

Growth Stocks Weekly

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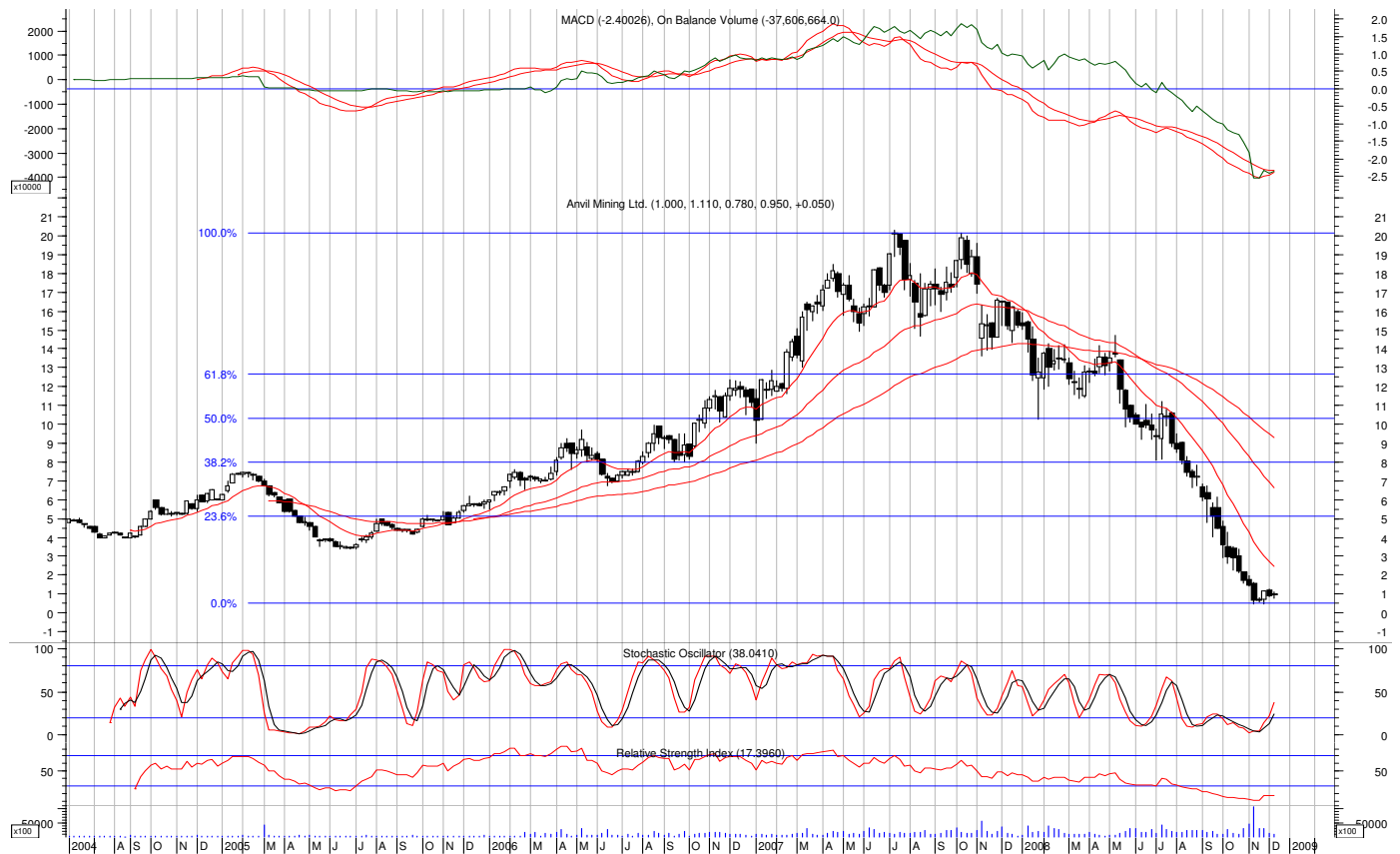
Performance: 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%

Junior Gold and Natural Resource Sector Report

December 11, 2008

Initial Report

Anvil Mining (AVM-TSX)



Weekly Chart: Anvil Mining (H. 20.31, L. 0.45, C. \$0.95)

Since first production in 2002 Anvil Mining has been the leading copper producer in the Democratic Republic of Congo. Anvil employed more than 2,550 people and had sales revenue of \$263 million in 2007.

In recent months Anvil, and the base metals mining sector, has been subjected to a number of significant negative events. The copper price declined by approximately 50% since September and the capital markets have become illiquid.

In Anvil's case, the impact of these events has been compounded by uncertainty. There is an ongoing review of mining agreements by the Government of the Democratic Republic of Congo ("DRC"), operational difficulties at the Dikulushi underground mine, delay in the commissioning of the Electric-Arc Furnace ("EAF") at Kinsevere and an increase in operating costs.

The cumulative effects of these events has placed Anvil in a difficult position, particularly in relation to the continued development of the Stage II Solvent Extraction-Electrowinning ("SX-EW") plant at Kinsevere, with a total projected cost of \$380 million. As at October 31, 2008 approximately \$136 million had been spent and approximately \$56 million committed, mainly for the purchase of key equipment with long lead times, leaving almost \$190 million of expenditure over the next 9 to 12 months to complete the project.

As at November 12, 2008, Anvil has approximately \$90 million in cash and short-term deposits and \$38 million in longer-term investments, the majority of which do not mature within the next three years. In the current environment there is limited availability of debt finance for mining companies and management has concluded that raising equity finance is not currently a viable option.

Management has developed a strategy for the next six to eighteen months that takes into account the Company's current position, consensus estimates of copper prices, conservative estimates of production and operating costs and the potential to raise debt finance in the event that availability of such finance improves in 2009.

The key elements of the strategy are:

- Maintaining a minimum cash balance over this period as required for the Company's operations;
- Finalizing the tentative agreements reached with Gécamines and the DRC Government;
- Operating the Dikulushi underground mine and Kinsevere mine at a positive cash flow;
- Curtailing all but essential capital spending;
- Reducing exploration costs to essential definition of resources at the Dikulushi and Kinsevere mines;
- Cutting general and administrative costs to the minimum necessary to support essential operations.

Central to this strategy, Anvil has placed the fabrication and construction works associated with the Kinsevere Stage II SX-EW development on hold until additional finance is available and there is greater certainty in global financial and commodity markets. Design work and civil works will continue and completion is expected this quarter.

In order to complete this development and maintain a minimum cash balance throughout the construction and commissioning phase, Anvil requires additional funding. The Company is in discussions with a number of possible lenders and preliminary indications are that debt finance could be available in the first half of 2009. This would assume satisfactory resolution of negotiations with the DRC Government regarding their mining agreements, which management expects could be finalized by the end of 2008.

Management expects to have financing arranged in time to allow for the recommencement of the Kinsevere Stage II SX-EW development during the third quarter of 2009. Commissioning of the plant is scheduled for early 2010. Keep in mind that there is significant uncertainty that the required finance will be available and that development of the project can re-commence within this timeframe.

If financing is not available during 2009 management expects that with the implementation of their strategy, and using conservative estimates for medium-term copper prices, it can operate its Kinsevere Stage I and Dikulushi mines in a profitable manner, with positive cash flow.

Operations and Projects

The Company has three established mining and processing operations at Dikulushi, Mutoshi and Kinsevere. Kinsevere's Stage I HMS Plant was commissioned in mid 2007 to produce copper concentrates.

Dikulushi

The 90%-owned Dikulushi copper and silver mine was established in October 2002 – Anvil's first mining operation. It is considered one of the richest copper mines in the world, with exceptionally high copper and silver grades.

Since 2002 the Dikulushi mine has been the largest contributor to Anvil's annual production and cashflow. Dikulushi continued the transition from an open-cut to an underground mining operation in 2007. Dikulushi performed well in 2007 with production reaching a record 24,561 tonnes of copper and nearly 2.5 million ounces of silver in concentrates. For the full year of 2007, total cash costs (after silver credits, TC, RC and transit) were \$0.57 per payable pound of copper.

During the second quarter of 2008, the Company determined that the extraction of ore from the underground stopes and the rate of underground development at the Dikulushi Mine was not proceeding as well as was initially expected. As a result, in its first quarter disclosures, the Company reduced its forecast production at Dikulushi to approximately 11,000 tonnes of copper and 950,000 ounces of silver and remains on track to achieve these production levels.

The Company has carried out a detailed analysis of the situation and determined that the underground mining method should be modified from a Sub-level Caving method to an Avoca cut and fill method. While Avoca methods require additional underground development over and above Sub-level Caving techniques, its adoption is expected to result in superior metal recovery. Feed to the plant continues to be sourced primarily from stockpiled low-grade ore, supplemented with ore from the underground mine.

The engagement during the second quarter 2008 of Byrncut Mining International as the underground mining contractor to coordinate all underground mining activities has resulted in significant improvement in the development of the underground mine with the rate of development consistently ahead of budget.

Commencement of full scale production (approximately 17,000 tonnes of copper per year) from the underground mine is expected to commence during the first quarter of 2009. To fully utilize the mill capacity, additional feed will be sourced from the current low-grade stockpiles which currently total 910,000 tonnes grading at 1.2% copper and 27g/t silver.

A drilling program is budgeted to evaluate the potential for satellite deposits in the surrounding area of Dikulushi.

Mutoshi

80%-owned Mutoshi is Anvil's second copper mining and processing operation, starting production in October 2005.

The Mutoshi Stage I HMS operation is located in an area known as the Kolwezi Klippe, a major copper-cobalt district. The mining of the coarse reject tailings deposits require no waste stripping, drilling or blasting. Production in 2007 was disappointing, 37% lower than the 16,000 tonnes planned due to persistent artisanal mining activity and heavy rainfall from October to April, which removed and redistributed the coarser-grained, higher-grade fraction of the resources further downstream. The remaining material is finer and lower grade, which negatively impacts the HMS copper recovery rate, which was 57% in 2007.

Because of the progressively lower metallurgical recovery from processing finer grained, lower grade material, Anvil decided in August 2008 to suspend mining operations, pending the outcome of an investigation of alternative mining methods and ongoing study of the establishment of an SX-EW facility, both of which are expected to be completed by the end of 2008. The processing plant will continue to operate with existing stockpiled ore sufficient to provide feed for the remainder of 2008 and to achieve forecast 2008 production of 8,000 tonnes of copper.

Kinsevere

95%-owned Kinsevere will be Anvil's most significant investment in central Africa - a major open pit mining operation, HMS processing plant, two electric-arc furnaces and a future 60,000 tonnes-per-annum solvent-extraction electro-winning plant. First production commenced in June 2007.

The Stage I HMS plant was commissioned during the second quarter of 2007. The HMS plant throughput has already surpassed the design capacity, at a rate of 1,380 tonnes of ore per day. From June to December 2007, the plant produced 13,006 tonnes of copper from concentrates grading 27% copper. The concentrates are exported or sold to local smelters.

The Kinsevere operation is forecast to produce 27,000 tonnes of copper in 2008. An intense drilling program is ongoing in mineralized areas in the vicinity of the three open pits and to date indicates strong potential for increasing resources in the copper oxide and sulphide zones.

Open pit mining at the Tshifufia and Tshifufiamashi deposits and processing through the HMS plant continue to operate as expected. Annual 2008 production forecast to be approximately 27,000 tonnes of copper. The first EAF was commissioned in August 2008, but is operating below its design capacity of 12,000 tonnes of copper per year due to a combination of design, logistical and technical factors.

Anvil has identified process flow issues associated with copper metal handling and furnace feed. This is currently preventing achievement of design capacity. Trial production using a method to provide for direct casting into a large mould is currently being evaluated. Conveyors, bins, screw feeders and weightometers are being upgraded to provide a more automated process. These measures are expected to increase production at the first furnace to design capacity by year-end, with further work to be carried out on the second furnace. Commissioning of the second EAF has been delayed until the first furnace is operating efficiently.

Kinsevere's Stage II is progressing well. The end of the wet season in April enabled a significant increase in construction activity during the second and third quarters, with shipments of construction materials and key equipment steadily increasing during the third quarter. Notable construction progress has included:

- Completion of bulk foundations for the milling, leaching and Counter Current Decantation ("CCD") thickener tank areas as well as for the SX and EW cell support beams;
- Erection of stainless steel CCD tanks and leach tanks;
- Excavation works for the plant area have been completed, with excavation works on the process and event ponds well advanced;
- Construction of the Tailings Storage Facility is approximately 70% complete;
- Backfill works have continued and are now over 80% complete;
- Using the Company's batch plant, total concrete works have progressed, with about 60% now completed;
- The mill was packaged and made ready for shipment from Melbourne in October and is expected to arrive to Durban in mid November, allowing for transportation to site in December. The girth gear, motor and gear box have been delivered;
- Dispatch of key equipment continues on a regular basis, with the apron-feeder and crusher delivered to site;
- Factory acceptance testing of EW transformers, rectifiers and multi-media filters has been carried out during late October, prior to shipment which is expected to take place in late November;
- The workshop for casting of the EW cells has been erected and the overhead crane commissioned;
- Construction of the first EW cells was completed in September, with all portals for the EW building erected and cladding underway;
- Further advance with the development of important infrastructure, with accommodation, kitchen facilities, offices and workshops in use.

Current Price: C\$0.95
52 Week Range: C\$0.45 - C\$16.47
Shares O/S: 71.2 million basic
Shares O/S: 73.4 million fully diluted
Market Cap: C\$67.64 million
Cash on hand: C\$125.5 million (Sept 30)
Working Capital: C\$269.3 million (Sept 30)
Shareholders' Equity: C\$601.5 million (Sept 30)

Conclusion

This will be one of our higher risk plays given the country risk. However, on December 10 the Democratic Republic of Congo announced that it is cutting costs for miners and wrapping up a review of mining contracts to help counter the effects of the global financial crisis and the slump in demand for commodities. Anvil appears to be doing a very good job to control their burn rate and has wasted no time putting their property on care & maintenance to dramatically reduce costs.

Raymond James analyst Tom Meyer only 4 months ago rated Anvil a "strong buy," although he reduced the price target down by \$2 to \$17, and considered the shares to be oversold.

Fighting since August 28 between government troops and the CNDP, led by renegade general Laurent Nkunda, has displaced more than 250,000 people in eastern Nord-Kivu province. Nkunda's fighters have inflicted heavy

losses on the Congolese army, taking control of much of the province, including the outskirts of the regional capital Goma. The CNDP has repeatedly broken a self-declared ceasefire in place since late October, by clashing with other armed groups in the region.

Some positive news has surfaced from the DRC this week. Congolese rebels and Kinshasa government officials met for a third day of talks in Nairobi on Wednesday amid hopes of reaching agreement on a framework for substantive talks, according to a UN spokesman. "Delegations are expected to be in a mix of proximity and direct talks today. There is a hope on behalf of the facilitation that a framework agreement will be reached today," said UN spokesman Jens Laerke. "We can say to you that we are making progress on building foundations for substantive talks; that is the stage where we are, we are satisfied," the former Nigerian president, who is mediating the Nairobi talks, told reporters. "I believe before we break off from this session we will have been able to get to a stage where substantive talks can begin," he added.

With cash on hand estimated at \$1.26 per share (Nov 12) and working capital (current assets less current liabilities) of \$3.78 per share (Sept 30), Anvil has positioned the company to ride out the current collapse of metals prices and maintain a cash flow positive posture.

If copper prices come back or DRC risk is reduced, we could see a dramatic jump in price on Anvil in 2009. We are accumulating a portfolio position at current prices.



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