The FM Bulletin

Fraser Mackenzie

Sales 416-955-0198 – Trading 416-955-0388 | **October 10, 2012**

MARKET SNAPSHOT

INDEX	Close	% Change	COMMODITIES	Close	% Change
S&P 500	1441.48	-0.99%	Gold - London AM (US$/oz) *	1763	-0.44%
S&P/TSX Composite	12273.57	-1.17%	Silver - London AM (US$/oz) *	33.79	-0.24%
S&P/TSX Venture	1327.81	-1.28%	Crude Oil - WTI (US$/bbl)	92.39	3.43%
Dow Jones	13473.53	-0.81%	Crude Oil - Brent (US$/bbl)	114.04	1.60%
NASDAQ	3065.02	-1.52%	Natural gas -AECO (C$/GJ)	2.73	3.41%
Canadian Dollar	1.02	-0.14%	Henry Hub (US$/Mmbtu)	3.19	0.31%

* Priced as of this morning

COMPANIES UNDER COVERAGE

METALS & MINES

LABRADOR IRON MINES Last Close $0.98 Target: $1.75 STRONG BUY Potential ROR: 79%

TSX:LIM Wojtek Nowak, CFA / 416-682-4204 / wnowak@frasermackenzie.com

FYE Mar 31	2012A	2013E	2014E		
Sales (Mt)	0.4	1.6	2.0	Shares O/S (M)	67.8
Realized Price ($/t)	$147	$109	$113	Mkt Cap ($M)	$66.4
Cash Costs ($/t)	n/a	$65	$63	EV ($M)	$48
EBITDA ($mm)	($5)	($16)	($4)	52 Week High/Low	$8.00 / $0.95
				Target Valuation	DCF based

Rebound in Iron Ore Prices a Positive Indicator for Labrador Iron Mines (TSX:LIM)

We view the recent iron ore price action as supportive of a floor around current levels. The iron ore price has rebounded to US$118/t (62% fines, CFR China) following last week's Chinese national holiday, and has gained about US$30/t in just over a month. We believe this price action signifies interest from Chinese buyers below the US$120/t level, which is generally considered the breakeven level for Chinese domestic iron ore production, and could indicate a floor for iron ore pricing. This thesis is further supported by the fact that the buying activity is happening in spite of lackluster economic datapoints out of China.

We view the current pricing environment as positive for Labrador Iron Mines (LIM). We believe LIM can generate positive margin in the range of $5-10/t at current prices, and should therefore resume operations next operating season if prices remain stable. While the margins are nominal, we believe LIM will benefit from tweaking its operations in anticipation of production growth and stronger margins once the multi-user port facility is established at Pointe Noire in 2014. At that juncture, we expect margins of $20/t or more.

We believe LIM represents good value at today's share price levels. The shares are trading below the recent equity financing level of $1.00 with a post-financing market cap of around $100mm, which is half the size of Alderon (TSX:ADV) and just larger than Champion (TSX:CHM). Thus, investors can own a producing asset with very strong leverage to higher iron ore prices, at a valuation that is similar to development peers.

We maintain a STRONG BUY recommendation on LIM with a $1.75 target price. Our target price is based on a DCF model using a 15% discount rate and US$110/t long-term iron ore price (62% fines, CFR China).

NIGHTHAWK GOLD	Last Close $0.19	Target: $1.80	STRONG BUY	Potential ROR: 847%
TSXV:NHK	Michael Starogiannis, P.Eng / 416-682-4222 / mstarogiannis@frasermackenzie.com			

Shares O/S (M)	123.9
Mkt Cap ($M)	$24
EV ($M)	$18
52 Week High/Low	$0.41 / $0.11
Target Valuation	3.7 mm ounces

Nighthawk Gold (TSXV:NHK) Shows Strong Vertical Continuity to High Grade Shoots: 2.49 g/tonne gold over 203.4 metres

The highlighted hole headlines at 2.49 g/tonne gold over 203.4 metres, including 7.78 g/tonne gold over 25.75 metres.

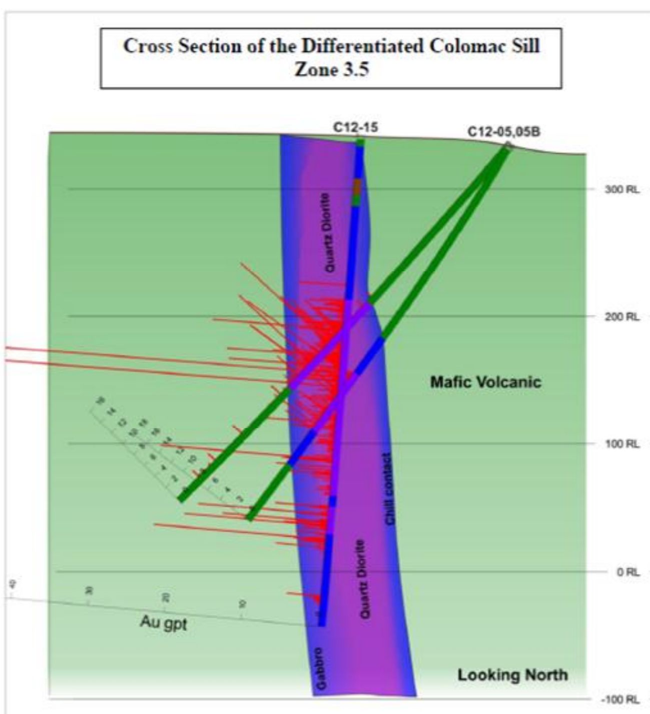
The company cautions that the hole was drilled sub-vertically, and therefore very oblique to the mineralized dyke. While the true width of the dyke, therefore, is likely closer to 80 metres along this section we still consider this a significant intersection.

Despite being drilled sub parallel to the structure, this intersection does highlight two important things:

1. **The vertical continuity of high grade shoots within the dyke**. The hole was intentionally drilled down the length of a known high-grade shoot in the 3.5 zone to test for grade continuity and internal structure to the high grade zones. From both these perspectives it was a success. As seen in the grade histogram plotted on the drill hole trace on the cross section below, the zone carries significant grade throughout with only 5 or 6 individual assay intervals carrying over half an ounce.
2. **There may be a significant drilling bias in drilling to-date that may underestimate grades.** This has been a factor that has weighed on our minds since the release of the resource statement which came in with a global grade of about 1 g/tonne. This resource grade was well below historic open pit head grades which average between 1.5 and 2.0 g/tonne (nominally 1.6 g/tonne). We are firm believers that historic head grades in a situation like this, where mineralization is constrained within a lithologically distinct unit (the Colomac dyke or sill), are a very good predictor of future grades and therefore this hole confirms the distinct possibility of a drill bias and future uptick in grade pending further drilling.

We consider the news very positive and reiterate our Strong Buy and $1.80 target price.

Figure 1. C12-15 and C12-5,5B Cross Section



Oil & Gas

ITHACA ENERGY | Last Close $2.00 | Target: $3.15 | STRONG BUY | Potential ROR: 58%

TSX:IAE

Vic Vallance, CFA / 416-682-4225 / vvallance@frasermackenzie.com

FYE Dec 31	2011A	2012E	2013E		
boe/d	4,370	4,800	11,800	Shares O/S (M)	259.4
CFPS dil. (US$)	$0.39	$0.44	$1.10	Mkt Cap ($M)	$519
P/CF	5.1 x	4.5 x	1.8 x	EV ($M)	$400
EV/Prod	$91,487	$83,292	$33,881	52 Week High/Low	$3.26 / $1.43
				2P NAVPS (US$)	$3.72

Ithaca (IAE:TSX) Announces Q3 Export Volumes and Provides an Operational Update- Neutral to Slightly Negative

Ithaca this morning announced Q3 export production volumes of 5061 boe/d (in-line with our expectations) that was up 28% compared to Q2 and reflects the addition of a full quarter of Athena production. Production in the quarter was affected by a major planned maintenance shutdown at the host facility for the Cook field. The shutdown ended in early October taking approximately 70 days to complete (versus the expected 50 days). In addition production was also affected by planned maintenance of the host facility serving the Broom field and unplanned downtime at both the Topaz and Anglia fields. Also Athena production was variable as the company tried to resolve the blockage in the P1 well. In total the shutdowns reduced net average Q3 export production by approximately 1100 boepd.

Athena production (IAE-22.5%) has now stabilized at a gross daily rate of 10-11,000 bopd. Reservoir performance including the continued production of dry oil provides a positive signal for the longer term potential of the field. The timing of water breakthrough at the Athena wells along with the efficiency of the sweep of oil through the reservoir assisted by water injection will be key to determining the ultimate field production profile.

The company estimates Q4 export production to be in the range of 6300-6900 boe/d which includes 1000 boe/d for the recent acquisition of an additional interest in the Cook field and the interest in the MacCulloch field. Excluding the acquisition, Q4 production is estimated to be 5300-5900 boe/d. Q4 volumes are to be affected by scheduled maintenance at the Beatrice and Jacky fields, ongoing Broom maintenance shutdown, activities to service facilities at the Anglia field and the extension of Cook maintenance into Q4.

As a result of the shutdowns planned and the extension of maintenance at Cook, we are scaling back our 2012 production volume forecast from 5500 boe/d to 4800 boe/d. We are not including the acquisition in our estimates until closing which is assumed in early 2013. Our cfps estimate has been scaled back from US$0.55 to US$0.44. For 2013 we are including the recent acquisition and tweeking production from some of the company's other fields. Our forecast for 2013 is now 11,800 boe/d (up from 11,000 boe/d) and our new cfps estimate is US$1.10 (US$1.02 previously). We are assuming the commencement of the GSA development in the early part of Q4 2013. Excluding any contribution from the GSA development in 2013 (ie factoring in a delay of GSA into 2014), production volumes are estimated at 6800 boe/d and cfps would be US$0.67. In 2014, with a full year of Stella production, we estimate production volumes of 21,900 boe/d and cfps of US$2.06. **We continue to rate the shares a Strong Buy with a $3.15 ps target which is based on 85% of our 2P NAVPS.**

Marketing

- New York – **Oct 17 – IC Potash (TSX:ICP)**
- Toronto **– Oct 25** – **Zedi Inc (TSX:ZED)**

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