

# 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

November 11, 2008

### Initial Report

#### Donner Metals Ltd. (DON-TSX Venture)

#### Winner - 2007 Prospector of the Year Award



**Weekly chart, Semi-log Scale, High \$0.80, Low \$0.08, Last Trade \$0.11**

**Donner Metals Ltd.** is a Canadian base metal exploration company with seasoned senior management and key joint venture agreements with Teck Cominco and Xstrata Zinc Canada.

The Donner/Xstrata Zinc JV team has made several recent high grade zinc and copper discoveries immediately beside Xstrata Zinc's producing Perseverance mine, in the prolific Matagami camp of Quebec, only 6km southeast of Xstrata's Matagami Mill.

Donner has the option to earn a 50% interest in the large Matagami project from Xstrata Zinc. The Matagami project under this joint venture agreement began in late 2006 and in January of 2007 the first discovery was announced, quickly validating the team's geophysical theories.

Xstrata has already initiated an early scoping study on the 2007 *Bracemac-McLeod* discovery, which was further delineated over 2008. With a positive feasibility study, this discovery has the potential to be fast tracked into near-term production.

Xstrata's established infrastructure at the Matagami Camp, including an airport, railway, paved road, and access to power, is of great benefit towards an early development decision.

The joint-venture team of Donner Metals and Xstrata Zinc Canada was recognized by the Québec Mineral Exploration Association for their "outstanding exploration success," and awarded its Prospector of the Year Award in November of 2007.

## **Recent Events**

The Donner / Xstrata Zinc (Xstrata Canada Corporation – Xstrata Zinc Canada Division) joint venture continues to search and drill at the Matagami camp for additional feed to supply Xstrata's 2,600 tonne/day Matagami Lake Mill.

Four drills are active on the Bracemac and McLeod zones. A total of 86,095 metres of diamond drilling in 173 drill holes has been reported on since the project began in late 2006.

On-going delineation drilling continues to intersect and expand the high-grade massive sulphides. Mineralization encountered between the Old McLeod zone and the New McLeod zone (now simply called the McLeod zone) confirms that it is a single connected deposit of sulphides.

A laterally continuous copper zone was also recently identified in the footwall to the massive sulphides that define the McLeod Zone.

The main productive horizon in the Matagami camp is a "Key Tuffite" at the top of the felsic volcanics, but earlier this year, Donner made a significant discovery in mafic volcanics about 220m stratigraphically above the Key Tuffite zone. This initial discovery, and subsequent others, demonstrates the potential for stacked mineralization in the Matagami camp.

The initial stage of a scoping study is under way, being funded and conducted by Xstrata Zinc, for the Bracemac-McLeod zones. This is a potentially key milestone for Donner.

The scoping study will provide the basis for a NI 43-101 compliant resource estimate following completion of the delineation drill program presently underway.

Additional geological data, maps and sections are available at [www.donnermetals.com](http://www.donnermetals.com)

In June 2008 Donner announced the issue of \$3.2 million of debentures paying interest at 12% per annum with a two year term. Donner can redeem all or part of the outstanding principal (and accrued interest) at any time. The debentures are secured against all of Donner's present and future-acquired assets, on a first ranking priority basis.

In addition to the debentures, a total of 1,435,000 bonus shares and 1,610,000 bonus warrants were issued to the debenture purchasers. Each bonus warrant entitles the holder to purchase one additional common share of the Company until June 5, 2010 at a purchase price of \$0.38 per share. If the debentures are redeemed on or before June 5, 2009, the expiry date of these warrants will be reduced to June 5, 2009.

## **The Team**

Donner's CEO Harvey Keats and VP Exploration Robin Adair have had their share of past success. Harvey was chief geologist at DiamondField's Voisey Bay nickel discovery in 1994, and Robin discovered a lot of copper, zinc and nickel as Exploration Manager with Falconbridge (bought out by Xstrata in 2006).

In 2006 they won the very competitive bidding war for the right to option the ground around Xstrata's Perseverance Mine in the prolific Matagami mining camp in northern Quebec, the subject of this report.

Robin and Harvey had studied the abundant historical data Xstrata had on the Matagami camp. They had a new interpretation of the geology and an innovative approach, and thought there was a strong possibility for multiple layers of stacked mineralization, and that more deposits would be found at Matagami.

Matagami is probably the least known base metal camp in North America. Rouyn Noranda, only 200 km south, and Sudbury nickel and Flin Flon nickel and Timmins are all much better known. That's mainly because Falconbridge controlled most of the camp over several decades, and the big mining companies generally don't publicize their findings.

All of the known mineralization at Matagami to that time had come from the same geological zone - called the Key Tuffite - but there was also a record of other zones of alteration. Alteration usually means mineralization. When a rock is "altered" it means it has been split or broken up by some geologic event, often creating cracks through which mineralizing fluids can move, and leave deposits of those minerals.

Supportive of this new theory was the Rouyn Noranda camp itself, only 200 km away. It had multiple, stacked zones of mineralization.

## **Matagami Project Overview**

The Matagami mining camp is a world-class mining district, with 18 known VMS deposits, including 10 past producers of varying sizes. This includes the giant Matagami Lake Deposit (25.64 million tonnes of 8.2% Zn, 0.56% Cu, 20.91 g/t Ag and 0.41 g/t Au) discovered in 1957 and mined from 1963 to 1988.

The area is host to historical production of 8,600 million pounds of Zn and 853 million pounds of Cu and has established infrastructure including the town of Matagami, a railway, a paved road, and a 2,600 t/day mill owned by Xstrata Zinc.

The Matagami Project's Donner/Xstrata Zinc JV has an area of 4,750 square km and includes 3,340 mineral claims covering 801 square km. A pipeline of strong drilling and exploration targets remain to be investigated, in addition to the ongoing work at Bracemac-McLeod.

Donner and Xstrata Zinc introduced a combination of 3D data integration, innovative advanced technologies, new concepts and diamond drilling to explore for new deposits in this prolific mining camp (see below for an outline of the powerful nature of this new technology).

Donner has the option to earn a 50% participating joint venture interest in the Matagami Project by incurring a total of \$20 to \$25 million of expenditures on exploration and related work on or before May 31, 2011. Upon earn-in by Donner, five separate joint ventures will be formed, covering the property and the area of interest. In each of the five joint venture areas, Xstrata Zinc has the option to earn back a 15% interest in each area by incurring up to \$20 million on a feasibility study.

Donner's strategy is to expand the zinc/copper deposits and zones in order to leverage on the existing infrastructure and processing facilities, which provide a known and well-established cost structure for developing these VMS deposits.

Donner's exploration objective is to investigate multiple stratigraphic horizons with potential for VMS mineralization including the prolific Key Tuffite horizon throughout the Matagami Camp.

To date, Donner has discovered new mineralization at Bracemac-McLeod and at Bell Channel. Within the extensive project area there are numerous additional exploration targets with good potential for additional discoveries.

Donner benefits greatly from Xstrata Zinc's expertise gained from the successful development of its wholly owned and operating Perseverance mine and Matagami mill complex. The latter is located only six kilometers northwest of Bracemac-McLeod.

### **VMS exploration: New technology means new life for old camps**

Volcanogenic Massive Sulphide (VMS) deposits fell out of favour in the low metal price world that characterized the late 1990s and early 2000s.

With increasing demand for base metals - including zinc, an early laggard in the metals revival - explorers have returned to some of the old Canadian mining camps known for their VMS production to find ore deposits missed by their predecessors.

VMS deposits are significant sources of copper, zinc and occasionally precious metals (e.g. Eskay Creek in British Columbia). The model for VMS deposits, which form on the ocean floor and are one of the few deposit types to have active, modern analogues, is constantly evolving as are the exploration methods to find them.

Recently developed technology includes some powerful exploration tools able to see deep into the subsurface, able to detect subtle geochemical signatures and/or capable of integrating multiple historical datasets with more recent information to generate new targets.

VTEM is a leading airborne geophysical survey system capable of providing high definition, deep penetrating magnetic and electro-magnetic measurements of the underlying rock. The system, produced by Geotech Ltd., is particularly good at detecting copper-zinc massive sulphide deposits.

Because VMS deposits often occur as a series of lenses, down-hole magnetic and EM surveys to detect conductive sulphide bodies near the borehole are also becoming an increasingly powerful tool for VMS exploration as modeling software improves.

Partners Alexis Minerals Corporation and Xstrata Zinc Canada, for instance, used a combination of magnetic and EM borehole surveys to detect buried VMS occurrences on the Ansil West property in the Rouyn-Noranda camp of northern Quebec. The team used the magnetic data from a borehole orientation probe to optimize EM interpretation and drilling locations.

Xstrata's toolbox includes MegaTEM and VTEM, both airborne EM systems, as well as Titan24 for deep penetration from the surface and advanced borehole survey systems. An integral part of the program was the use of 3-D earth modeling technology, particularly 3-D GIS systems, to integrate and interpret the vast amounts of multidisciplinary historical data with new data.

By developing a series of quantitative queries from conceptual geological models the partners were able to use a process of elimination to highlight prospective areas.

The resulting West Anvil discovery hole assayed 3.6 % copper over a core length of 53m, representing the first major base metal discovery in the 17 km<sup>2</sup> central area of the camp in 25 years, according to a paper given to Exploration '07 by the Xstrata team.

The Donner/Xstrata Zinc JV team is similarly using a combination of 3D data integration, advanced technologies, new concepts and diamond drilling to find ore in the Matagami camp, about 200 km north of Noranda. Matagami already contains 18 known VMS deposits.

The use of advanced technology to find hidden orebodies in the camp has been ongoing since 1999, when a new EM system survey led to the discovery of Xstrata's Perseverance deposits, containing a resource of 5.1 million tonnes grading 15.8% zinc, 1.24% copper, 29 gpt silver and 0.38 gpt gold.

As discussed, the main productive horizon in the Matagami camp is a "Key Tuffite" at the top of the felsic volcanics, but earlier this year, Donner made a significant discovery in mafic volcanics about 220m stratigraphically above the Key Tuffite zone. This initial discovery, and subsequent others, demonstrates the potential for stacked mineralization in the Matagami camp.

The team's ongoing drilling success validates the multidisciplinary approach the partners have used on the project. In recognition, the Québec Mineral Exploration Association (l'Association de l'Exploration Minière du Québec) awarded the 2007 Prospector of the Year Award to the Xstrata/Donner exploration team.

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Current Price: C\$0.11  
52 Week Range: C\$0.08 - C\$0.80  
Shares O/S: 46.26 million basic  
Shares O/S: 54.05 million fully diluted  
Market Cap: C\$5.1 million  
Cash on hand: C\$2.0 million (estimated)

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### **Conclusion**

Donner Metals has made high-grade zinc and copper discoveries in the prolific Matagami camp of Quebec, adjacent to Xstrata's producing Perseverance mine. Xstrata is a major global diversified mining group, listed on the London and Swiss stock exchanges. It has elected to commence a scoping study on the Bracemac-McLeod discovery that the Donner/Xstrata team made in 2007, and further delineated in 2008 under their joint venture agreement.

With a positive feasibility study, this discovery has the potential to be fast tracked into near-term production. Capital costs are low due to the proximity of Xstrata's 2,600 t/d mill and the established infrastructure at the Matagami Camp, which includes an airport, railway, paved road, and access to power. Xstrata has only 5.5 years of mine life at Perseverance, and is therefore anxious to add to its existing zinc and copper resources.

Zinc spot prices have declined from the peak 2007 US\$2/lb area back to 2003-2005 levels around US\$0.50/lb. Copper has fared better, with prices down from the peak \$4/lb area to US\$1.65. We await the results of the scoping study for guidance on the costs and efficiencies expected in order to more fully determine ultimate current valuation for Donner.

With a market cap of only about \$5 million, about 40% of which is cash value, and the team's proven ability as mine finders, we find the current share price compelling. A recovery in the metals could be expected as infrastructure programs pick up and Asian economies continue to grow, albeit off their recent rates. This would have a dramatic and immediate impact on Donner's prospects.

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