



BEACON ROCK RESEARCH

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2008 EMERGING PRODUCERS MID-YEAR SPECIAL REPORT

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Disclosures 1,2,3,4

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Emerging Producers Contain Significant Unrecognized Value

We maintain our position that companies on the cusp of advancing from construction to production status may contain significant unrecognized value for investors. In the past, exploration companies successfully advancing deposits from exploration to feasibility have enjoyed higher returns by overcoming exploration risks. With volatile credit markets, exploration companies incur increased levels of financial risk making it more difficult to maintain momentum. While companies during construction undergo increased scrutiny approaching commercial production, many of these companies included in this report may soon generate cash flow. This should provide increased financial flexibility to optimize production or buy back shares. This may also allow them to expand, explore, or acquire other resources.

We also maintain a positive outlook for metal prices over the next twelve months and longer term. Potential volatility or lower metal prices typical over the summer months may provide additional opportunities compared with seasonally stronger periods toward the end of the year. Global inflation resulting from monetary policy, economic growth in China and India, or worldwide wealth creation and a growing middle class, logically support strength in all metals. While increased production and inventories of some metals, such as lead or zinc, have raised concerns with increased global demand, we do not see a return to lower price levels experienced in earlier decades.

Sustained higher metal prices should lead to increasing margins for unhedged producers. There may be disagreement that exploration and operating costs will not be reduced with inflation, higher fuel costs, and labor and equipment bottlenecks. We continue to believe that the price mechanism should allow the market to allocate material and labor (not only capital) to the best companies with the most promising projects. There is good reason to believe that capital constraints may stall some projects, resulting in increased supply of available equipment and skilled labor. There is reason for optimism that at least the rate of growth for costs may moderate, and with higher metal prices, see potential for expanding margins. In this regard, emerging producers should be in a more enviable position relative to exploration companies to advance projects and create value.

The metals and mining industry is passing through an interesting phase. Many companies are frustrated with their stock price performance relative to having advanced to production during a period of record sustained metal prices and a strong long-term outlook. This frustration, coupled with review of price charts, indicates increased value relative to the not too distant past. We also believe this suggests a broad base for increased valuations in the near to long term. Should the market not recognize the value of production, we may see increased potential for acquisitions from major producers or other non-traditional industry participants with longer-term outlook and investment horizons. For these reasons, we see the following emerging producers as containing significant unrecognized value. Interestingly, we believe the companies in this report have additional assets and solid management teams not fully reflected in their company's stock price.

NovaGold Resources Inc: Moving To Full Production in 2008

NovaGold Resources Inc. (AMEX: NG) is scheduled to initiate production at its wholly owned Rock Creek Mine in Nome, Alaska in mid-2008, reaching full production later in the year. The mine is anticipated to produce 100,000 ounces of gold on an annual basis, providing US\$25 to US\$30 million in net cash flow at current metal prices. Having moved beyond a challenging weather and permitting environment, NovaGold has initiated both dry and wet commissioning circulating slurry through key concentrator, flotation, gravity and leach circuits, and has completed a first test gold pour. Rock Creek appears poised to ramp up into production during the coming summer months. Having completed a significant level of preparation, we believe that while NovaGold is ramping production, they may be able to produce between 25,000-50,000 ounces of gold by year end.

The Rock Creek mine is exceptionally well situated in the heart of the prolific Nome gold district with over five million ounces of past gold production. NovaGold plans to spend US\$7 million in 2008 for exploration in the Nome area, with the goal of extending mine life at Rock Creek to ten years. The mine, coupled with additional exploration in the Nome area, by itself would be a “company making” project deserving a producer valuation.

Cash flow from NovaGold’s Rock Creek mine is anticipated to be able to fund most of NovaGold’s expansion and development work on its world-class Donlin Creek project, owned 50-50 with Barrick Gold Corporation (NYSE: ABX) and its 50-50 partnership with Teck Cominco at the huge Galore Creek copper-gold project, prior to construction.



Figure 1 - Ore Pile, Rock Creek Mine, Nome, Alaska
Source: NovaGold

NovaGold recently announced an increase in the resource estimate at Donlin Creek to 31.7 million Measured and Indicated ounces and 4.2 million ounces of Inferred ounces of gold. This was an increase of 15.1 million ounces in the Measured and Indicated ounces over the 2007 resource estimate. Since this resource is a pit constrained estimate, we would anticipate conversion to reserve status with completion of a Feasibility Study scheduled for completion in 1Q09. Presently, the Donlin Creek project should produce 1 million to 1.5 million ounces of gold for a period of 25 to 30 years. Upon completion of the Feasibility Study, permitting will commence, with construction targeted for 2012, making Donlin Creek one of the largest gold producing mines in the world.

The resource at Donlin Creek has substantial potential for further significant expansion. NovaGold reported results of 19,000 meters of drilling in the East Acma area not included in the conceptual pit. Drilling in this area has provided some of the highest grades and longest drill intervals to date, which we believe could ultimately bring the total resource at Donlin Creek to over 40 million ounces. While drilling for the remainder of 2008 will support completion of the Feasibility Study, exploration drilling should continue during permitting resulting in further pit optimization. We believe the size of the eventual resource at Donlin would ultimately support a significantly larger processing facility with the potential of a future connection to the power grid.

At NovaGold’s Galore Creek copper-gold project, which was suspended last fall pending a comprehensive engineering review, we note that Teck Cominco Ltd. (NYSE: TCK) management has recently indicated excellent progress and expects to make a new go-forward decision later in 2008 under a modified development plan. We see the transition to production, advancement to feasibility and permitting on Donlin and a new development plan for Galore Creek as potential major positive catalysts, especially in light of the current share price level which resulted from the announcement on the Galore Creek project in late 2007.

Etruscan Resources: Production Only a Prelude to Major Exploration

Etruscan Resources Inc. (TSX: EET) recently announced higher production levels at its Youga Mine in Burkina Faso, having poured over 2,200 ounces of gold in the first two weeks of June 2008. Approximately 33,233 tonnes of ore have been milled during this period, roughly one-third of the design capacity of 83,000 tonnes per month. Etruscan continues to realize recoveries in excess of 92%. At this rate they anticipate declaring full commercial production by the end of the month. As they continue to increase the head grade and increase production levels, they should reach projected production of 6,700 ounces of gold per month. We are genuinely impressed with Etruscan's attention to detail to ensure unimpeded start-up at Youga. They have invested in multiple back-up systems, including power generators and gear boxes for the mill. They were also willing to defer production until the manufacturer was onsite to oversee critical commissioning steps.

Etruscan has reserves of 6.6 million tonnes at Youga from five separate pits. The operation currently draws from the A2 Main pit near the Youga Mine. This pit contains about 4.1 million tonnes, with an average grade of 3.1 g/t gold and a strip ratio of 6.8:1. Etruscan reports that it will open the A2 West Zone pit. While the A2 West Zone pit contains only about one-half year's operating reserve, this pit is believed to have higher grades with a lower strip ratio of 1.3:1. This should allow the mine to increase production and cash flow accelerating repayment of debt. We also believe that once Etruscan declares full commercial production at Youga, they may utilize step-out drill results to complete an updated in-house resource estimate. This should provide investors with a better understanding of the potential to increase mine life and improve economics at Youga, important to provide cash flow to fund Etruscan's major exploration opportunities.

Etruscan should soon enjoy the benefits of increasing production through its 53.4% interest in Etruscan Diamonds Limited, with significant alluvial diamond resources in South Africa. Etruscan Diamonds recently reported that over the previous six months ending May 2008, they recovered 5,465 carats from 209,231 m³ with an average value of \$613 per carat, thereby generating revenues of US\$3.4 million. Etruscan Diamonds is scheduled to complete installation of prescreening capacity, which may allow processing to increase to 100,000 m³ per month. In addition, they are working toward completion of a pre-feasibility study scheduled for August 2008, for increasing production to 260,000 m³ per month, and to be used in conjunction with completing an initial public offering and spinning out Etruscan Diamonds.



Figure 2 - Upper Gravels, Blue Gum Project, South Africa
Source: Etruscan Diamonds

We believe production and exploration potential of Etruscan Diamonds may represent an exceptional hidden asset for Etruscan shareholders. Etruscan Diamonds' Blue Gum project has significant potential for resource expansion in size and grade, laterally and at depth. In addition, they are also actively exploring other sinkholes even larger than the Blue Gum, and have recently increased their land position in the Ventersdorp District by 1,530 km². In addition to increasing the scale of the operation and resource, Etruscan Diamonds has delivered 763 carats in the previous six months to African Romance, its strategic partner and South Africa's first wholly Black-owned diamond cutting and polishing company. This should allow Etruscan to receive a portion of the potential premium to be gained over wholesaling, which may increase the sale price of diamonds for the retail market by a factor of twelve times.

Minefinders Corporation: Scheduled to Achieve Operating Profit in 3Q08

We recently visited Minefinders Corporation Ltd's (AMEX: MFN) Dolores project near Chihuahua, Mexico. We were pleased to be among the first to see ore placed on the leach pad after a decade of resource and mine development. Leaching should commence shortly, leading to pouring the first gold-silver doré bar in four to six weeks. While commissioning the crushing and screening equipment, Minefinders has cleared a significant amount of waste and stockpiled ore to accelerate production. The Dolores project is wholly owned by Minefinders and is unhedged. At current metal prices the Dolores project may achieve operating profitability and mid-tier producer status in 3Q08.

In twelve years, Minefinders has drilled over 1,000 holes, 200,000 meters and completing several feasibility studies. This should lead to operations meeting scheduled production estimates. In addition, Minefinders has also purchased all new crushing and screening equipment, as well as rolling stock, to provide a longer working life with maximum uptime and operational efficiency while minimizing breakdowns. Minefinders appears to have also maintained good relations with the local village providing employment opportunities and a significant improvement in housing.

The Dolores project has a Proven and Probable reserves of 99.3 million tonnes, containing 2.44 million ounces of gold and 126.64 million ounces of silver. As scheduled, Dolores will process 18,000 tpd over a period of fifteen years. Metals are recovered by a heap leach process with average recovery rates of 72.25% gold and 50.8% silver.



Figure 3 - Merrill Crowe Plant, Dolores Mine, Chihuahua, Mexico
Source: Analyst

Minefinders is currently working on a Scoping Study to make a construction decision in early 2009 for a 3,000 tpd mill and flotation plant to improve recoveries for higher grades beyond the third year of the mine plan. We also anticipate additional drilling for expansion of the conceptual pit and evaluation of an underground mine program.

We believe that while the market awaits Minefinders announcing full commercial production later in 2008, they may be overlooking the company's pipeline of exploration projects in northern Mexico. While Dolores has moved through construction, Minefinders' exploration team has continued to advance its silver and base metal projects and stake additional land. As Dolores moves into production, Minefinders may be expected to advance these projects without exposure to funding issues.

Mercator Minerals: Exceptional Low Risk Profile

We recently visited Mercator Minerals Ltd. (TSX: ML) Mineral Park Mine, near Kingman, Arizona. Mercator is rapidly approaching completion of the first phase of their 50,000 tpd copper- molybdenum -silver milling facility. The first phase at 25,000 tpd will dramatically increase copper production and allow the Company to commence production of molybdenum and silver in concentrates. Mercator, through a wholly owned subsidiary, recently completed a transaction with an affiliate of Silver Wheaton Corp. (NYSE: SLW) for the sale of the life-of-mine silver production from Mercator's Mineral Park copper/molybdenum mine in Arizona for an up-front payment of US\$42 million in cash to Mercator's affiliate. Upon delivery of the silver, Silver Wheaton will then also pay Mercator's affiliate in cash the lesser of the silver spot price or US\$3.90 per ounce of silver (escalated by 1% per annum starting in the fourth year of silver production). Current production of cathode copper generates approximately US\$2.0 million free cash per month. Mercator is well prepared to fund the second phase of the mill construction to 50,000 tpd from existing cash, cash flow from cathode copper production, and production from Phase I, scheduled to commence 3Q08. This results in very low financing risk for Mineral Park with increased production from the second phase anticipated in mid-2009.

At commodity prices of US\$1.40 per pound for copper, US\$7.50 per pound for molybdenum, and US\$7.50 per ounce for silver, Mercator's Mineral Park Mine has total estimated production of over one billion pounds of copper, 260 million pounds of molybdenum, and 12 million ounces of silver. The mine has an estimated mine life of 25 years, copper and molybdenum production is unhedged, and the project is not burdened by royalties. Their pre-feasibility study (including silver production), assuming more conservative metal prices (US\$1.53 copper, US\$10.13 molybdenum, and US\$7.50 silver), estimated an after-tax IRR of 51% and NPV of US\$426 million with 1.8 year payback of capital. Annual production over the first 10 years is scheduled to average 56.4 million pounds of copper, 10.3 million pounds of molybdenum and 600,000 ounces of silver.



Figure - 4 Mineral Park Mine, Kingman, Arizona
Source: Analyst

Construction at Mineral Park has proceeded on schedule relative to other projects in the industry, evidencing the benefits of an uncommon low-risk profile. Mineral Park is located in northwest Arizona, a mining friendly and stable political jurisdiction, with excellent access to infrastructure and availability of labor. Having been a past producing mine, Mineral Park has not been impaired by permitting or environmental issues. In addition, having previously produced copper- molybdenum concentrate, there may be less metallurgical risk in recovering metals. With previous operations at Mineral Park, the strip ratio is estimated at only 0.18 to one, and with high grades of molybdenum, the mine has reduced costs leading to rapid payback of capital in the near term at current metal prices, and reduced operating risk over the mine life.

Acadian Mining: Operating Upside and Resource Expansion

Acadian Mining Corporation (TSX: ADA) remains one of our favorite and most unappreciated junior base metal mining stocks. While management should be applauded for the apparent ease of placing the zinc-lead Scotia Mine into production in 2007, mine operations have recently been beset with weather related issues, optimizing processing, and softening lead and zinc metal prices. Though these factors led to operations below management expectations in 1Q08, the company enjoyed its first profitable quarter, which we believe is very likely to improve through the remainder of 2008.

The Scotia Mine processed about 2,000 tpd in 1Q08, which management plans to increase to 2,400 to 2,500 tpd through the end of the year. Though some operating challenges persisted into its second quarter, management remains confident that it may achieve targeted production of 30,000 tonnes of zinc concentrate and 12,000 tonnes of lead concentrate in 2008. This is approximately 31.6 million pounds of payable zinc and 16.7 million pounds of payable lead.

Acadian has claim holdings of approximately 54,000 hectares in Nova Scotia, with a strike length of over 50 kilometers, providing a significant opportunity to expand identified zinc-lead resources. The existing reserve of 4.6 million tonnes, providing a mine life of seven to eight years, is less than half of the identified resource. As the remaining claims cover even larger areas of similar host rock to the known resource, we believe the current resource has good potential for expansion, providing an excellent exploration target with a clear source of funding through operation of the Scotia Mine. The combination of improving operations in the near term, resource expansion in the mid to long term, and stable metal prices should be well received by investors.

Acadian maintains an ownership in other base and industrial metal assets including the Lake Ainslie barite-fluorite deposits and its 44.42% interest in Royal Roads Corp. (TSX Venture: RRO). Acadian has received shareholder approval to spin-out its gold assets into Annapolis Gold Corporation, a publicly traded company, to include gold resources of its Scotia Goldfields project (including the Beaver Dam, Tangier, Forest Hill, and Goldenville properties) plus its 50% interest in the Fifteen Mile Stream gold project. Existing shareholders will receive one share of Annapolis for every four shares of Acadian. The plan for the Scotia Goldfields is to develop the first central processing facility in Nova Scotia with modern mining methods to be fed by ore from the satellite deposits. We anticipate that Annapolis may be competitive with other gold projects, providing increased exposure and valuation of Acadian's current assets.



Figure 5 - Scotia Mine, Nova Scotia
Source: Analyst

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Beacon Rock Research, LLC provides information and analysis on selected companies, with a focus on small-cap and micro-cap companies.

This report has been written in accordance with current SEC regulations and the Standards of Practice developed by the Chartered Financial Analyst Institute (CFAI). Our research has been conducted by employing analytical practices generally accepted as standard within the analytical industry. In this instance, a comparison of financial strength, a bottom-up earnings projection based on a recovery in the U.S. economy, and relative multiples, were employed. Target prices are calculated on comparative EPS, sales and book value multiples, and our knowledge of small-cap markets when enjoying both a sector and a cyclical rebound. Our conclusions are, by the very nature of forecasting, speculative, but are also reasonable, supportable and consistent.

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Strong Buy	Immediate purchase is recommended. The security is expected to outperform the market over the next six to 12 months.
Buy	Immediate purchase is recommended. The security is expected to outperform the market over the next 12 to 18 months.
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Sell	The stock has reached the target price objective and/or conditions have changed sufficiently to alter the outlook for the stock.

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