POPE & COMPANY

Morning Notes

November 11, 2011

Sales & Trading
416.588.6419

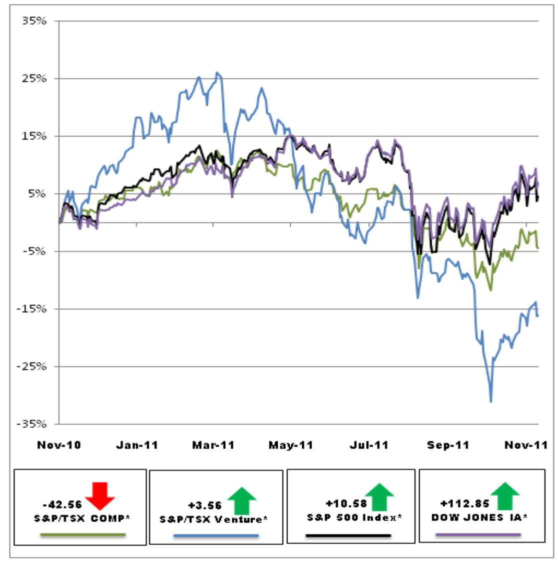
Volume 9: Issue 9

METAL PRICES & INVENTORIES

	Price			LME Inventory (T)			LME Cancelled
Metal	10-Nov-11	Change		10-Nov-11	Change		Warrants (T)
Aluminum (US$/lb)	$0.958	$0.001	↑	4,536,875	(4,050)	↓	185,050
Copper (US$/lb)	$3.382	($0.098)	↓	410,025	(2,125)	↓	33,450
Lead (US$/lb)	$0.872	($0.020)	↓	378,775	(1,275)	↓	20,700
Nickel (US$/lb)	$8.233	($0.016)	↓	83,280	120	↑	2,328
Zinc (US$/lb)	$0.854	($0.029)	↓	756,925	(1,375)	↓	58,125
Gold (US$/oz)	$1,766.00	($14.00)	↓				
Silver (US$/oz)	$33.71	($0.87)	↓				
Platinum (US$/oz)	$1,628.00	($23.00)	↓				
Palladium (US$/oz)	$645.00	($17.00)	↓				

- In overnight trading, base metal prices were sideways on yesterday's LME rings.
- On the week metal inventories on the Shanghai exchange for copper declined 478 T to 83,389 T and for zinc declined 3,998 T to 366,503 T.
- Yesterday mining was down except for gold, other mining sectors were sideways to up.

INDEX MONITOR



** Note: Change as of close Thursday, November 10, 2011*

SPOT COPPER TC/RCS FALL 50%

- According to market participants, spot treatment and refining charges paid to China's copper smelters for imported copper concentrate were $20-30/metric T in November, down over 50% from $50-60/metric T in October. In September, the fees were higher at $60-70/metric T.
- Copper smelters have also been importing less copper concentrates this month as they had sufficient material for production till the year end, and because the lower TC/RCs discouraged them from importing more.
- TC/RCs, the fees paid by mines to smelters for converting concentrates into refined copper, are a key source of revenue for smelters.
- Although Chinese copper smelters are seeking up to $80/metric T ($0.08/lb) TC/RCs for 2012 term imported concentrates, Chinese copper sector experts don't see finalized fees for next year to be that high.

Comment: *Although Chinese merchants have indicated that miners are pushing down spot copper treatment charges to influence term contract negotiations, we believe the shortage of copper concentrates is driving down spot terms. As a result, we expect 2012 TC/RC terms to settle near to $45/metric T, $0.045/lb rather than the smelter suggestions of $80/metric T, $0.08/lb.*

Other companies in this report: CMA, IZN, MOZ, NGQ, ORM, PUM, SAC, SNL

COMMENTARY

Keystone Pipeline Delayed

- Despite previously indicating that an alternative pipeline route was not feasible, the US State Department has delayed the decision on the Keystone pipeline until the end of November 2012 so that TransCanada Corp. (TRP: TSX) can provide an alternate route. As a result, the Obama administration will not have to make a decision until after next year's election.
- US refiners will now have to consider obtaining their oil from Nigeria and Venezuela since they can not rely on the legal process to make timely decisions. The oil coming from Nigeria and Venezuela is becoming increasingly heavier and dirtier and there is far more environmental risk given that oil from these countries is transported by tanker rather than pipeline and tanker accidents have had a much greater impact on the environment.
- Major environmental groups have said that will fight other proposed pipeline projects in order to get Americans to reduce their use of fossil fuels.

Comment: *Americans will not reduce their use of fossil fuels if other pipeline projects are stopped they will obtain their oil from sources other than Canada. This decision has the potential to start legal battles over future pipeline projects and energy infrastructure. This could jeopardize investment in this sector which is projected to reach US$130 B over the next 10 years.*

METALS BRIEFS

- Striking workers at Freeport-McMoRan's (FCX: NYSE), Cerro Verde mine, exchanged labor contract proposals with company representatives on Thursday, in a sign that both sides could find a way out of a six-week-old wage dispute. Cerro Verde produced 312,336 T of copper in 2010.
- Falling production of PGMs was the main contributor to a 5.4% Y/Y drop in South African mining production in September, according to new figures. The main contributor to the decrease was PGMs (platinum, iridium, osmiridium, palladium, rhodium, ruthenium and osmium) which account for 1.8 % of the decline. In Q3/11, actual mining production was 4.8% lower Y/Y. South Africa is the largest platinum producer.

INDUSTRY BRIEFS

Kazakhmys $1.8 BCopper Project in Kazakhstan

- Ausenco Ltd. (AAX: ASX) has been awarded a A$45 M Create phase engineering services contract for the $1.8 B Bozshakol copper project owned by Kazakhmys (KAZ: LSE). The Bozshakol copper project is located on a greenfield site near the village of Bozshakol, ~ 220 km northeast of Astana in northeast Kazakhstan.
- Bozshakol is located close to existing power, transportation and other infrastructure. The deposit has a Mineral Resource of 1,173 Mt at an average grade of 0.35% Cu, including 832 Mt of Measured and Indicated Resource with an average copper grade of 0.37%. The ore body contains valuable byproducts of gold and molybdenum. It will have a production life of over 40 years, with average output of 75,000 t/y Cu in concentrate, although the production will average 100,000 t for the first 14 years. At current prices, Bozshakol has a highly competitive operating cost, in the SQ for copper mines globally.
- Bozshakol will have a three year development phase, which will start by the end of 2011, slightly ahead of schedule. Pre-production mining will begin in 2014, with the first ore to be processed at the associated concentrator during 2015. The project has a capital cost of about $1.8 B, and is being funded from the existing $2.7 B financing facility provided by the China Development Bank and Samruk-Kazyna.
- KAZ is a leading international natural resources group with significant interests in copper, gold, zinc, silver, power generation. It is the largest copper producer in Kazakhstan and one of the top worldwide with 17 operating mines, 10 concentrators and 2 copper smelters. It had revenues of $3.2 B in 2010 with Group EBITDA (excluding special items) of $2.8 B. and employs some 61,000 people, principally in Kazakhstan.
- KAZ will produce about 300,000 t of copper cathode eq. in 2011. KAZ current mine production is under pressure form declining copper grades as its current mines mature. The combination of stable ore output and lower grades in the 9M/11 against the comparative period, led to a 7% reduction in metal in ore mined. The Group remains on track to meet its 2011 production target of 300,000 t of copper cathode equivalent.

Comment: *In 2015, Bozshakol copper mine will start copper concentrate production. Once ramped up, production will reach 100,000 tpa of contained copper in concentrate. It appears that the new Bozshakol mine will, in part, stem the decline of copper production of KAZ's mature copper mines.*

INDUSTRY BRIEFS (CONT'D)

Silver Outlook Bullish -GFMS

- In the report, "The Silver Investment Market-An Update, November 2011", Thomson Reuters-GFMS says the outlook for silver prices remains bullish, "with the potential of prices nearing, if not exceeding, the $40/oz, a realistic prospect as the fourth quarter develops."
- "However, should silver exceed $40," the report cautioned, "some unwinding may occur, principally of institutional positions, given their focus on upside potential. This raises the possibility of some deleveraging in the future markets." However, the study noted, "this should have little impact on silver's safe haven qualities, with the potential for retail and HNW [high-net-worth] investors to raise their asset allocation (in favor of both silver and gold)."
- This situation "argues well for bullion coin and small bar demand, not only in western markets, but also in India and China." Indian physical investment demand could comfortably exceed 45 M oz this year, up from 29 M oz last year.
- "Overall, therefore, world investment demand in 2011 is expected to realize a near record high total in volume terms," the report predicted, and "in value terms likely to reach $10bn on a net basis for the first time."
- The study found the principle investment vehicles for retail investors continue to be ETFs and physical bars and coins. Along with growing physical silver demand, investor interest in silver futures traded on future exchanges has also increased.
- Total silver ETF holdings have lost some ground. By the end of October, total holdings were reported at 577 M oz, some 44 M oz below the record peak of 621 M oz established in April of this year.
- The study determined that the U.S. and Germany dominated the global physical investment market. "This year a fresh peak will be set, in excess of 41 M oz, which will therefore achieve a similar gain to the 20% improvement posted in 2010.
- Although China's silver demand is considered to still be in its infancy, concerns about inflation, together with still robust price expectations, suggest a bullish outlook for Chinese investment demand for silver over the remainder of this year. In India, total silver demand is expected to exceed 45 M oz this year, a 55% increase over 2010.
- The report identified the top five silver producers as BHP Billiton (BHP: NYSE), 46.6 M oz in 2010; Fresnillo (FRES: LSE), 38.6 Moz; KGHM Polska Miedz (KGH: PW), 37.3 M oz; Pan American Silver (PAA: TSX), 24.3 M oz; and Goldcorp (G: TSX), 23 Moz.
- The study found world silver fabrication (not including coins) this year is expected to achieve its highest total since 2007. "However, this will be offset by a health rise in global mine production."
- "As a result, we expect this year to generate a silver market surplus not dissimilar to the 2010 total of 190 M oz," predicted GFMS. "In other words, the surplus should remain at near record highs, against the far more modest levels seen in the mid-2000s."
- "In value terms, the forecast surplus for 2011 is even more noteworthy, at an estimated US$7.5 B, nearly double the positive in 2010 (which itself was a record level)," the report observed. "In spite of this hefty surplus, silver prices, in broad measure, strengthening further this year, pointing to, at times, still robust levels of investors demand, which has effectively 'stepped in', as occurred in 2009 and 2010, to absorb this excess metal."

Comment: *As long as investment in silver remains strong, silver prices should remain high. We expect silver prices to remain in the $30 - $40/oz range over the next year. In the longer term, silver prices will be dependant on demand growth in the Far East, particularly in China.*

COMPANY COMMENTARY

Iberian Minerals Corp.	**Symbol**	**Close**	**52 wk Lo**	**52 wk Hi**	**Mkt Cap (M)**
451.3 M Shares	IZN: TSX-V	$ 0.840	$ 0.600	$ 1.09	$ 379.1

- IZN reported net income of $123.6 M for Q3/11, representing $0.27/sh. Sales of $60.11 M and gross loss of $(24.09) M IZN experienced a realized loss of $52.42 M on commodity hedges (included in sales), which caused the gross loss. There was unrealized non-cash gain of $164.22 M on derivative financial instruments outstanding, partially as a result of commodity hedging positions in copper and zinc that were delivered into during the period and were thus retired and partially due to a decline in metals prices impacting the fair value of outstanding hedge positions. Cash flow provided by operations before changes in working capital items was $1.49 M.
- For 9M/11, recorded net income of $201.55 M or $0.51/sh (registered) which included sales of $183.48 M and gross loss of $54.02 M. A realized loss of $(171.03) M on commodity hedges (included in sales) which caused the gross loss. An unrealized non-cash gain of $292.66 M on derivative financial instruments outstanding. Cash flow provided by operations before changes in working capital items was $22.28 M.
- IZN previously issued production guidance for 2011:
    - At Condestable, due to a decreased copper ore grade in recent months, it is expected that produced metal will be as follows: 22,500 t Cu, 13,000 oz Au and 289,300 oz Ag. The Cash Operating Cost per lb Cu is expected to be $1.15.
    - The production guidance for Aguas Tenidas remains as follows: 25,000 t Cu, 33,900 t Zn, 3,700 t Pb and 730,000 oz Ag. The Cash Operating Cost per lb Cu produced is expected to be $1.75.
- IZN continues activities relating to the study of a possible rehabilitation and re-start of the Sotiel Mine together with a related expansion study for the operations at Aguas Tenidas. A budget for this work program of ~ $20 M was approved by the Board of Directors in June 2011 and is expected to be spent over the remainder of 2011 and early 2012. IZN could make a construction decision by the end of 2011.

Comment: *Even though the outlook for copper and zinc is uncertain, perhaps IZN should cash in their hedges and realize the indicated hedging profit. We believe than once the European markets settle down, copper and zinc prices will be much higher than current levels; therefore, selling off the hedges makes sense.*

COMPANY COMMENTARY (CONT'D)

South American Silver	Symbol	Close	52 wk Lo	52 wk Hi	Mkt Cap (M)
100.6 M Shares	SAC: TSX	$ 1.67	$ 1.29	$ 3.35	$ 168.0

- As at September 30, 2011, SAC had working capital of US $28.6 M, including cash and cash equivalents of US $28.6 M. With these funds in place, SAC is in a very strong financial position to accelerate the advancement of its Malku Khota project in Bolivia toward feasibility, and its Escalones project in Chile to the resource definition stage.
- At the Malku Khota silver-indium-gallium project, engineering activities are in progress to refine the metallurgical characteristics of the deposit to a pre-feasibility level, and optimization studies are underway to further increase estimated production levels. Camp construction plans to support expanded project development activities at Malku Khota are currently in progress to support a significant drill campaign of in-fill and expansion work.
- Earlier in 2011, SAC announced results from an updated PEA for the Malku Khota silver-indium-gallium project. Results of the PEA put mine production at 13.2 M oz Ag for the first five years of production, at a cash cost of US $2.94 per ounce net of by-product credits at "base case" three year average metal prices. Indium production is estimated at 80 t/y and gallium production at 15 t/y. With further resource optimization there remains excellent potential to extend the mine life beyond 15 years.
- The pre-tax NPV @ 5% is $704 M and IRR of 37.7% at conservative "base case" metal prices of US $18.00/oz silver, and US $500/kg indium. On a cash flow basis, the first 5 years increased to average US $185 M/yr at the base case.
- The M&I Resources is 230 M oz Ag and an Inferred Resource of 140 M oz Ag.
- During Q3/11, SAC commenced work on an initial resource estimate at the Escalones copper-silver-gold project. Final preparations are being made for a drill program to expand resource on the project in Q4/11. Exploration has focused on a large, 4 sq km area of alteration, and shallow drilling has intersected zones of 75 to 100 m grading over 1% copper and a single deeper hole intercepted 176 m of porphyry mineralization grading 0.6% copper. These grades and significant widths of mineralization indicate the presence of a strong mineralizing system at Escalones.
- With the completion of the updated resource and PEA, SAC has moved fully into Pre-Feasibility level work which began mid-year. The next phase of the program will include further engineering and optimization studies, in-fill confirmatory drilling to confirm the predictability of the geologic model at the Limosna, Wara Wara and Sucre Zones and to move resources into reserves with the completion of a pre-feasibility level study on the project. SAC plans to complete additional resource expansion drilling designed to test expansion along trend and down dip and potentially continue to expand the project resources which remain open in all directions. SAC has budgeted ~ US $16.7 M toward exploration and development work at Malku Khota during the pre-feasibility phase.

Comment: *Malka Khota is a large silver project with great potential. Challenges to the project are ensuring that the metallurgy works in a large scale operation, the relatively small market for gallium and indium, and operating in Bolivia. Providing that all these issues can be addressed, the project has potential.*

COMPANY NEWS

Cream Minerals Ltd. (CMA: TSX-V) **Close:** $0.270 **52 Wk Lo/Hi:** $0.135/$0.480 **Shares o/s (M):** 152.2 **Mkt Cap (M):** $41.1

- CMA announced the testing of a new zone at Nuevo Milenio. Drilling on Once Bocas South has returned positive initial assay results, one of four new zones that were drill tested during the 2011 drill program. Exploration drilling of Once Bocas South is one aspect of the 20,292 m diamond drill program completed at Nuevo Milenio Silver-Gold Project, Nayarit State, Mexico. Nuevo Milenio contains a NI 43-101 compliant Inferred Mineral Resource of 54.6 M oz Ag Eq. at an 251 g/t Au and 1.660 g/t Au.

Marathon Gold Corp. (MOZ: TSX) **Close:** $1.54 **52 Wk Lo/Hi:** $1.00/$2.07 **Shares o/s (M):** 22.9 **Mkt Cap (M):** $35.3

- MOZ announced the completion of the highly successful 25,250 m diamond drilling program at the Leprechaun Gold Deposit. The last nine drill holes at the Leprechaun Gold Deposit were focused on the southwest end of the current resource boundary. Significant new main zone intercepts include: VL-11-365 6.89 g/t Au over 4.8 m, and VL-11-357 2.86 g/t Au over 8.0 m. A total of 150 drill holes have been completed during the 2011 drilling campaign. All remaining outstanding assays are expected to be completed during November with a revised Resource Estimate to follow in late Q4/11 or early Q1/12.

NGEx Resources Inc. (NGQ: TSX) **Close:** $2.60 **52 Wk Lo/Hi:** $0.800/$4.00 **Shares o/s (M):** 158.0 **Mkt Cap (M):** $410.7

- NGQ is planning the most ambitious exploration program in its history as it seeks to follow-up highly encouraging exploration results obtained earlier this year at the Los Helados Project in Chile, and to significantly expand the resource base on its flagship South American copper-gold projects. The objective of the planned exploration program is to: define an initial resource at Los Helados, upgrade the inferred resource at Josemaria to the measured and indicated category, and to better define the copper and gold potential of the Filo del Sol project. NGQ began drill testing its potash exploration license in Eritrea. NGQ's exploration effort is now focused on potentially very large, high value copper-gold porphyry systems in the Andes with smaller programs exploring for potash and massive sulfide systems in Eritrea.

NovaGold Resources (NG: TSX) **Close:** $8.96 **52 Wk Lo/Hi:** $6.26/$16.92 **Shares o/s (M):** 239.8 **Mkt Cap (M):** $2,148.2

- NG hit high-grade copper in a step-out drillhole on its Bornite property in Alaska. NG cut as much as 35 m @ 11.38% Cu in drillhole 187. The high grade interval, starting 459 m downhole, was part of a broader intercept @ 3.89% Cu over 178 m. The latest drilling, NG's first on the Bornite property, will be combined with historic exploration results - core from which Van Nieuwenhuyse said is in good condition and had been relogged by NG geologists - to form the basis of a modern resource estimate. Van Nieuwenhuyse said the Bornite resource estimate should be out in Q1/12. In a PEA on the Arctic project (located 25 miles away), NG outlined a 4,000 tpd underground mine that would produce 67 M lbs Cu, 80 M lbs Zn, 12 M lbs Pb, 11,000 oz Au and 866,000 oz Ag a year.

Ormonde Mining (ORM: LSE) **Close:** 8.38p **52 Wk Lo/Hi:** 5.50p/12.25p **Shares o/s (M):** 339.1 **Mkt Cap (M):** 28.4p

- The latest drill results from ORM's flagship Barruecopardo tungsten project in Spain continue to confirm good commercial grades and widths. Intersections reported today included 20 m grading 0.34% tungsten and a broader interval of 25 m grading 0.5% tungsten. Following the publication of the interim report on the feasibility study, Fairfax estimated that assuming a tungsten price of US$350/T, the project would generate average pre-tax operating cash flows of around €29 M/yr. Fairfax noted that such annual cash flows would be of the same order of magnitude as the firm's current market cap.

COMPANY NEWS

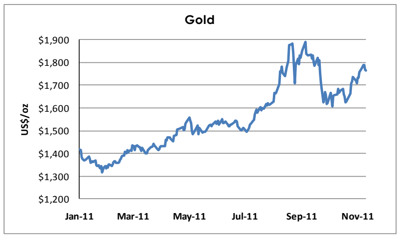
Puma Exploration Inc. (PUM: TSX-V) **Close:** $0.290 **52 Wk Lo/Hi:** $0.110/$0.415 **Shares o/s (M):** 67.4 **Mkt Cap (M):** $19.5

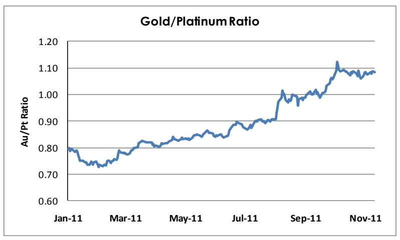
- PUM released additional results from its major trenching program undertaken on the Nicholas-Denys Silver Project in New Brunswick. Highlights from current work are the discovery of continuous surface silver and gold mineralization over a strike length of 500 m with grades up to 2,450 g/t Ag, 29.5 g/t Au, >20% Pb and 12.5% Zn in the Henry area. The mineralization appears as semi-massive to massive sulphide lenses varying in thickness from 0.5 m to 5 m, generally oriented N070° within the regional foliation. The continuity on the mineralization has been proven by nine different trenches spaced 25 to75 m apart and spread over a strike length of 500 m for a total length dug of 1,136 m.

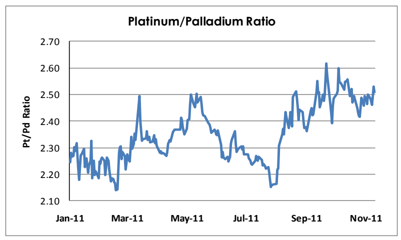
Silver Wheaton Corp. (SLW: TSX) **Close:** $35.64 **52 Wk Lo/Hi:** $27.51/$45.50 **Shares o/s (M):** 353.5 **Mkt Cap (M):** $12,598.6

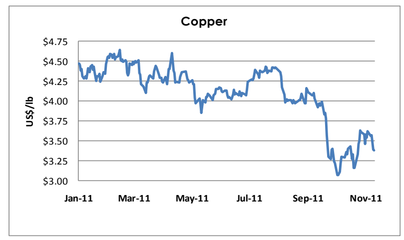
- Generated Q3/11 adjusted net earnings of US$135 M ($0.38/share), a 96% increase Y/Y. For 9M/11, SLW reported adjusted net earnings of $405.3 M ($1.15/share), a substantial increase over the adjusted net earnings of $165.9 M ($0.48/share) a year ago. SLW's Board of Director has declared a Q4/11 dividend of $0.08/sh. Attributable silver equivalent production for 9M/11 was 18.44 M oz (19.8 M oz Ag and 14,500 oz Au). For Q3/11, attributable silver production increased slightly from 5.6 M oz in Q3/10 to 6.1 M oz (5.9 M oz Ag and 5,100 oz Au).

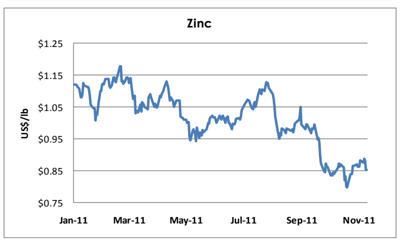
CHARTS

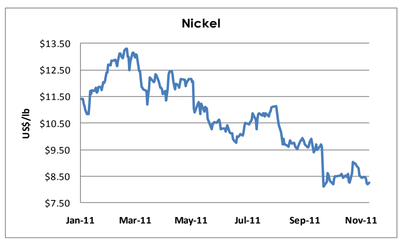


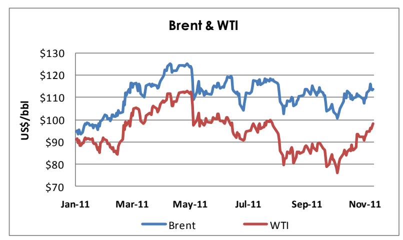


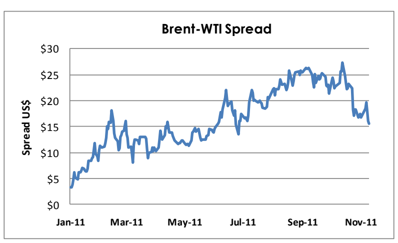


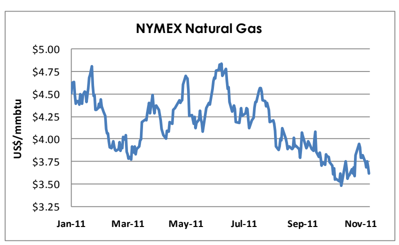


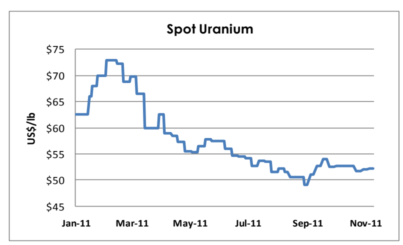


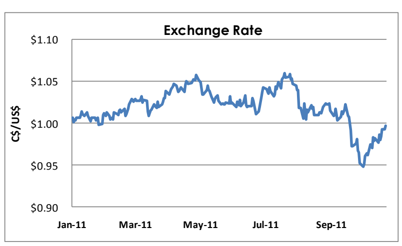












*Data Source: Bloomberg

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