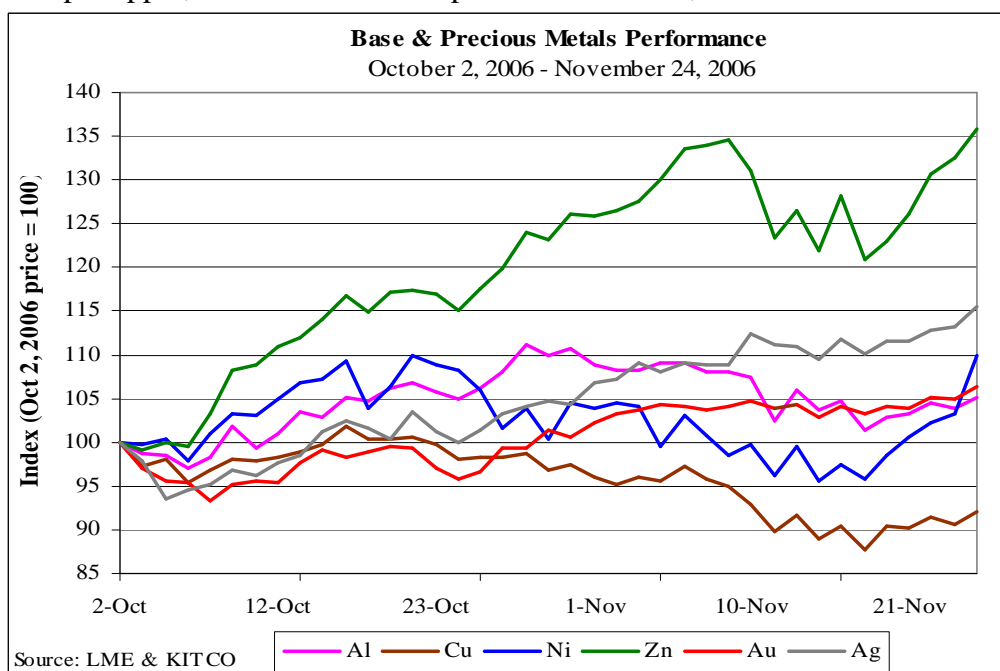


Fundamental Metals Monthly – Commodity Market Becomes Less Volatile

Sector/Industry: Mining

Monthly Highlights

- Commodity prices were highly volatile in the first 9 months of 2006; however volatility of all the commodities has dropped quite significantly since the beginning of October 2006. Silver had the highest drop in annualized volatility (as defined by the annualized daily standard deviation of % price changes), from 47.7% in the first 9 months of 2006, to 25.6% during Oct. 2 – Nov.24, 2006.
- The chart below shows the performance of base and precious metals since October 2, 2006. The prices of all commodities, except copper, have increased compared to October 2, 2006.

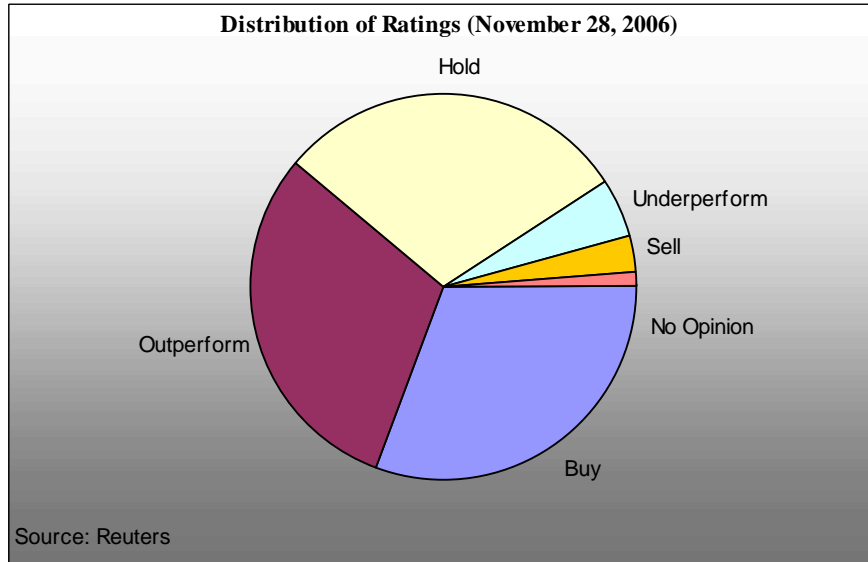


- All the factors affecting gold prices look favorable for gold to stay above \$600.00/oz for the rest of 2006 and 2007 – a depreciating U.S. dollar, rising investment demand, producer de-hedging and high oil prices.
- We present more studies showing the positive correlation between oil and gold prices (during high oil price conditions) in this report.
- Among base metals, we continue to be more bullish on nickel and zinc, based on higher demand projections and a decline in inventory levels. The average forecasts for both the metals have increased compared to the forecasts at the time of our previous report in September.

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Distribution of Ratings – No change in investors' attitude

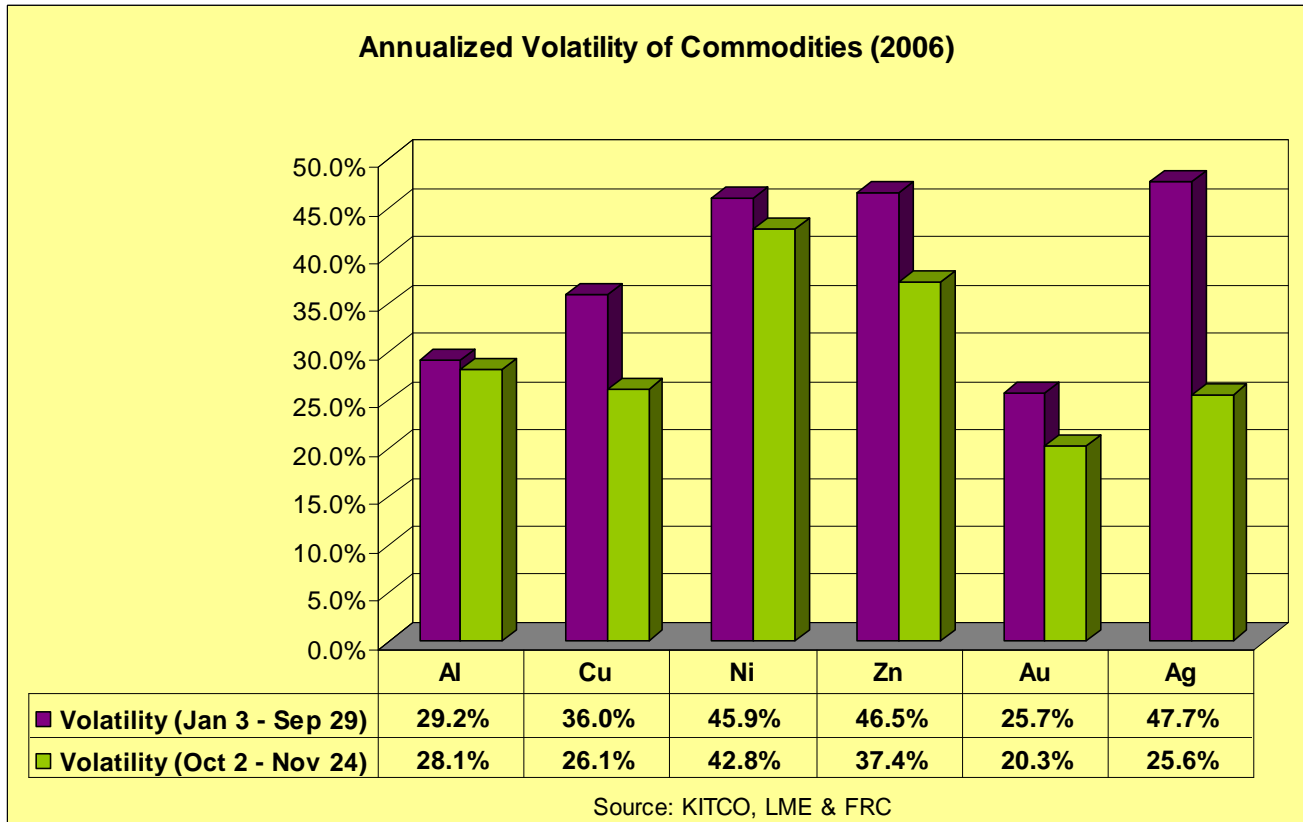
The chart below shows the latest distribution of brokerage ratings for the mining sector.



According to Reuters, the current distribution of broker recommendations for companies in the metals and mining industry group, which consists of companies engaged in the extraction and primary processing of precious metals and minerals, steel, aluminum and specialty metals and minerals, are: 2,246 rated 'Buy' or 'Outperform' (60% - same as in our previous report in September), 1,099 rated 'Hold' (29% - no change) and 319 rated 'Sell' or 'Underperform' (8% - no change).

The current ratings are the same as of our previous report in September, which indicates that there has not been any major change in investor attitude towards the metals and mining sector.

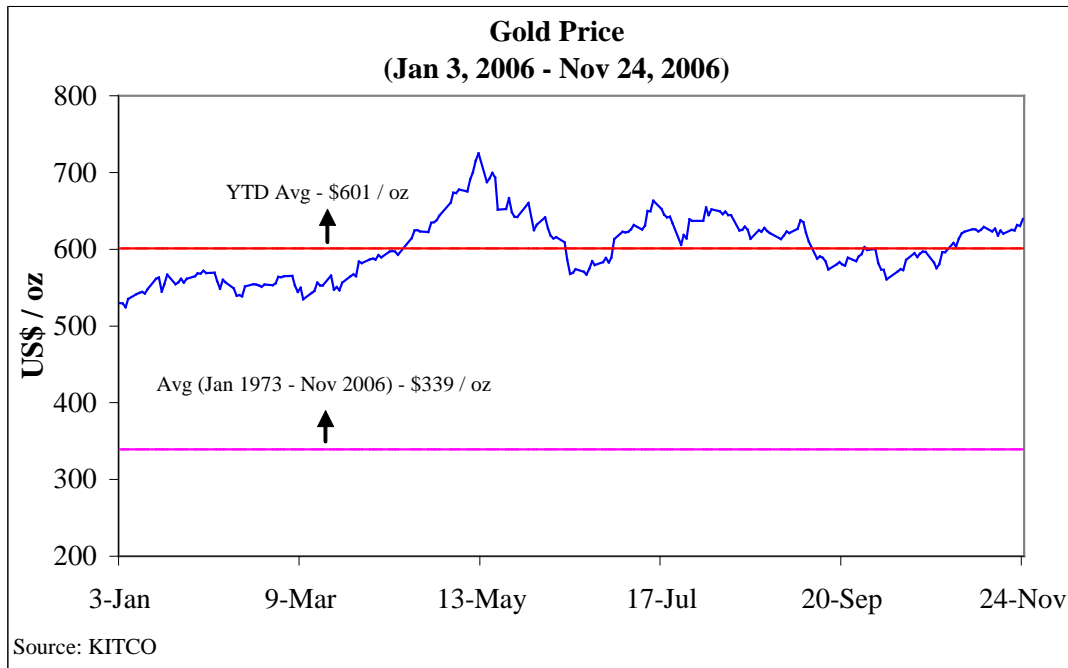
Commodity market becomes less volatile: Commodity prices were highly volatile in the first 9 months of 2006; however the volatility of all commodities has dropped quite significantly since the beginning of October 2006. The chart on the next page compares the annualized volatility of commodities during the first 9 months of 2006, and since October 2006. Silver had the highest drop in annualized volatility, from 47.7% in the first 9 months of 2006, to 25.6% during October 2 – November 24, 2006.



PRECIOUS METALS

GOLD

As of November 24, 2006, gold was trading at \$639.50/oz, which reflects a YTD increase of 20.7%. The chart on the next page shows that prices have been above the YTD average of \$601.00/oz throughout November. Prices since October 2, 2006, have ranged between \$560.75/oz - \$639.50/oz, and for the year have ranged between \$524.80/oz - \$725.00/oz. COMEX stocks as of November 24, 2006, were 7.52 million troy oz, compared to 6.66 million troy oz at the end of 2005, an increase of 13.0%.



More data suggesting slowdown in the U.S. economy (from the National Bureau of Economic Research)

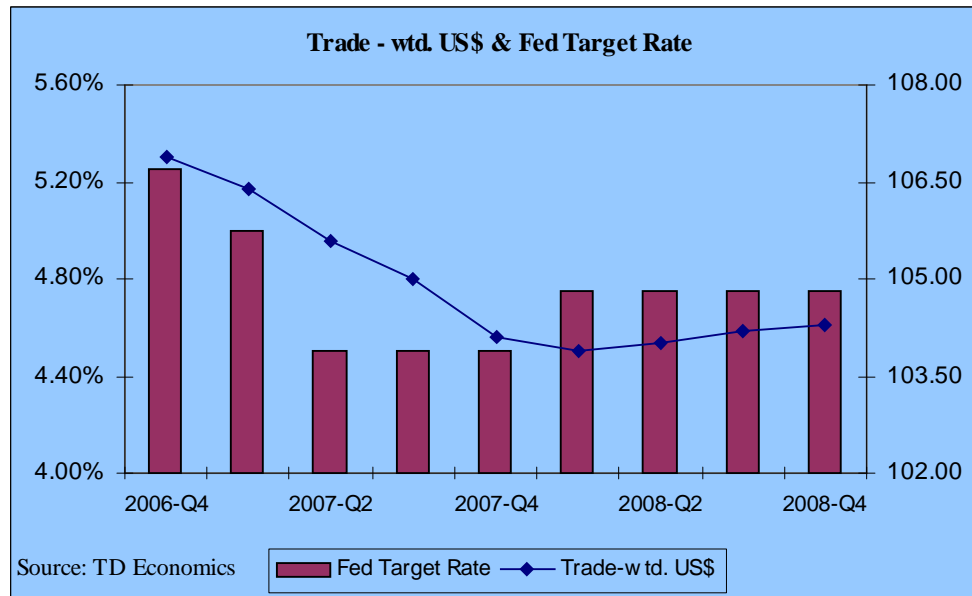
- **U.S real GDP** in Q3-2006 slowed to 1.6%, compared to 2.6% in Q2- 2006.
- Along with the slowdown in GDP, the U.S. housing industry also fell. **Residential housing construction** fell at an annual rate of 17.4% in Q3-2006 (biggest drop in last four quarters), after dropping 11.1% in Q2-2006.
- **The personal consumption expenditures price index** rose by only 2.5% during Q3-2006, compared to 4% during Q2-2006.
- According to the U.S. Census Bureau, **new orders for manufactured durable goods** in October decreased by 8.3% to \$210.0 billion, compared to an increase of 8.75% in September.

All the above data suggest that the U.S. economy is starting to see a slowdown. However, the labor costs and unemployment data tells a different story. Labor costs rose by 3.8% during Q3-2006, and were up 5.3% in the 12 months ended September 2006. The U.S. unemployment rate dropped from 4.6% in September to 4.4% in October, the lowest rate since 4.3% in May 2001. Although the increase in labor costs might be a concern for the U.S. Federal Reserve (Fed), we believe the decrease in personal expenditure is a positive sign that inflation is under control.

Although labor costs have increased, we believe all the other data, and the recent fall in oil prices from their yearly highs, suggest that inflation is under control, and the U.S. economy is showing signs of slowdown. We believe these are sufficient reasons for the Fed to maintain or drop interest rates from current levels when they meet next in December 2006.

Conclusions: The housing downturn is expected to negatively affect the demand for base metals, especially copper, which is used for electrical purposes. With regard to gold, we believe the projected slowdown in the U.S. economy will negatively affect the U.S. dollar, one of the biggest drivers of gold prices.

Softening of the U.S. Dollar: Historically, gold prices have been negatively correlated to the U.S. dollar. Based on the Federal Reserve's recent decision to pause U.S. interest rate hikes, rising global interest rates, and a projected slowdown in the U.S. economy, the U.S. dollar is forecasted to depreciate with respect to the other major global currencies. The chart below shows the forecasts for the U.S. Federal Reserve (Fed) target rates and the US\$ against other major global currencies (trade –weighted US\$).

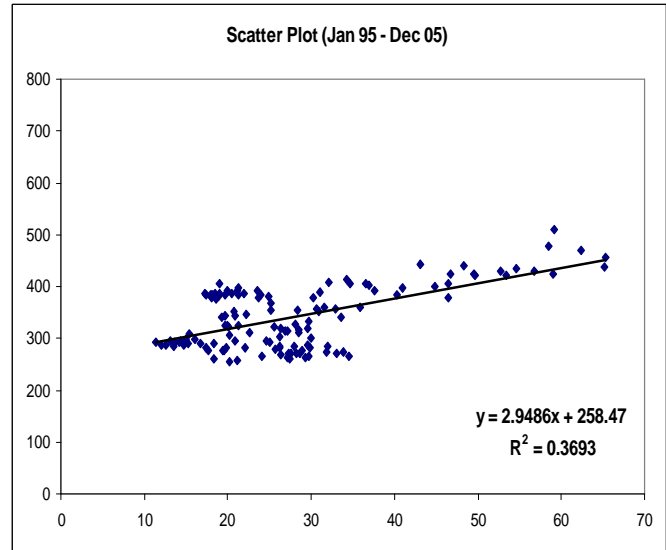
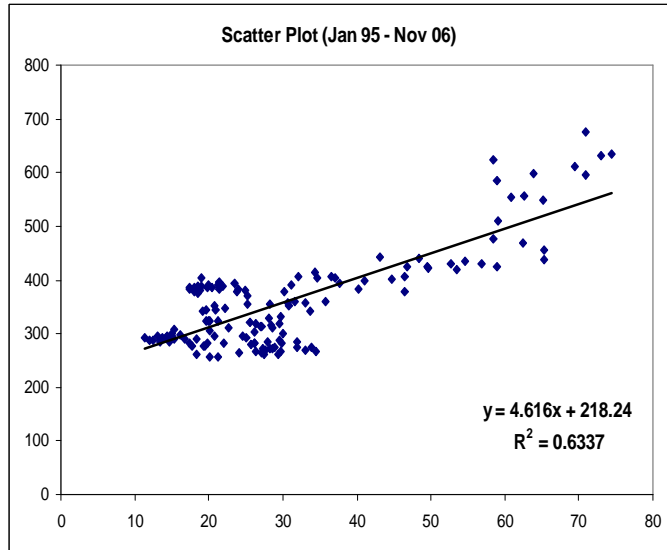


As shown in the chart, the trade weighted US\$ is expected to depreciate going forward. (Note that the Fed target rates are also expected to drop from current levels.) The forecasted depreciation of the U.S. dollar indicates gold prices should stay high going forward.

Gold versus Oil

We continue our study on the relationship between oil and gold prices. In our previous report, we presented our study which demonstrated a positive correlation between gold and oil prices during high oil price conditions. Historically (1995 – 2005), the coefficient of correlation between the changes in average monthly prices of both the commodities was only 0.14, which suggests that there did not exist any significant relationship between the prices. However, when we tested the correlation between changes in the daily prices of the commodities in 2006 (ytd), it was found that the prices had a significant positive coefficient of correlation of 0.28.

The charts on the next page show scatter plots between the prices of both the commodities. The chart on the left clearly shows that the positive correlation between the commodities increased significantly as 2006 prices were included in the study.



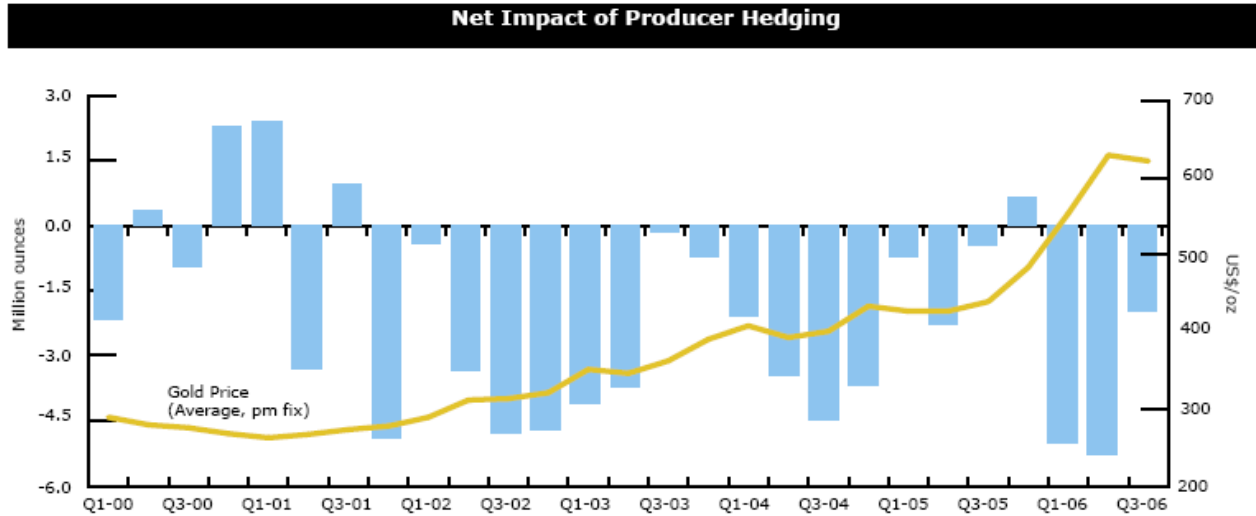
Oil prices fell below \$60.00/bbl (YTD average - \$66.00/bbl) at the end of September 2006, and since then prices have stayed below \$60.00/bbl most of the time. As of November 28, 2006, oil was trading at \$60.99/bbl. It was found that the correlation between prices were lower when oil prices were lower, compared to the first 9 months of 2006 when oil prices were considerably higher.

Although this study does not suggest in any way that gold prices are driven by oil prices, it suggests that higher oil prices in 2006 created an inflationary scare among investors and led them to drift towards the capital preservation asset, gold. According to Oil and Gas Consultants, Sproule and GLJA, oil prices are expected to stay above \$60.00/bbl for the rest of 2006 and 2007, which we believe will have a positive effect on the demand for gold.

Producer De-hedging continues

Generally, gold producers can hedge in two main ways. In the first way, gold is borrowed from a party who has a surplus and sold at current prices to the buyer. The producers pay back the gold loan as gold is produced from their mines. Second, producers fix the selling price of gold by entering into forward contracts or by protecting the downside potential by buying puts. In times when producers are not very confident about gold prices, producers adopt different hedging strategies (the first technique is more widely used) to protect their downside potential. However, current high gold prices have encouraged producers to de-hedge and hence reduce the supply of gold in the market.

According to the GFMS, total gold de-hedging in 2006 is expected to reach 460 metric tons or 15 million ounces – the largest since 2000. The table on the next page shows the increase in producer de-hedging since the beginning of the century.



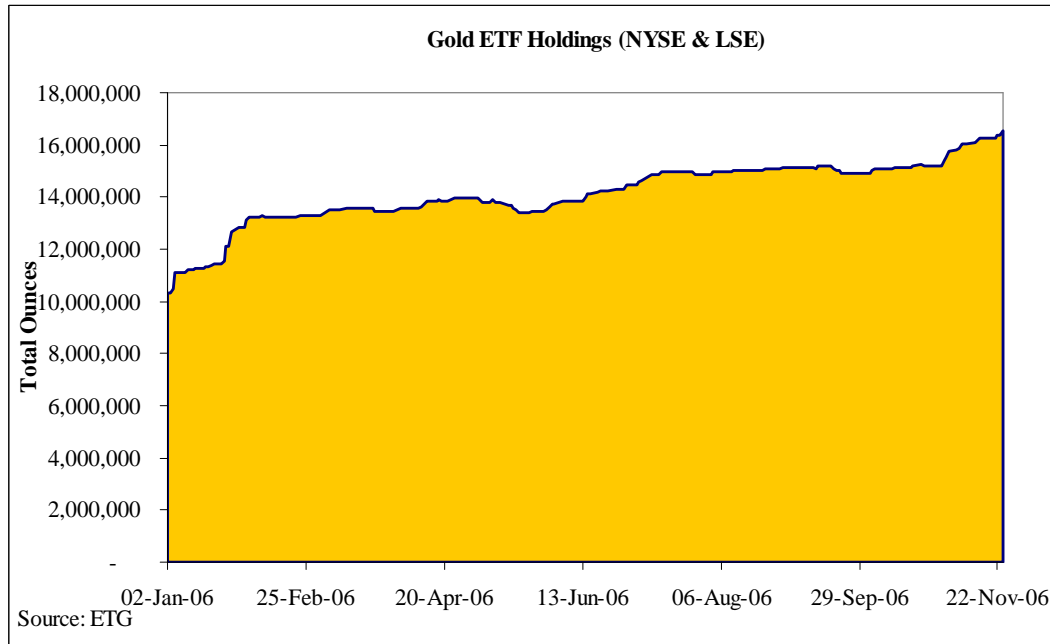
Source: GFMS

The chart also shows the increase in gold prices along with the increase in de-hedging. Although de-hedging cannot drive gold prices up, we believe it supports the increase in prices. We expect the trend to continue (increasing producer de-hedging), which will support gold prices going forward.

Pre-Christmas Jewelry Demand

Demand for physical gold largely comes from jewelry fabrication. Jewelry accounted for about 70-75% of the total global demand over the past decade. Jewelry demand is normally seasonal. The fourth and the first quarters have generally higher demand due to festival and wedding season in India, Christmas and the Chinese New Year. According to the Financial Times, jewelry demand in India (the largest market for jewelry) rose by 11.9% yoy in Q3-2006. However, the GFMS expects total jewelry demand in 2006 to fall by slightly more than 3%, compared to last year. We believe that physical demand is not a significant driver of gold prices and hence the forecasted decline in demand will not have a significant effect on gold prices going forward.

Investment demand rises further: The chart on the next page shows the total Exchange Traded Gold (ETG) assets held by the two major exchanges in the world, the New York Stock Exchange (NYSE: GLD) and the London Stock Exchange (LSE: GBS).

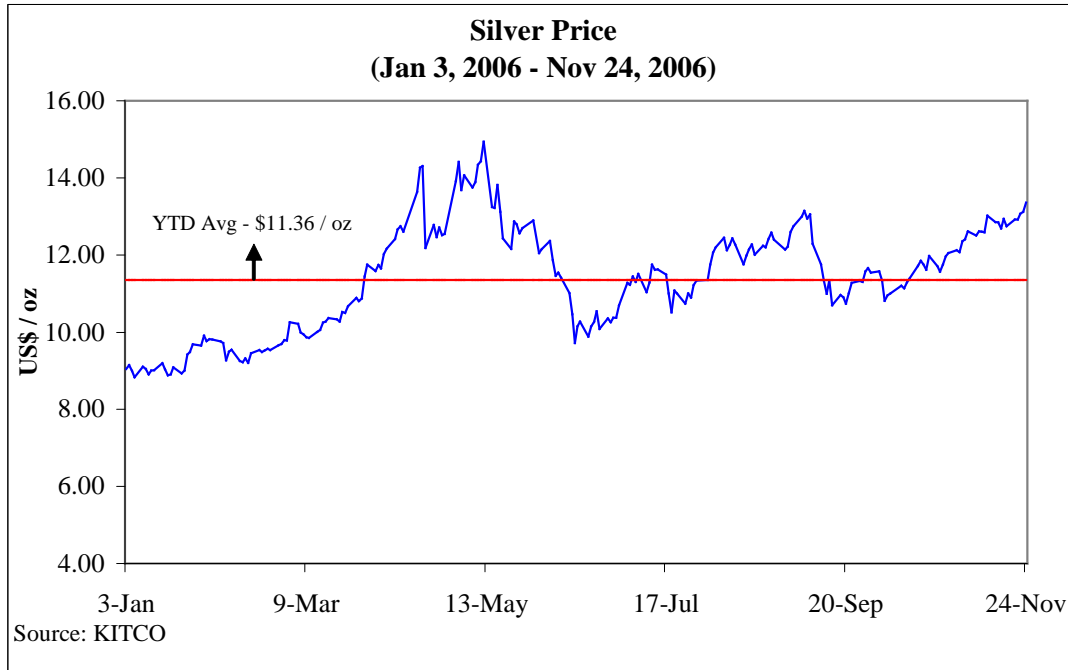


Total assets held by the two exchanges as of November 24, 2006, were 16.52 million ounces, compared to 14.94 million ounces at the end of September 2006, an increase of 10.6% (YTD increase – 59.7%). We believe that it is the steady rise in investment demand and not physical demand which will play a more significant role in setting gold prices going forward.

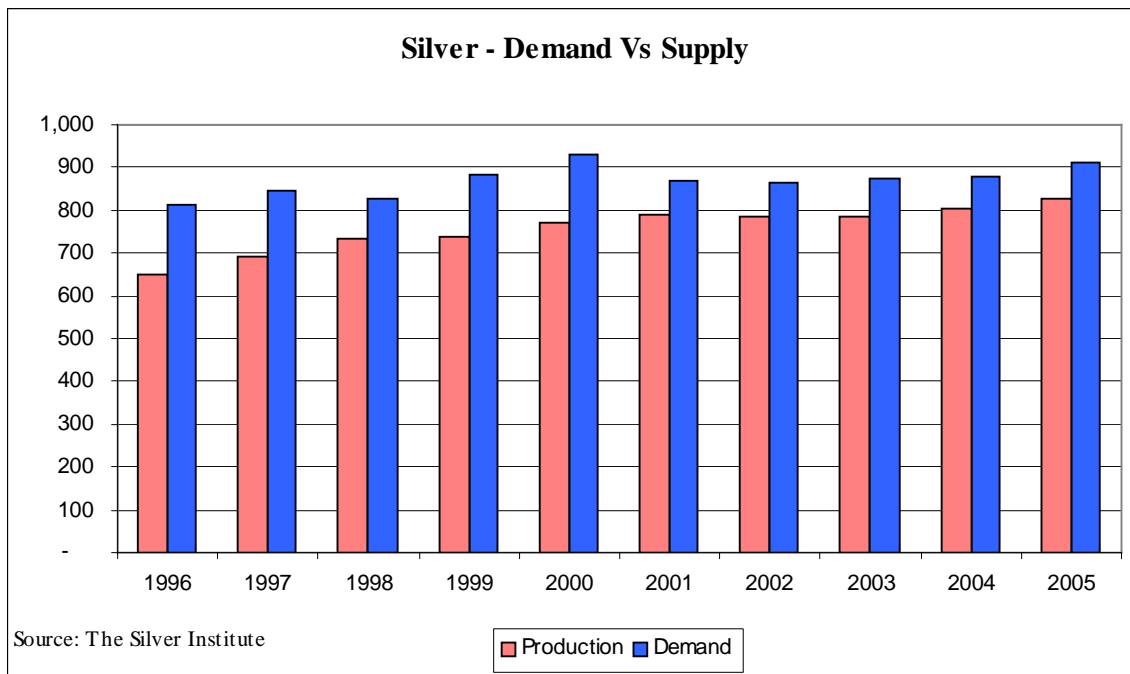
Conclusions: All the factors affecting gold prices look favorable for gold prices to stay above \$600.00/oz for the rest of 2006 and 2007 – the depreciating U.S. dollar, rising investment demand, producer de-hedging and high oil prices. The average forecast for gold prices in 2006 is \$605.00/oz and 2007 is \$720.00/oz.

SILVER

As of November 24, 2006, silver was trading at \$13.37/oz. Prices since October 2, 2006, have ranged between \$10.82/oz - \$13.37/oz, and for the year have ranged between \$8.83/oz - \$14.94/oz. Current prices represent an increase of 15.41%, compared to October 2, 2006 (YTD increase of 47.8%). Among the metals, silver was the second biggest gainer during the period October 2 – November 24, 2006. COMEX stocks as of November 24, 2006, were 108.22 million troy oz, compared to 119.97 million troy oz at the end of 2005, a decrease of 9.8%. The chart on the next page shows silver prices during 2006.



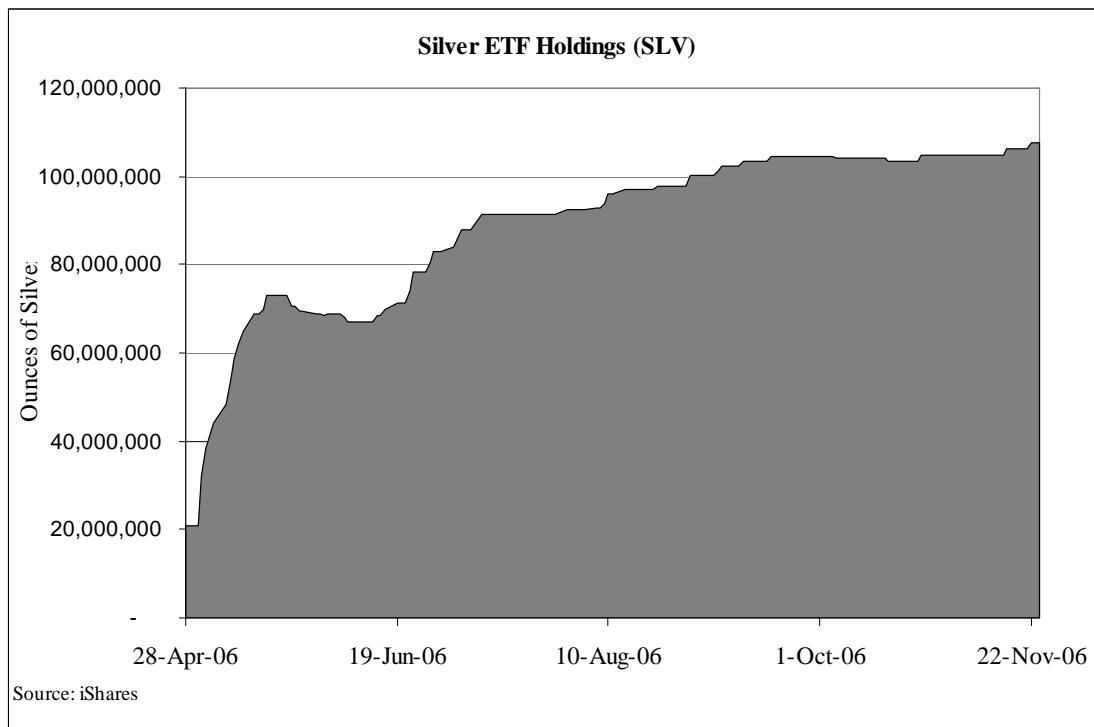
Historical demand versus supply: The chart below shows the gap between demand and supply (mine production and scrap) of silver during 1996 – 2005. The chart shows that demand for silver has always been higher than supply during the period.



Fabrication demand is expected to decrease: According to the GFMS, fabrication demand is expected to fall by 3% in 2006, compared to 2005. Although industrial demand (which constitutes about 45% of total demand) is expected to increase in 2006, demand from jewelry fabrication (25% of total demand) and photography (17% of total demand) is expected to drop. We believe the fabrication demand will decrease further as world GDP is expected to grow at a slower pace in 2007.

Although physical demand of silver plays a significant role in setting prices, we believe that investment demand will also have a key role in driving silver prices going forward.

Silver ETF Holdings increase: As of November 24, 2006, iShares Silver Trust assets were 107.73 million ounces, which reflects a 3.3% increase since the end of September 2006. Current asset levels represent an increase of 413% since the introduction of the ETF in April 2006. We believe that the increase in silver ETF holdings is a positive sign for the long-term demand for silver. The chart below shows ETF holdings since the introduction of the silver ETF.

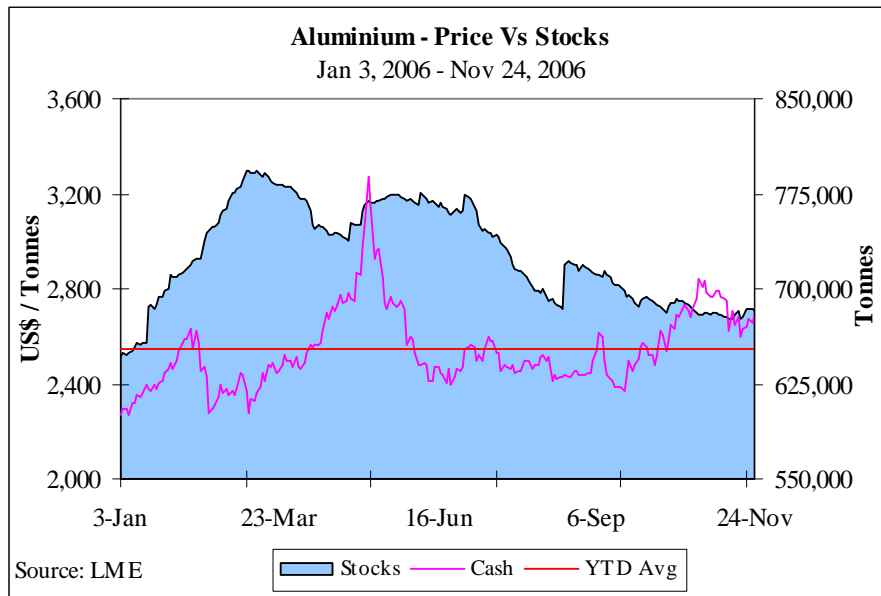


Conclusion: Although supply and demand fundamentals of silver play a key role in setting prices, we believe silver prices will continue to follow gold. Silver prices have moved in tandem with gold prices in the past and we believe that it will continue to do so going forward in 2007. The average forecasted prices are \$11.40/oz in 2006 and \$13.00/oz in 2007.

BASE METALS

ALUMINIUM

As of November 24, 2006, aluminium was trading at \$1.22/lb (cash). Since October 2, 2006, prices have ranged between \$1.12/lb - \$1.29/lb, and for the year between \$1.03/lb - \$1.49/lb. Current prices represent an increase of 5.16%, compared to October 2, 2006 (ytd increase - 18.5%). As shown in the chart below, prices have been above the ytd average of \$1.15/lb since the beginning of October 2006.



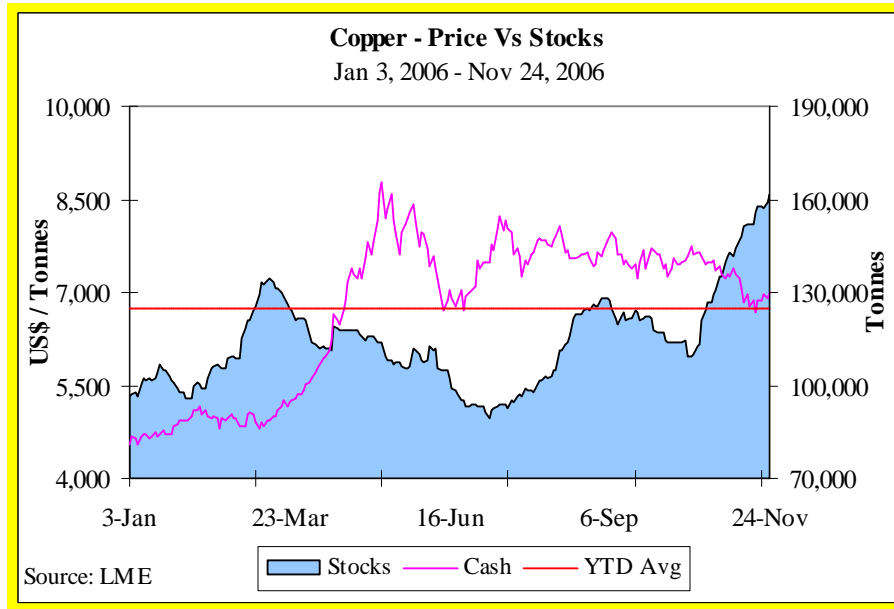
No significant change in inventory levels: LME stocks as of November 24, 2006, were 683,325 tonnes, a decrease of 1.4% compared to October 2, 2006. However, current inventory levels are up by 5.7%, compared to the beginning of the year.

According to World-Aluminium.org, primary aluminum production in October increased by 4.1% to 2.04 million tonnes, compared to 1.96 million tonnes in September. Production in China (the world's top producer) increased from 0.82 million tonnes in September to 0.85 million tonnes in October, an increase of 4.2%. Although demand for the metal is expected to increase considerably in China, we expect the country to increase its supply and meet the increasing demand. The demand for the metal in the aerospace industry is expected to be high for the rest of the year and 2007. (Aluminium is used in the manufacturing of aircraft and fuel tanks in spacecraft)

Conclusion: Aluminium prices are expected to soften in 2007 as a result of slower growth in global demand and increasing supply. The average forecasted price for 2006 is \$1.15/lb and \$1.10/lb in 2007.

COPPER

As of November 24, 2006, copper was trading at \$3.17/lb (cash). The current price represents a decrease of 8.01%, compared to October 2, 2006 (ytd increase – 54.2%). Prices since October 2, 2006, have ranged from \$3.03/lb - \$3.51/lb and for the year have been \$2.06/lb - \$3.99/lb. Although current prices reflect a drop of 5.23% compared to August 1, 2006, prices are still up by 64.4% since the beginning of 2006. As shown in the chart below, current prices have not fallen below the ytd average price of \$3.05/lb since April 2006.



Significant increase in inventory levels: LME stocks as of November 24, 2006, were 161,575 tonnes, an increase of 38.3% compared to October 2, 2006 (YTD increase of 68.0%). COMEX stocks as of November 24, 2006, were 28,840 short tonnes, a ytd increase of 323.2%.

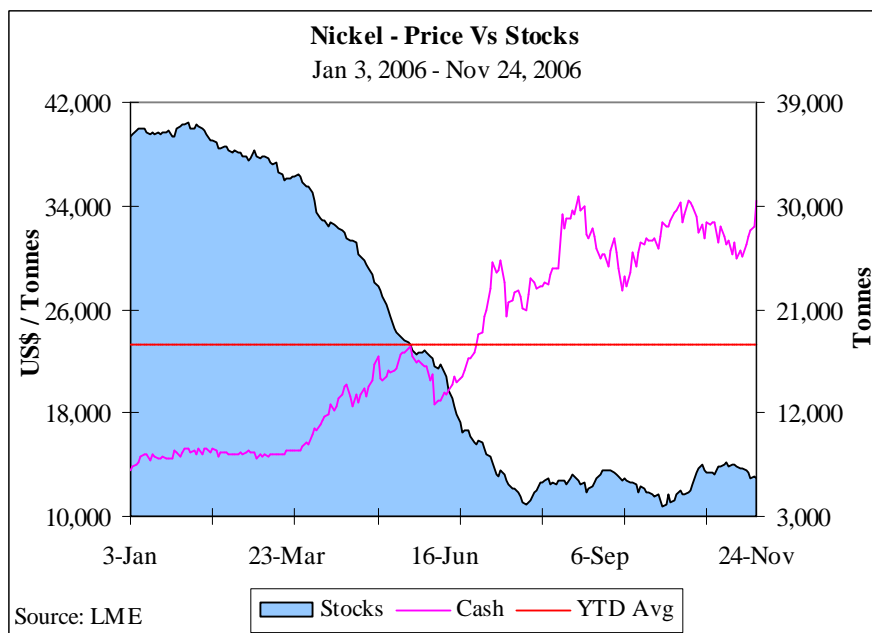
Signs of slower than expected growth in China: According to the Beijing-based customs office, China's imports of copper-concentrate decreased by 46% to 178,000 metric tons in October, compared to the same period last year. In the first 10 months of 2006, China's imports of copper and copper products dropped by 22%, to 1.7 million tons, compared to the same period in 2005.

Increase in supplies from Chile (the world's biggest copper mine): The Chilean government announced that copper production increased by 7.4% to 490,348 tonnes in October, compared to the same month last year.

Conclusion: The slowdown in the U.S. housing industry and the signs of slowing demand in China are expected to soften demand for the metal in 2007. The significant increase in inventory levels amidst a slowing economy indicates that prices are set to drop from current levels. The average forecasted prices for 2006 are \$3.05/lb and \$2.80/lb in 2007.

NICKEL

As of November 24, 2006, nickel was trading at \$15.64/lb (cash). Prices have ranged between \$13.60/lb - \$15.65/lb since October 2, 2006, and \$6.13/lb - \$15.76/lb during the year. Among all metals, nickel prices have seen the highest appreciation during the year. Current prices have increased by 155.4% since the beginning of the year. As shown in the chart below, prices have been well above the ytd average price of \$10.55/lb since July 2006.



Inventory levels still low: LME stocks as of November 24, 2006, were 6,354 tonnes, a ytd decrease of 82.3%. Although inventories have gone up slightly recently, they are still at their lows (as shown in the chart). Based on a global daily consumption of 3,600 tpd, current inventories will suffice for only less than two days.

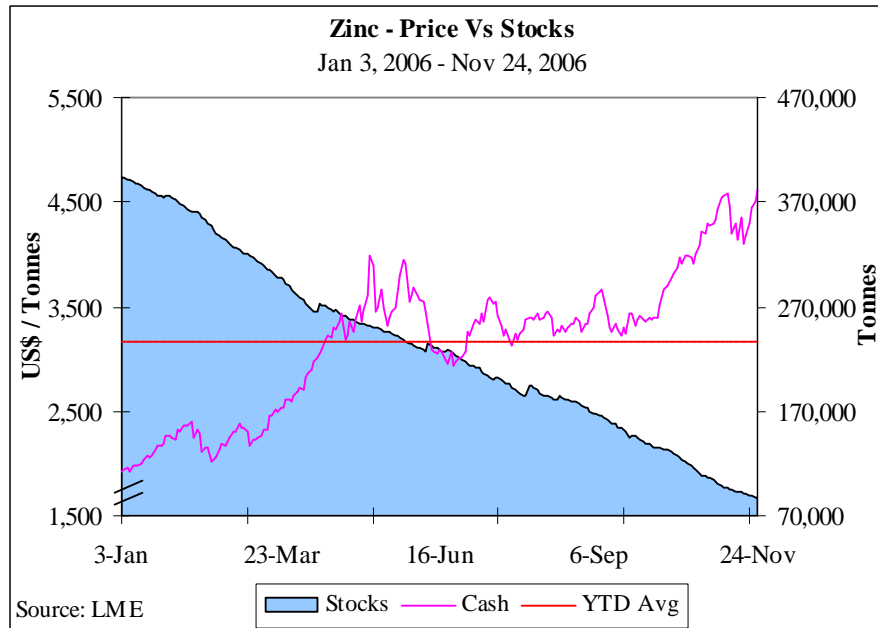
Delay in the start of production at the Goro Nickel Project: According to CVRD, the start of production at the Goro nickel project located in the French territory of New Caledonia (expected to produce 60,000 tonnes of nickel a year at full capacity) is expected to be later than scheduled, in 2008. In addition to that, the cost estimates for the mine have also risen to \$3.00 billion, up from the previous estimate of \$2.15 billion.

The Goro project was recently acquired by CVRD (world's biggest iron ore miner), following the acquisition of the project's previous owners, Inco Ltd. The production delay and the increase in cost estimates were one of the major reasons for the recent hike in nickel prices.

Conclusion: We believe that strong steel demand from China, supply shortages and low inventory levels, will keep nickel prices high for the rest of the year and 2007. The average forecasted price for 2006 is \$10.50/lb and \$12.00/lb in 2007.

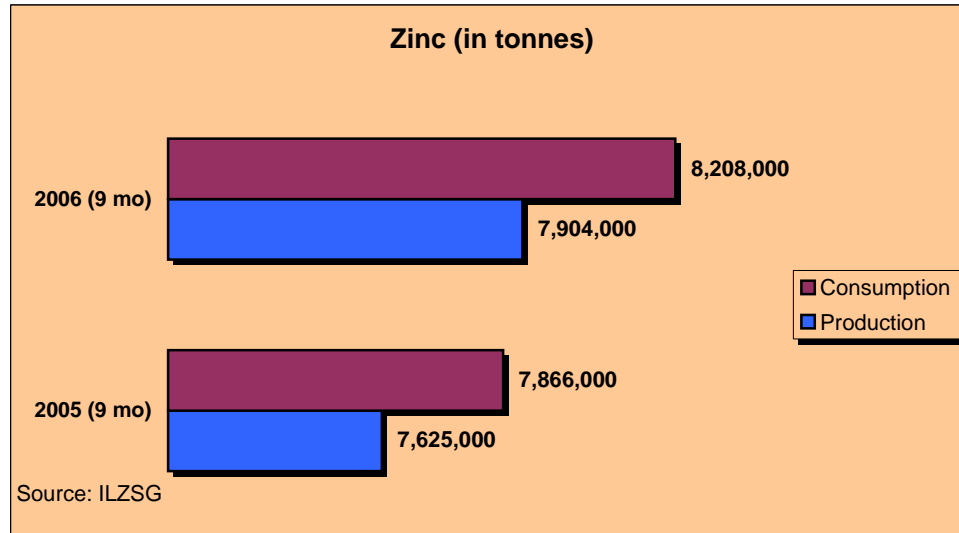
ZINC

As of November 24, 2006, zinc was trading at \$2.10/lb (cash). Current prices are at their highest level since it was first listed in 1915 (*Daily Times*). Among the metals, zinc was the biggest gainer during October 2, - November 24, 2006, as prices increased by 35.81%. The price range since October 2, 2006, has been \$1.53/lb - \$2.10/lb and for the year has been between \$0.87/lb - \$2.10/lb. Current prices reflect a ytd price increase of 141.6%.



Inventory levels continue to fall: As shown in the chart, LME zinc stocks have been steadily decreasing in 2006. LME stocks as of November 24, 2006 were 87,550, a decrease of 36.7% compared to October 2, 2006. (YTD decrease of 77.7%). We believe that current inventory supplies will satisfy global demand for less than 4 days.

Supply deficit: According to the International Lead and Zinc Study Group (ILZSG), zinc consumption is expected to rise by 3.9% and 2.6% in 2006 and 2007, respectively. The chart on the next page shows the supply deficit for the first 9 months of 2005 and 2006.



According to Antaika, China (the biggest consumer of zinc) is expected to consume 4.8 million metric tons of zinc by 2010, up from 3.08 million tons in 2005. China's zinc demand is expected to increase by 6.9% in 2007. (ILZSG)

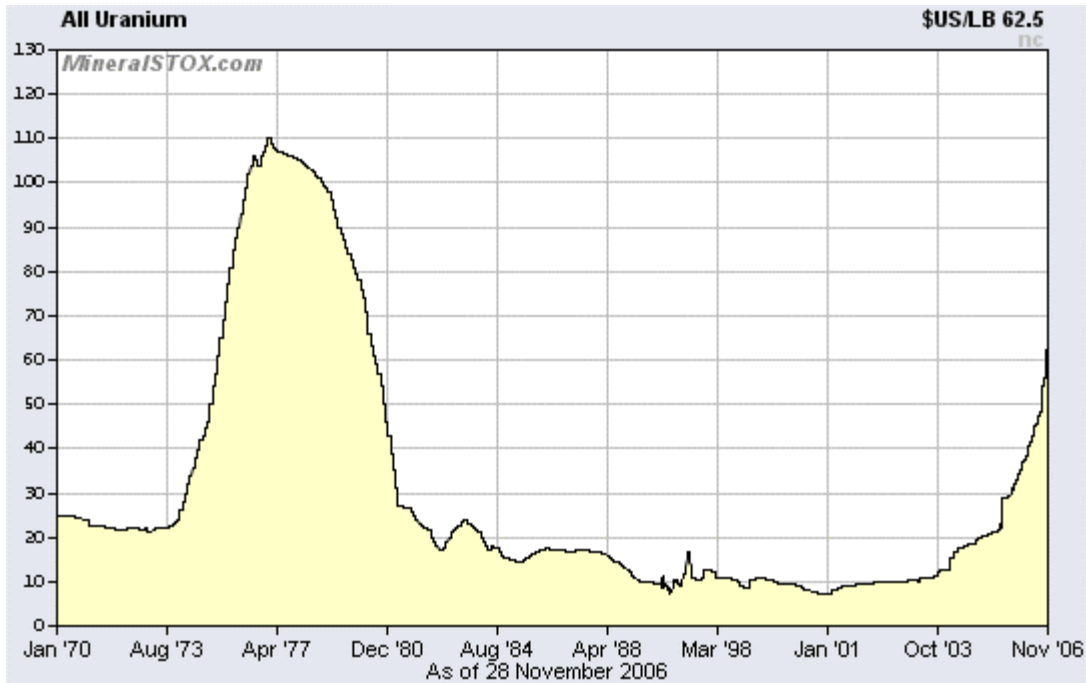
Conclusion: Although the supply of zinc is forecasted to increase by 4.9% in 2007, the increase is not expected to match the rising demand. Although we expect prices to drop from current levels in 2007, similarly to nickel, we do not expect zinc prices to drop as steeply as other base metals. The average forecasted price is \$1.46/lb and \$1.60/lb. (previous forecast were \$1.42/lb in 2006 and \$1.60/lb in 2007)

URANIUM

As of November 24, 2006, uranium was trading at \$63.50/lb compared to \$53.25/lb on September 20, 2006, an increase of 17.4%. Prices have increased by 66.7% since January 30, 2006.

Long-term demand looks positive: According to Bloomberg, Russia plans to make nuclear power the source of 25% of its needs by 2030, up from 16% now. Uranium is the biggest substitute to energy (oil and coal) and hence we continue to foresee a positive long-term outlook for the metal.

Recent surge in prices: A flood at Cameco's Cigar Lake mine (unfinished) led uranium prices to go up by 7% recently. Cameco Corp. (TSX: CCO), the world's largest, low-cost uranium producer (20% of global production), indicated that the flood will delay uranium shipments by at least a year. The mine is expected to produce 18 million pounds a year. The delay implies that projections for global uranium supply in 2008 will decrease by about 7 million pounds, which resulted in the recent surge in prices.



Forecasts: In the short-term, we believe that uranium prices will be very sensitive to supply going forward. Although we are not very bullish on short-term uranium prices, we believe persisting tensions in Iran and the supply-sensitive uranium market could keep the metal's prices high. If we exclude the chances of any events occurring that would affect supply, we expect uranium prices to stay at current levels during 2006 and 2007.

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