

HRA - Special Delivery

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“Double, double, toil and...”

Some say that Shakespeare wrote Macbeth's three witches as manipulators of events to satisfy his patron King James' interests while maintaining his own contention that tragedy results from very human flaws – Macbeth talked himself into believing the witches observations were portents and created his own downfall. Some of the funds who have been going into the base metals market may be reconsidering their own entrails reading, so it will take some time yet before the past week's profit taking has found the “right” levels for most of them. Markets have continued to sell gold in unison with oil, while offering some support to copper. But looking at their six month charts offers that context as to what we are seeing:



We had been looking for a correction, and here it is. Or more properly we are seeing profit taking in metals and related equities as expected. Since we expect you to have insulated for this by taking gains already, our simple message at this point is to not panic. If you are worried about a particular stock find out what sort of market support it has, how bids look versus offers, and use that to decide what to do next. We are not in a rush to sell off weaker issues at this point, though we do expect the sector to continue having jagged charts for a while yet. As indicated in the last Journal, it is tough to gauge a metals market driven by non-fundamentals. If we are not yet ready rushing to fill buy orders, we do think it time to pick some likely candidates.

We continue like gold and silver, and certainly don't see selling into a near 10% price decline over a week. We don't expect a lot more downside for the precious metals, but do however point out that if this spate of selling continues it could test technical base at the \$500 level that was December's gold low, and at the same time test bottoms for related equities. Not yet a buy point, but the makings of one. The retreat of **MAG Silver (MAG-V; closing off 37 cents at \$2.63 on 159,200 shares)** makes it worth coming back to on its dual speculations, either of which could turn it into a double from these levels. Given the stock closed today up over 150% from its early December levels in spite of being knocked back with the sector, we think today's volume is mainly profit taking and could continue if silver's price is slipping, so do suggest putting in bids rather than chasing it (or anything else) if you want to own more of it. Though it has not yet produced a discovery hole, we think **Everton Exploration (closing off 8 cents at \$0.76 on 220,000 shares)** should be viewed as a gold spec in a similar light. It has pulled back 40% from intraday, and almost 30% from closing price, levels at the first of the month; so far this year EVR has turned over 15.5 million shares at an average

77 cents, positioning it for strong gains if any of its projects turns into a discovery. We will have more on Everton's projects over the next few weeks.

Zinc has consolidated from the \$1 price level as expected, and it continues to see warehouse stocks decline. As quickly as it appears to have settled, we would be comfortable with further accumulation of zinc hedges. Copper continues to show relative strength and a chart that speaks to the potential for considerable further downside. LME+NYMEX copper stockpiles continue to grow in spite of some problems at the supply end, and though they total less than a week of demand this will eventually impact the metal's price. It may be that the suspension of copper derivatives trading in Shanghai is still impacting the red metal's market. Regardless, based on the few spots of green on our screen it is the gold-copper hedges that are continuing to see support.

Sherwood Copper (SWC-V; closing up 2 cents on 68,800 shares at \$1.82) has put in place the early warrants exercise need to expedite the Minto project while keeping share dilution in check. It is also upgraded its resource estimate to a small gain of a 1.9% copper average grade and, more importantly, indicated that initial production will be in higher-grade material in the +2.5% copper range as opposed to the 1.8% deposit average we used to crunch numbers in January. That added grade in the project's early going represents upwards of C\$15 million per annum of added free cash-flow, based on a US\$1.50 copper price, which will go a long way to writing down debt and making ready for the company's next phase. We expect support for SWC to continue.

Minera Andes (MAI-V, MNEAF-Qbb; closing up 2 cents on 991,500 shares at \$0.90 on V) has shown considerable strength since announcing a drill start at Los Azules copper project and that the arrangement with Rob McEwen had been approved. In the past week Venture exchange volumes have totalled nearly 4 million shares and US volume a further 2.8 million, to show a gain of 17% in an otherwise weak market. Given the stock is making +5-year highs in an otherwise weak market we feel little need to add to an MAI position at this point, but we would be equally reluctant sellers. If Los Azules is working out, then for a further \$1 million of spending it will become an asset with a US +\$3 billion in-situ value (again on a \$1.50 copper price) and by itself represent a market value at least equal to MAI's current market cap even if Xstrata were to exercise its claw-back. This is a very good risk-reward for a company with gold-silver production already in the offing to underpin its price.

Wolfden Resources (WFL-T; halted off 14 cents at \$3.68 on 181,100 shares) should come out with an announcement tomorrow. Once we have seen the announcement and had a chance to gauge its significance in a weakened market, we will either get a quick note off in SD or fill-out details in the Dispatch. In the mean time, keep an eye out for the release, and make the trend your friend.

Regards, for now,

David Coffin and Eric Coffin

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