrics is severely undervalued. Platinum miners are difficult to own/buy because most are only listed in London or South Africa. Eastern Plats is listed in Canada making it easy for US investors to trade. Operations have been disappointing this year. The cause is from management intentionally performing non-productive mine development. They have been doing this development to be able to achieve sustained high levels of production. ELR has smart management a relative rarity in the mining sector, although they seem to believe it from their generous granting of stock options.

Eastern Plats is set to rapidly increasing production and expect to be producing 185,000 ounces of platinum in 2008 followed by 320,000 in 2009. Thus far Eastern Plats stock has done very well in 2007 and is flirting with all time highs. Soaring platinum prices will increase interest by US investors for which Eastern Platinum should benefit greatly. Company Website: www.eastplats.com



3) **Goldfields (GFI)**: Goldfields is a profitable major gold producer with annual production of approximately 4 million ounces. Their cash costs to produce an ounce of gold are high around \$450/ounce. This company has seen its stock lag due to its operations in South Africa. Two poorly run South African gold miners, Harmony and DRDgold, have weighed on Goldfields due to their exceptionally poor performance. I am recommending Goldfields now because its high leverage to the price of gold. Each \$100 increase in the price of gold adds \$400 million in gross annual earnings. Company Website: www.goldfields.co.za



4) **Golden Star Resources (GSC.TO, GSS):** Golden Star has declared production with their Bogoso sulfide expansion project. GSS Q2 production was 42k ounces and Q3 came in at 70k ounces. They have made significant strides starting up their project and Q4 production may be as high as 110k ounces. The stock was hit recently as the company issued convertible debentures raising capital to refinance an existing debenture and to finance road construction to a high grade property. The road will be operational around Q3, 2008 and GSS should be producing at an annual rate of 600k ounces by the end of 2008. Of all of the mid-sized and major gold producers in this update, GSS is the only one with a realistic shot of tripling by this time next year with a stagnant gold price environment.

I want to comment on the recent price weakness in GSS, which I believe is caused more by its history instead of Golden Star's present/future. GSS was a high flier back in 2003 going from \$2 to over \$8 in less than six months. The reason was they were beating earnings estimates and had a new mine to come online early in 2004. From early 2004 to this year, management continued to grossly over promise and performed miserably. The mine to come online in early 2004 wasn't up to full production and cash costs until 2006.

I hesitated on re-recommending the stock until this year. You may wonder why I would even recommend it at all. The reason is GSS has large reserves of sulfide gold ore in Ghana. Sulfide ore can't be processed via standard heap leach process where crushed ore is treated with cyanide to leach out gold. I knew GSS was finishing up a Biox processing plant. Biox technology is known to work for sulfide ores and working elsewhere in Ghana. Considering GSS management could not screw up a tried and true process and that the plant was close to being finished, I decided to make it one of my top gold picks for 2007.

Any short seller that sold GSS shares every time the stock price approached \$5 has made big bucks for the last three years. GSS management with their bungling guidance has repeatedly rung the dinner bell for shorts. People being creatures of habit and being fed so well on the short side for so long, have set up a distinct pattern with how GSS stock trades. Prior to the Q2 earnings release GSS sold off sharply. The release came out showing no unpleasant surprises and the stock rallied strongly. It consequently fell a few weeks later when the broader market was trashed. This coming Tuesday after the close is when GSS reports Q3. They have already pre-released production and earnings results. Despite these things being well known and gold soaring to a 27 year high, the stock has continued to slide. I believe short sellers are pressing the downside hoping for a big disappointment from management.

My expectation is there will be no major unpleasant surprise and it could actually be quite the opposite. GSS pre-released Q3 earnings at a loss of \$13.4 million, which is substantial but typical for a start up of a major mining process. Earlier in the month they showed the achievement of major production milestones which will result in much higher production and lower costs for Q4. I'm heavily invested in the stock and expect a bright short/long term future. Website: www.gsr.com



5) **Jaguar Mining (JAG.TO, JAGNF):** Jaguar's share price has roared this year and now may be fully valued. Recent trade in the stock leads me to believe someone is about to make a bid for it. Yamana could be a likely suitor since Jaguar is an emerging gold producer with mines located in Brazil. Their gold production in 2008 is expected to be 150,000 ounces, yet their market cap is a very high \$650 million. Jaguar has several projects in their pipeline and is guiding production in 2009 of 250,000 ounces. Jaguar is one to either hold or

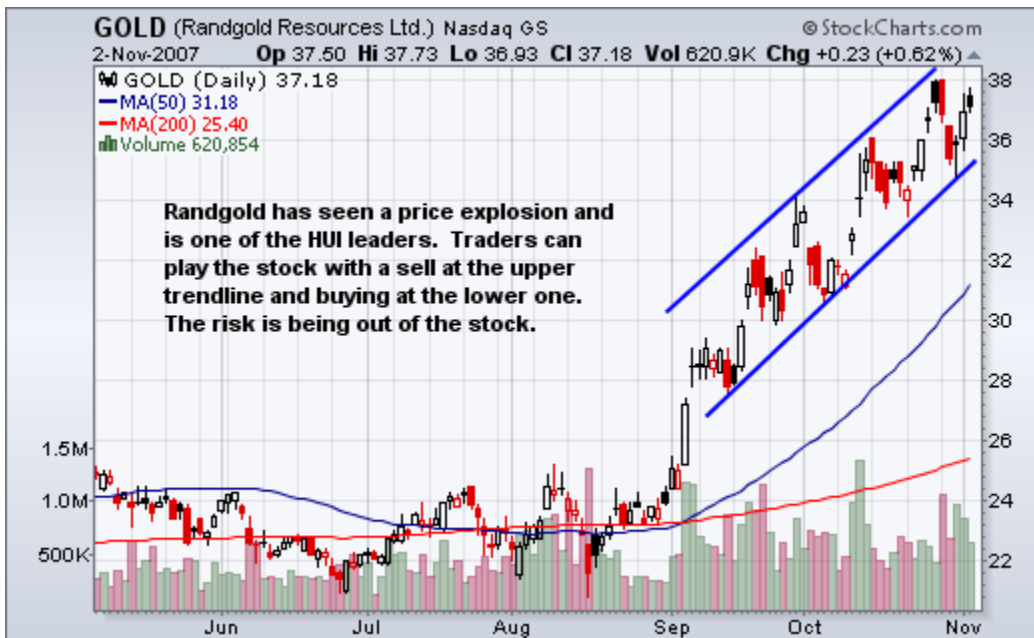
add on any significant dips. This is not a stock I see doubling from here over the next year unless gold goes over \$1000/ounce. Company Website: www.jaguarmining.com



6) **Kinross Gold Corp (KGC)**: Kinross gold production is growing the fastest of the major producers. Gold production for 2007, 2008 and 2009 is projected to be 1.7 million, 2.15 million and 2.65 million ounces, respectively. Relative to its peers it is presently under-valued by a factor of two. I should point out that Kinross just had one series of warrants expire and will have another series expire in December. What this will likely do is remove constant sell side pressure off the stock as warrant holders will not be able to play with the share price. I have seen stocks of several companies roar after significant number of warrants expiring. This could be the case for Kinross and may add handsomely to its already marvelous gains of late. Company Website: www.kinross.com

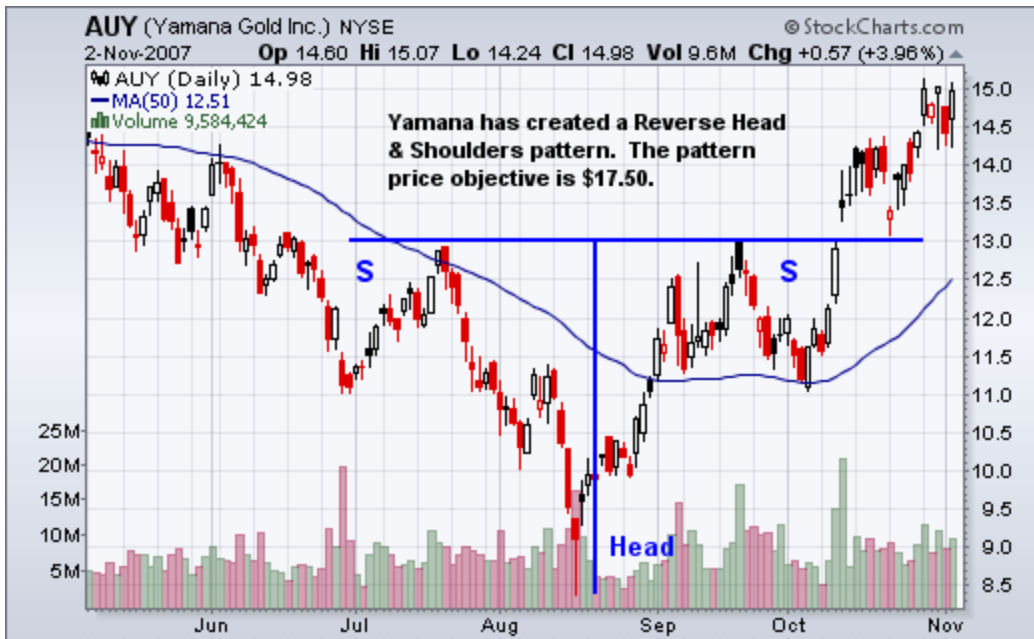


7) **Randgold Resources (GOLD):** Randgold has had an enormous run since August nearly doubling in share price. The stock is richly priced and I'd recommend holding or adding on significant dips. 2008 gold production should come in shy of 500,000 ounces at a cash cost under \$300/ounce. Company Website: www.randgoldresources.com



8) **Yamana Gold (AUY):** Yamana just successfully completed the takeovers of Meridian Gold and Northern Orion in October. I still have some reservations about the combination but it appears the market is embracing it. One of the headwinds facing Yamana's stock was being over-priced in terms of reserves and

resources. Gobbling up Northern Orion in particular has significantly increased their reserves bringing their valuation more into line with peers. The new Yamana now is projecting 1.2 million ounces of gold production for 2008 at a cash cost of -\$250 per ounce. At present gold prices, their earnings from operations are over \$1000 per ounce of gold sold projecting to be approximately \$1 billion cash flow in 2008. Their peer group currently fetches a price to cash flow (P/CF) multiple of 25. There is much more stock growth left in new Yamana. Company Website: www.yamana.com.

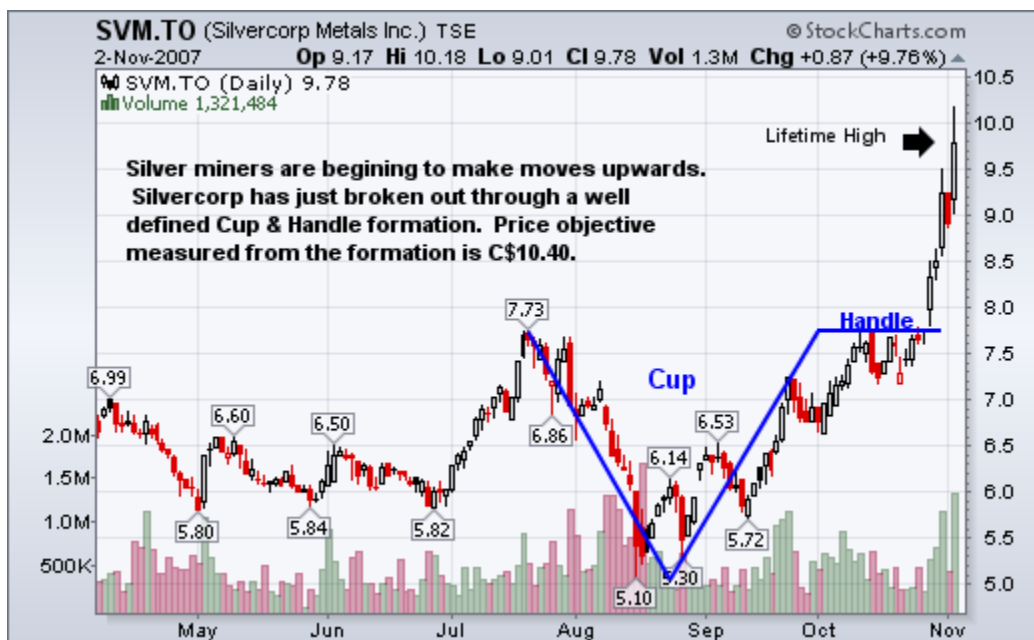


Precious Metals – Silver Producers

1) **First Majestic (FR.V, FRMSF)**: First Majestic is a rapidly growing Silver producer that still has not been rewarded by the market. The Company does not actively promote itself and being listed on the Canadian Venture Exchange probably has not helped. First Majestic 2008 production is expected to be over 6 million ounces of silver at a cash cost of \$6/oz. Their production numbers are up over 200% from last year, yet the stock is roughly at the same price. I use as one of my valuation tools for stocks comparing companies with similar production. Hecla (NYSE -HL) has a flat production profile of 6 million ounces per year for the next several years. Their market cap is \$1.1 billion. First Majestic's current market cap is under \$300 million. Where the mining industry is consolidating, First Majestic screams as a takeover candidate. Company Website: www.firstmajestic.com.



2) **Silvercorp Metals (SVM.TO, SVMFF)**: Realizing that Silver may surge in price relatively soon, I thought introducing Silvercorp a highly profitable blue chip Silver, Lead and Zinc miner was needed. All of their operations are in China where they are mining some extremely high ore grades. Using Lead and Zinc byproducts against costs, Silvercorp cash cost is -\$9.50 per ounce of silver produced. Guidance for the 2008 fiscal year (ending March 2008) is for over 3 million ounces Silver, 46 million pounds Lead and 18 million pounds Zinc. Silvercorp is well positioned to take advantage of surging Silver and Lead prices and should reward your portfolio handsomely. Company Website: www.silvercorp.ca



3) **Silver Dragon Resources (SDRG.OB)**: Silver Dragon has been one of the weakest performers of my recommendations since August. Although I am down over 30%, this stock is one of the most exciting in my portfolio going forward. Despite the weak stock performance, the CEO has been doing all of the right things to add value to the shareholder. The CEO and insiders own 20% of the 65 million shares outstanding. Inherent value of the company received a huge vote of confidence recently when Silver Dragon raised money to fund operations. The share price was trading at \$0.55 when the financing was announced. The 1 million shares issued were purchased at a price of \$1 representing an 80% premium. Some share purchase warrants came with the deal.

Silver Dragon is what I call an incubator stock. It has tremendous growth potential, but it will take time to be realized. The company has properties in China and Mexico. Mexico was to be in production in 2007 but Silver Dragon postponed it due to high exploration results other than those identified to provide ore to their mill. That property should be set into production during 2008.

I tend to avoid exploration companies because you are hoping someday they will find an economic deposit of minerals. What makes Silver Dragon very compelling is they have about 360 million ounces silver in the ground. Only 40 million ounces are in 43-101 compliance (Canadian standard widely required by the market). Approximately 320 million ounces are Chinese 122b inferred. Silver Dragon is busy doing the geological work to bring the 320 million ounces to 43-101 compliance. So you say big deal? It is a real big deal! The market pays \$3 per ounce in market capitalization. Should all of these resources come into 43-101 compliance, implies a market cap target for Silver Dragon of \$1.08 billion (share price \$16.60). Company Website: www.silverdragonresources.com



4) **Silver Wheaton (SLW):** Silver Wheaton since its inception has continued to increase silver production. The combination of high silver prices and increased production has made Silver Wheaton one of the most profitable in its industry. They are guiding 17 million ounces in 2008 increasing to 25 million ounces in 2009. Silver Wheaton commands a tremendous cash flow multiple of over 35. Silver companies get the highest cash flow multiples in the mining industry. The stock has had a tremendous run up with silver lagging the precious metals complex. Should silver catch a bid heading towards 20, Silver Wheaton will likely double. Company Website: www.silverwheaton.com



5) **Sterling Mining (SMQ.TO, SRLM.OB)**: Sterling has been on my radar screen for about two years. Sterling owns one of the most prolific silver mines in US history. Located in Idaho, the mine has operated for 100 years producing over 360 million ounces. Sunshine was closed in 2001 due to poor economics caused by low silver prices. For the last few years, the company has been preparing the mine for startup operations. Initial production is slated to commence in December and should be producing at an annual rate of 4.5 million ounces per year in mid-2008. Their average grade is about 24 ounces silver per ton with over 10 years of mine life left plus plenty of exploration potential. Sterling just raised \$24 million cash in August and now trades on the Toronto Stock Exchange. What is particularly compelling about Sterling is their market cap is only \$140 million making it a great candidate for tripling by the end of next year. Company Website: www.sterlingmining.com



6) **UC Resources (UC.V, UCRLF)**: UC Resources is a micro-cap silver and gold producer with a market capitalization under \$60 million. I calculated at full production they will produce 1.3 million ounces Silver and 14,000 ounces Gold. Silver producers of 1 million ounces typically fetch a market cap of \$80 – \$100 million. The CEO, who has now resigned, has been promising full production capability by the end of the year, which is not going to happen. They should be able to move into production in 2008.

An opportunity has fallen into UC's lap. They signed an earn in agreement with two very small companies. These two companies have properties at McFauld's Lake in Canada. UC can acquire 55% interest by actively exploring their properties, meeting predetermined progress milestones. Normally, I would not assign any value for unknown exploration potential, but this is a different case. One of UC's neighbors at McFauld's, Noront (NOT.V), hit what appears to be a

mother lode. They have found high grade Nickel, Palladium, Platinum and Zinc ore. Noront's share price was C\$0.35 before the discovery was announced and has hit a high this past week of C\$7.00.

UC has an inherent value of C\$1.00 based upon their Mexican property. McFauld's Lake exploration potential is the whip cream and cherry on top. UC has discovered high grade copper and zinc in several drill holes. Their VP of exploration also sits on Noront's board. UC recently raised capital with the intent of intensive exploration on their McFauld's properties. They have said recently they are soon going to drill "Noront like signatures". Considering the VP is on Noront's board, he will know exactly what to look for in placing their drill rigs. Should UC over the next year identify ores similar to Noront's, the stock could easily rally 5 to 10 times its present value. Company Website: www.ucresources.net



Base Metal Stocks

The stocks in this section produce Lead, Nickel and Zinc.

1) **Acadian Mining (ADA.TO, ADGLF)**: Acadian is a Zinc and Lead producer with about 500,000 ounces of gold resources. They accelerated the start up of an old mine to take advantage of strong Zinc and Lead prices. Acadian will use the cash flow from that operation to fund gold mine development, which is a very smart move. The stock has not performed to my expectations this year. It trades as though it has been targeted by short sellers bent on frustrating longs into selling. Recently after listing on the TSX, the stock is beginning to show some signs of life. If the broader markets take a turn for the worse, I'd expect Acadian to be able to hold itself up because it has established a solid trading floor beneath its current price. Company Website: www.aciangold.ca



2) **Blue Note (BN.V, BMNFF)**: This Company has refurbished an old mine they bought from Breakwater Resources. They are anticipating production start up next month with a ramp up over 100 million pounds Zinc and 40 million pounds Lead per year. Earnings and cash flow will be huge relative to the capitalization of the company. The stock has been depressed recently after the company unexpectedly raised funds via a large equity issuance. Company Website: www.bluenotemining.ca



3) **First Nickel (FNI.V, FNKLF):** First Nickel has followed the price of nickel from its lofty perch of \$24/lb. The stock has been trading in a well defined range since August. First Nickel is producing nickel but at a relatively high cost. They are guiding 2008 production to be 7 million pounds of nickel and 2009 production of 10.5 million pounds. The nice growth profile in production should be able to offset broad market weakness. The stock may offer some exceptional buys over the next six weeks as tax loss selling goes into full bloom. Company Website: www.firstnickel.com



4) **Liberty Mines (LBE.V, LBEFF)**: Liberty is a very small cap nickel and cobalt miner. They are increasing current production by developing three mines. More nickel output is scheduled to for mid-2008. Liberty is vague about their guidance but they should be profitable with present nickel prices. Company Website: www.libertymines.com



5) **Strategic Resource (SRZ.TO)**: Strategic Resource Corporation has a mine located in Tennessee in the USA by placing a former producing mine into production. Strategic anticipates producing at an annual rate of 125 million lbs Zinc in 2008. They are developing recovery circuits to capture two valuable semi-conductor materials: Gallium and Germanium. These two metals will significantly reduce their cash costs. Gallium fetches \$675/kg and Germanium is trading at \$1190/kg. If you would like to get more exposure to Zinc, this stock would be a nice compliment to your portfolio. Company Website: www.sra-corporation.com



Multi-Metal Producers

The stocks in this section produce several metals such as Copper, Gold, Lead, Silver and Zinc.

1) **Aurcana (AUN.V, AUNFF)**: Aurcana is a small cap Lead, Silver, Zinc and Copper producer located in Mexico. They brought their La Negra mine to full production last summer at 1000 tpd. La Negra doesn't have a 43-101 reserve estimate (they're working on it now) but because the mine operated for 30 years we have a decent idea of what to expect in terms of production. Average annual production was 1.2 M ounces Silver, 5.4 M pounds Lead, 10.8 M pounds Zinc and 2.3 M pounds Copper. Aurcana's interest in the mine is 80%. I calculate operating cash flow using present metal prices to be around \$0.25 per share. Considering they produce silver, a reasonable price to cash flow multiple of 10 yields a \$2.50 share price target. While this price target is almost 3 times the present stock price, there is a second mine that can significantly add to their value.

Aurcana recently purchased a former producing mine, Rosario, located on Mexico's west coast close to Mazatlan. The mine is fully equipped for production and just needs to be refurbished to go into producing metal. Using the historical production of the mine, I calculate annual production of 1.2 M ounces silver, 8 M pounds Zinc, 9 M pounds Lead and 5,000 ounces Gold. Rosario should be starting production in 2008. Considering the solid economics with two producing mines next year, this company has a bright future ahead of it. Company Website: www.aurcana.com



2) **Impact Silver (IPT.V, ISLVF):** Impact Silver is a small cap Silver, Zinc and Lead producer located in Mexico. Unlike many silver miners in their industry, Impact actually earns money. They are ramping up production and should be doubling production within a year. Impact's added bonus is producing Lead and Zinc. What is very compelling is their peers have market cap's about 2 times higher, meaning Impact's stock has a long way to go up to find fair value. Company Website: www.impactsilver.com



Stock Deletions

I decided to put in this section because at times, stock selections do not go the way you'd like. The majority of the information I obtain is from public sources and found via the internet. One of the most basic assumptions is that guidance and performance of management will be within reason. In general, nearly all mining companies miss guidance. It takes time to see what companies miss a little or to see those that miss a lot. There are cases where management teams that serially miss guidance. Those stocks are to be avoided until proven otherwise.

Stocks removed from recommendation lists:

1. Breakwater Resources (BWR.TO, BWRLF): We have had a tremendous run with Breakwater and is in part why I am moving it off my recommendation list. There is a high risk a US Dollar crisis could start sometime over the next several months. Breakwater would likely decline much more than other zinc miners listed here because it has enjoyed a magnificent run whereas the others have barely moved at all.
2. Century Mining (CMM.V, CMNZF): Management of this company consistently misses guidance. Peggy Kent (CEO) and her team have made some very basic errors in execution of operating a mine. The CEO appears to me she wants to find the next sugar rush in making several acquisitions while neglecting the details of operations. The market has recognized their ineffectiveness and the stock continues down despite the gold price being over \$800.
3. Dynasty Metals & Mining (DMM.V, DMMIF): Dynasty is doing everything right in terms of execution with a second mine about to go to production. The reason why this stock is being deleted is due to its sole presence of its operations in Ecuador. Perhaps Ecuador has learned it's better to not nationalize a company's operations. Does anyone want to take a chance of losing 100% of their investment overnight at the hands of the Ecuador government? I don't and that's why it's no longer recommended.
4. Revett Minerals (RVM.TO, RVMIF): Revett has a promising property that unfortunately is located in Montana. Management has long guided much more copper and silver than they are delivering. They had a death at their mine and operations were suspended for several weeks. I expect their operations to limp along. They need to prove they can hit production numbers before I'll consider them again.

Final Thoughts

We have had a wonderful run with our precious metal investments and by historical standards the move is still early. The US Dollar continues its wealth disappearing act and thus far has been orderly. What we have to watch is if the USD experiences a sudden drop and/or for a sudden increase in US Treasury bond yields. These events may correspond to when the TIC (Treasury International Capital) is reported approximately at the middle of every month.

Happy Trading,
Toby

Disclosure: The author has not been paid to write this article, nor received any other incentive to do so. The author holds positions in many of the companies mentioned in this report and will benefit from their increase in stock prices.

Disclaimer: The author's objective in writing this article is to promote potential investor interest in these stocks to the point where they are encouraged to conduct their own research. Neither the information, nor the opinions expressed should be construed as a solicitation to buy or sell this stock. Investors are recommended to obtain the advice of a qualified investment advisor before entering into any positions.

Appendix I

Recommended Investment Books

The following books are some of the best texts I have found and have helped me to identify stocks and understand technical analysis. I have no financial ties to Amazon.com or any of the Authors.

1. **How to make money in Stocks** by Bill O'Neil

http://www.amazon.com/How-Make-Money-Stocks-Winning/dp/0071373616/ref=pd_bbs_sr_1/104-1116007-6138357?ie=UTF8&s=books&qid=1178390763&sr=8-1

2. **Japanese Candlestick Charting Techniques** by Steve Nisson

http://www.amazon.com/Japanese-Candlestick-Charting-Techniques-Second/dp/0735201811/ref=pd_bbs_sr_1/104-1116007-6138357?ie=UTF8&s=books&qid=1178391278&sr=1-1

3. **The Visual Investor: How to spot market trends**, by John Murphy

http://www.amazon.com/Visual-Investor-Spot-Market-Trends/dp/0471144479/ref=pd_bbs_sr_1/104-1116007-6138357?ie=UTF8&s=books&qid=1178391374&sr=1-1

4. **Technical Analysis from A to Z**, by Steven Achelis

http://www.amazon.com/Technical-Analysis-2nd-Steven-Achelis/dp/0071363483/ref=sr_1_1/105-2238205-6313213?ie=UTF8&s=books&qid=1192396454&sr=1-1

5. **Technical Analysis of Stock Trends, Ninth Edition** by Edwards & McGee

http://www.amazon.com/Technical-Analysis-Stock-Trends-Ninth/dp/0814408648/ref=pd_bbs_1/104-1116007-6138357?ie=UTF8&s=books&qid=1178391495&sr=1-1

Appendix III

Investing in Mining Stocks

I have been investing in the sector for nearly four years and experience has allowed me to learn many things. Wall Street absolutely abhors commodities. Many of you have over the years heard how China was slowing down and a big commodity crash was around the corner. The commodity bull has been raging for six years and yet the same old prognostications of its demise continue. One major point I want to get across: Wall Street will go out of its way to find an excuse to sell off commodity stocks. Many commodities take a long time to go up but find those gains disappear in a few short days.

What I wanted to do in this section is to put together a Table giving you the means to identify good mining stocks on your own. The Table is arranged from best to worst conditions for mining stock appreciation. In general, I avoid stocks that will not be producing 1 year or more. There is a famous chart that shows the appreciation of a stock from first discovery to full production. Mining stocks really don't start appreciating until they are within a year of production then begin to rapidly appreciate as cash flow and earnings are generated. Once the miner has hit a plateau in production, its stock is usually dictated solely by the price of its metal it's producing. You will notice many of my stock picks meet the criteria in the high yellow or green areas of the Table. There are always exceptions but the guidance in the Table is a fairly consistent rule of thumb.

Table 2: Mining Stock Price Influences

Metal Price	Company's Production	1 Year Stock Potential
Going Up	Rapidly Increasing	> 100% ++
Flat/Trending Up	"	50%
Flat/Trending Down	"	20%
Going Down	"	Break Even
Going Up	Flat/Increasing	30%
Flat/Trending Up	"	20%
Flat/Trending Down	"	Break Even
Going Down	"	- 10%
Going Up	Flat/Decreasing	10%
Flat/Trending Up	"	Break Even
Flat/Trending Down	"	-10%
Going Down	"	-30%
Going Up	Decreasing	Break Even
Flat/Trending Up	"	-10%
Flat/Trending Down	"	-20%