

Two Near Term Production Stories

Richard (Rick) Mills

www.aheadoftheherd.com

As a general rule, the most successful man in life is
the man who has the best information

Base metal prices have been on a tear and are currently up much more than precious metals in 2009. Copper has almost doubled from its low, to \$2.74/lb, zinc is up 70% to \$0.80/lb. Even nickel, which had been lagging the recovery, is now up almost 100% to \$8.50/lb. The Gold Fields Mineral Services Base Metal Index is up 26% just in last month.

Optimism has returned to the base metals markets and is supported by the idea that even as metals demand has collapsed in the west voracious demand from China will keep metal prices high. As fear exits the markets the capital that fled to the US Dollar is now looking for higher returns. Those higher returns are presently being found in commodities.

Because the base metal miners responded to the downturn last year by closing or curtailing dozens of mines this is a pretty good story to carry prices for the short and medium term since there is likely an insufficient capacity in metal production to blow a supply bubble.

Some mines are resuming production but new spending is still very cautious. Those new mines that are going ahead today may handsomely reward shareholders because of still-restricted supply a few years down the road.

Two for you

In this authors opinion near term producers are one of the best investments for investors and speculators. Two near-term junior producers investors should have on their radar screens are Copper Mountain (CUM-TSX; \$1.26) and Donner Metals (DON-TSX.v; \$0.25). Both Donner & Copper Mtn. have major companies as partners and are located in Canada. Significantly, they both have the huge advantage of access to existing infrastructure which greatly reduces capital costs and permitting timelines.

Donner Metals

Donner and partner Xstrata are fast tracking their new high grade Bracemac McLeod VMS (zinc, copper, silver & gold) deposit down the developmental path towards production in the prolific Matagami mining camp in Quebec. There are over a dozen former mines in this camp.

The JV's (Donner will own 35% after Xstrata pays \$20 million for the accelerated feasibility study) Bracemac McLeod deposit is 3.6 million tonnes of 11.5% Zn, 1.5% Cu, 1 oz silver and half a gram gold. What makes this deposit so appealing is that Xstrata's 2600 ton per day (tpd) Perseverance Mine is already producing concentrates from another orebody, and the mill is only 4 kilometers away from Bracemac McLeod. With a mill in place and Xstrata's established infrastructure at the Matagami Camp - including an airport, railway, paved road, and access to power, a fast development decision is expected.

Capital costs for Donner and Xstrada should be very small compared to other mines. All that is needed is a 2 kilometer decline (access ramp) to the orebody. Donner has to come up with 35% of the capital cost, some of that will likely be available via debt secured against future cash flow

The goal is to get the Bracemac McLeod deposit into production before the presently being mined orebody expires in 2012.

Donner used a new geologic model to discover Bracemac-McLeod two years ago. They are now drilling 3 look-alike targets in the same camp.

Xstrata does not say what their cost per pound is of zinc production at their Perseverance Mine, but the Matagami Camp is known for its high-grade low-cost VMS deposits. And Xstrata did spend US \$130 million this decade to make it one of the most modern zinc mines in the world.

While I don't have a lot of economic numbers for this mine, the fact Xstrata needs this deposit in production on a very specific timeline gives me a very high comfort level with Donner.

Copper Mountain

Copper Mountain is also advancing their Similco project in southern British Columbia down the development path towards production. Similco is a former producer and now will be a 35,000 tpd mill producing an average 83 million pounds of copper per year with gold and silver credits over an 18 year mine life. Production is scheduled to commence in mid-2011. The new feasibility study shows there are over 5 billion pounds of copper at Similco having an average head grade, in the first 12 years of mining, at 0.5% Cu equivalent.

This story just got a lot more exciting as Mitsubishi, Japan's largest producer of copper anodes, recently announced they are purchasing 25% of Similco for C\$28.75 million valuing Copper Mountain's 75% of the project at roughly \$2.75 per share. As part of the deal, Mitsubishi will be responsible for arranging C\$250 million of the project debt. Copper Mountain anticipates securing approx C\$77 million of the required project capital via equipment leases. Mitsubishi will purchase the entire copper production of the mine.

Local and Provincial governments are very supportive of this development for its economic benefits.

Mitsubishi currently has an off-take agreement with Imperial Metals' Huckleberry Mine. The Huckleberry Mine is scheduled to close in 2010.

One way analysts value these companies is a discount or premium to their Net Asset Value or NAV. As these companies move towards production, their discount to NAV gets smaller. The Mitsubishi news is causing several analysts to re-rate the company from a 0.3 NAV to a 0.7 NAV – a double! The latest brokerage research reports can be viewed at <http://www.cumtn.com/site/news/analyst.php>

Conclusion

Here are two junior companies, Donner and Copper Mountain, that are near term producers. Both have deep pocketed partners who have a vested interest in seeing their JV assets get into production quickly (both timelines seem pretty much etched in stone). Both benefit greatly from existing infrastructure, both are located in known mining areas and both are just starting to get recognized.

Shouldn't these two be on your radar screen? Please do your own due diligence at www.donnermetals.com and www.CuMtn.com

If you're interested in the junior resource market and would like to learn more please come and visit us at www.aheadoftheherd.com

Richard (Rick) Mills
www.aheadoftheherd.com
rick@aheadoftheherd.com

Bio - Richard is host of www.aheadoftheherd.com and invests in the junior resource sector. His articles have been published on over 60 websites including - Wall Street Journal, 321Gold, Kitco, USAToday, SafeHaven, Stockhouse, Casey Research, The Gold/Energy Reports, Gold-Eagle, Market Oracle and Financial Sense.

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