

## MACDONALD MINES EXPLORATION LTD.

(\$0.075; BMK-TSX-V)

### Recommendation

Speculative Buy

### Risk

High

### Target Price

Temporarily Withdrawn

### Price (Nov. 3)

\$0.075

### 52-Week Range

\$1.32-\$0.03

### Shares O/S

140 million

### Market Cap

\$10.5 million

### Average Daily Volume

502,400

### Year-End

December 31



Data Source: www.BigCharts.com

## UPFRONT

Given that the stock seems to have bottomed out, and with MacDonald Mines' adequate cash resources, we believe the shares offer greater upside potential than downside risk over the next year.

## RECOMMENDATION

eResearch is confirming the Speculative Buy recommendation for MacDonald Mines Exploration Ltd. ("MacDonald Mines" or the "Company"). Reflecting extreme weakness in the markets, wherein there is a disconnect between stock prices and intrinsic values, we have temporarily withdrawn our 12-month Target Price. eResearch continues to provide an analysis of MacDonald Mines' intrinsic value - see Conclusion.

## PROFILE

MacDonald Mines Exploration Ltd. is involved in the exploration of nickel-copper in the Webeque area of the James Bay Lowlands of Northern Ontario.

## HIGHLIGHTS

- MacDonald Mines is a cash-rich junior explorer offering investors an exciting play on one of the most promising nickel discoveries since Voisey's Bay.
- One of the largest geologically favourable land positions in the region surrounding the spectacular Noront Resources Ltd. nickel-copper discovery.
- MacDonald has a cash position of \$7.9 million, enabling the continuation of drilling and property acquisitions.
- Major investors with significant ownership positions include Robert McEwen, Pierre Lassonde, Sheldon Inwentash and Randall Oliphant.
- The Company has already discovered nickel mineralization on its McNugget property, with further diamond drill results to come.
- Drilling is expected on the Saracourt and Wellington West properties towards Y/E.
- MacDonald will eventually need additional capital, or be forced to reduce the level of exploration activity more dramatically
- Other challenges include the risk that no economic mineralization is discovered, accessibility to the property, and weather-related delays.

### Analysts

This report was written by a contracted analyst, and was vetted and approved by the eResearch Investment Committee

Bob Weir, B.Sc., B.Comm, CFA  
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# MacDonald Mines Exploration Ltd.

**MacDonald Mines Exploration Ltd.**

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## RECENT DEVELOPMENTS

### **October 14, 2008: MacDonald Mines to Acquire 40% Interest in (another) Highly Prospective Base Metal Property in Sachigo Greenstone Belt**

MacDonald Mines has continued its strategic land acquisition, by signing a Letter of Agreement with Escape Gold Inc. to acquire a 40% interest in Escape's Sachigo Lake Property in the northwest region of the Sachigo Greenstone Belt in the James Bay Lowlands. The property consists of 5,312 hectares adjacent to MacDonald's recently acquired Saracourt Property. This acquisition would increase the size of the Saracourt Property to 9,000 hectares.

MacDonald will make a cash payment of \$50,000 within 10 days of signing the agreement (the Effective Date), and MacDonald will issue to Escape 300,000 common shares and 300,000 warrants of MacDonald within 30 days of the Effective Date and a further 300,000 shares and 300,000 warrants on or before the first anniversary of the Effective Date. MacDonald will have an exploration commitment of \$360,000 in the first 12 months. In addition, the Company has an option to acquire an additional 10% by spending an additional \$1.14 million on exploration over three years.

### **October 9, 2008: MacDonald Mines to Acquire 100% Interest in Highly Prospective Base Metal Property in the Sachigo Greenstone Belt**

The Company has signed a Letter of Agreement with Shoreham Resources Ltd. (TSX-V: SMH) to option 100% of Shoreham's interest in the northwest region of the Sachigo Greenstone Belt. This "Saracourt Property" contains 3,456 hectares located in the Northwestern Ontario quadrant of the James Bay Lowlands. The Company will make cash payments of \$75,000 within 60 days and a further \$75,000 on or before the third anniversary of the Effective Date. In addition, MacDonald will issue to Shoreham 150,000 common shares and 300,000 warrants of MacDonald within 30 days of the Effective Date and a further 150,000 shares and 300,000 warrants on or before the first anniversary of the Effective Date. See the press release for the full details.

**COMMENT:** *The current market downturn and credit crisis in the junior resource sector have enabled cash-rich companies, such as MacDonald Mines, to capitalize on property acquisition opportunities.*

### **September 22, 2008: MacDonald Mines Recommences Drilling Program on Five Project Areas in Ring of Fire; Employs Advanced Modelling Process of Targets.**

The drill program will involve approximately 8,000 metres, with approximately 40 holes to be drilled by the end of October 2008. The Company has been drilling on its McNugget Property, and has recently moved locations onto its Wellington Property. The Company has rented a local native camp to utilize as a base camp for exploration on this property.

Separately, MacDonald Mines is now using an advanced modelling process that should allow the identification and prioritization of drill targets without employing traditional ground geophysics. The benefits are meaningful, allowing the Company to efficiently identify targets at greater depth, with improved accuracy and lower costs.

### **July 11, 2008: MacDonald Mines Drill Program Underway in James Bay Lowlands**

The 2008 drill program is to cover multiple targets on five separate properties in the "Ring of Fire" district in the James Bay Lowlands, and will operate through the end of October 2008, when the winter freeze halts exploration. The five properties include the McNugget, Salo, Wellington, Adelaide and Hornby.

**June 19, 2008: MacDonald Mines Named to 2008 TSX Venture 50**

The Company was recognized as part of the TSX Venture 50, which includes the top 10 companies in each of five industry sectors: mining, oil & gas, technology & life sciences, diversified industries and clean-tech. Accordingly, MacDonald Mines is included in the top 10 mining sector companies. The ranking is based on a formula that includes revenue, return on investment, market cap growth and trading volume.

**June 16, 2008: MacDonald Mines Outlines Targets on Five Distinct Projects; 5,000-Metre Drill Program to Commence in Late June**

This drill program was initially launched with a planned 30 holes and 5,000 metres of diamond drilling within five of the Company's properties, but was later increased. It focuses on five key properties discussed in news releases outlined above.

## THE COMPANY

Toronto-based MacDonald Mines is well-positioned near the exciting nickel-copper discovery by Noront Resources in the James Bay Lowlands of Northern Ontario. The Noront discovery of spectacular grade NI-Cu-PGE at its Double Eagle property in September 2007 sparked a major staking rush in the region.

MacDonald Mines has operated in the area since 2003, and had a significant first-mover advantage in the staking rush. Management immediately hired a helicopter and was staking the region the day after Noront's announcement.

The Company's land holdings in the region amount to approximately over 86,000 hectares, including both wholly-owned properties and properties held with partners. The partners include Temex Resources Corp. (TSX-V: TME), Baltic Resources Inc. (TSX-V: BLR), Canadian Orebodies, Coordinates Capital Corp., Hawk Uranium and WSR Gold Inc.

## EXPLORATION UPDATE

Along with numerous other juniors in the region (referred to as the "Ring of Fire"), management has been undertaking an accelerated exploration program, with a 2,067-metre drilling program completed in late 2007, another 2,500 metres in spring 2008 (in the area of, and immediately adjacent to, the Noront discovery), and a further 8,000 metres through summer/fall 2008 over five properties.

At the time of writing, drilling has stopped due to freeze-up, but management is expecting to be winter drilling on its Saracourt and Wellington West properties before year-end. This will depend on negotiations with First Nations.

The most significant drill results to date on the McNugget property include the following:

- Hole MN07-46 encountered periodotite throughout its 170-metre length and assayed 0.18% nickel over 112 metres.
- Hole MN07-47 encountered 0.36% copper, 10.6% zinc, 3.7% lead and 115g/t silver over an interval of 3.0 metres.

We continue to await drill assay results from past drilling and the ongoing drilling program, which should be available in late December or early January.

## PROPERTIES

The Company's properties are set out in the following table:

**Table 1. Properties**

<b>Properties</b>	<b>Area (hectares)</b>	<b>Ownership Interest</b>	<b>Partner</b>
McNugget Property	13,000	100%	-
Hornby Property	24,000	50%/50%	Temex
Adelaide Property	12,500	50%/25%/25%	Temex, Canadian Orebodies
BigMac Property	11,300	WSR has 75% option	WSR Gold (operator)
Saracourt Property	9,000	Letter of intent to acquire 100% and 40% interests in adjacent properties	Shoreham Resources Escape Gold
Wellington West	8,800	-	Canadian Orebodies, Coordinates Capital
Salo	4,200	100%	-

*Source: MacDonald Mines*



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## CORPORATE GUIDELINES

MacDonald Mines' management has created a business model in which the key focus is to create critical mass, and this critical mass is provided by operating four separate public companies as follows:

- MacDonald Mines Exploration Ltd. (TSX-V: BMK)
- Uranium Star Corp. (TSX-V: NUK)
- VenCan Gold Corporation (TSX-V: VCG)
- HoneyBadger Explorations Inc.

This allows the Company to create synergies and employ/attract high calibre geologists, geophysicists and support staff, and build relationships with key suppliers as a much larger entity, than each company could possibly do on its own.

MacDonald Mines operates with a strategy governed by four principal cornerstones:

1. The right people
2. The right properties
3. Financial strength and security
4. Ongoing science and operating enhancements to ensure the successful evolution of the Company

As MacDonald Mines is a relatively small, but growing exploration company, these principles will be expected to change and evolve over time.

## STRENGTHS AND CHALLENGES

### Strengths:

- **Strong Cash Position:** MacDonald Mines has a cash balance of \$7.9 million, which positions it well, compared to many cash-strapped junior explorers, to manage through the current market downturn.
- **Exciting Exploration Opportunity:** MacDonald Mines continues to actively drill its exciting exploration play in the Webequie District of Northern Ontario. The area is a new exploration play, with little work having been carried out in the region prior to the Noront discovery in September 2007.
- **Well Positioned Properties:** The Company's properties are in close proximity to the Noront discovery, with some claims within 1.5 kilometres of the main strike. Moreover, the Company has a large land position, and a high inventory of drill targets compared to many others in the area.
- **High Profile Investors:** Strong interest from several high profile investors has added credibility to MacDonald Mines' exploration projects. These include Robert McEwen (US Gold Corp/Goldcorp Inc.), Pierre Lassonde (Franco-Nevada), Sheldon Inventash (Pinetree Capital), Randall Oliphant (Western Gold Fields), among others. No other junior explorer has these types of names for potential guidance and advice, except for Noront.

- **Relations with Local Native People:** The Company has had a long and constructive relationship with the local native band. This is important, given that the Company has a camp in the native community of Webequie and is dependent on the support of the local native people.

### Challenges

- **Weak Capital Markets:** The junior exploration sector has been hard hit by the turbulence in the equity markets, with no ability to access vital equity capital necessary to advance exploration.
- **Exploration Risk:** MacDonald Mines has yet to hit the high-grade mineralization that was discovered on the nearby Noront property. Should this fail to occur, the share price could drop further.
- **Accessibility:** Access to this remote region is typically by helicopter, which is expensive and can be impacted by inclement weather. There is no road or power access, and much of the land is covered with significant overburden. There is now an exploration camp at the McNugget Property, which is positive.

## FINANCIAL REVIEW AND OUTLOOK

**Year End:** December 31.

**Currency:** MacDonald Mines reports its financial results in Canadian dollars.

**Revenue:** As a mineral exploration company, the Company is not currently generating revenue, earnings, or cash flow. However, a tax recovery led to positive earnings in the first half of 2008.

**Cash:** MacDonald Mines currently has cash and marketable securities of approximately \$7.9 million. At the H1/08 rate of burn, the Company would have sufficient cash for the next 22 months, which leaves it in a satisfactory position. However, management has since been proactive in reducing costs with suppliers, in order to reduce its burn rate and push back its need to raise additional funding. Cash is held in bank deposits, and there is no exposure to asset-backed commercial paper (ABCP) investments.

**Exploration Spending:** Capital spending on properties was \$2.3 million through the first half of 2008, and we anticipate total exploration spending of approximately \$3.8 million in 2008, and \$2.5 million in 2009 (\$3.7 million in 2007). This will be focused on the current 8,000-metre diamond drill program on five properties.

**Burn Rate:** The Company's (non-exploration) non-discretionary expenses; i.e., salaries, office and administrative, accounting fees, etc. for H1/08 were \$84,000 per month. We are forecasting that the burn rate will remain flat through the remainder of 2008, but decline in 2009 due to weak capital markets and a declining cash balance.

**Financing:** In May 2007, MacDonald Mines completed a brokered private placement, raising gross proceeds of \$10 million, but there have been no significant fund raisings since then, other



than the exercising of warrants. eResearch anticipates that the Company will need to return to the capital markets later in 2009 to fund the next phase of exploration, or slow its rate of exploration. Proceeds of \$550,000 are expected in September 2009 from the conversion of warrants (\$0.10 exercise price).

**Debt Funding:** MacDonald Mines has no debt outstanding.

**Capital Structure:** The Company currently has 140 million shares issued and outstanding, and 181 million on a fully diluted basis.

**Options and Warrants:** The Company has the following warrants and options outstanding:

**MacDonald Mines Exploration Ltd.  
Options and Warrants Outstanding**

**1. Warrants**

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Comment</u>	<u>Potential Equity</u>
5,500,000	\$0.10	14-Sep-09	Out-of-the-money	\$550,000
20,312,500	\$0.50	26-Oct-09	Out-of-the-money	\$10,156,250
<u>2,500,000</u>	<u>\$0.40</u>	<u>26-Oct-09</u>	<u>Out-of-the-money</u>	<u>\$1,000,000</u>
<u>28,312,500</u>				<u>\$11,706,250</u>

**2. Options**

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Comment</u>	<u>Potential Equity</u>
4,280,000	\$0.22	13-Sep-11	Out-of-the-money	\$920,200
1,350,000	\$0.29	2-Oct-11	Out-of-the-money	\$384,750
3,430,000	\$0.48	15-Oct-11	Out-of-the-money	\$1,646,400
4,050,000	\$0.86	25-Oct-11	Out-of-the-money	\$3,483,000
<u>550,000</u>	<u>\$0.92</u>	<u>12-Nov-11</u>	<u>Out-of-the-money</u>	<u>\$506,000</u>
<u>13,660,000</u>				<u>\$6,940,350</u>

Source: Company and eResearch

**Financial Statements:** Set out on the following page are the Company's financial statements.

Table 2. Selected Financial Tables

	6 Months ended June 30:		Year Ended Dec 31			
	2007	2008	2006	2007	2008E	2009E
<b>Statement of Income/(Loss):</b>						
Operating Income	0	0	0	0	0	0
Non-Operating Income (inc.)	84,007	144,932	6,828	95,417	100,000	70,000
General & Administrative Expense	(235,595)	(502,983)	(468,928)	(633,605)	(1,000,000)	(900,000)
Stock-based Compensation	(191,625)	0	(149,930)	(5,426,345)	0	0
Amortization	(1,700)	(3,697)	(585)	(2,550)	(7,500)	(7,500)
Gain (loss) on marketable securities	90,733	0	131,282	170,192	0	0
Other Income/(Expenses:fees)	0	0	0	0	0	0
Income Taxes Recovery/(Expense)	<u>288,000</u>	<u>1,818,000</u>	<u>577,444</u>	<u>80,982</u>	<u>2,500,000</u>	<u>800,000</u>
Net Income/(Loss)	33,820	1,456,252	96,111	(5,715,909)	1,592,500	(37,500)
Total Shares Outstanding (basic)	55,575,319	139,823,400	66,067,319	137,232,900	140,000,000	140,000,000
Weighted Average Shares O/S	60,821,319	138,528,150	54,572,778	101,650,110	138,616,450	140,000,000
Earnings (Loss) Per Share	\$0.00	\$0.01	\$0.00	(\$0.06)	\$0.01	(\$0.00)
<b>Statement of Cash Flow:</b>						
Net Income (Loss)	33,820	1,456,252	96,111	(5,715,909)	1,592,500	(37,500)
All Non-Cash Items	<u>(185,408)</u>	<u>(1,814,303)</u>	<u>150,515</u>	<u>5,257,180</u>	<u>7,500</u>	<u>7,500</u>
Cash Flow	(151,588)	(358,051)	246,626	(458,729)	1,600,000	(30,000)
Capital Expenditures (Properties)	(1,324,797)	(2,335,012)	(1,448,560)	(3,736,190)	(3,800,000)	(3,000,000)
Capital Expenditures (Other Assets)	<u>91,040</u>	<u>50,801</u>	<u>458,804</u>	<u>91,039</u>	<u>100,000</u>	<u>120,000</u>
Free Cash Flow	(1,385,345)	(2,642,262)	(743,130)	(4,103,880)	(2,100,000)	(2,910,000)
Working Capital Changes	90,319	(805,913)	(802,206)	49,370	(955,477)	972,500
Equity Financing (net)	1,045,115	456,075	1,980,746	14,980,875	0	0
Debt Financing	0	0	0	0	0	0
Change in Cash	(249,911)	(2,992,100)	435,410	10,926,365	(3,055,477)	(1,937,500)
Cash, Beginning of the Period	826,039	11,752,404	390,629	826,039	11,752,404	8,696,927
Cash, End of the Period	576,128	8,760,304	826,039	11,752,404	8,696,927	6,759,427
<b>As at June 30:</b>						
		<b>2008</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
<b>Balance Sheet:</b>						
Cash and equivalents		8,760,304	826,039	11,752,404	8,696,927	6,759,427
Marketable securities		1,639,986	28,327	26,761	600,000	0
Other Current Assets		1,168,342	166,673	368,626	700,000	300,000
Mineral Properties		10,413,355	5,014,271	9,185,343	12,985,343	15,985,343
Other Assets		<u>56,836</u>	<u>5,262</u>	<u>11,335</u>	<u>60,000</u>	<u>60,000</u>
Total Assets		<u>22,038,823</u>	<u>6,040,572</u>	<u>21,344,469</u>	<u>23,042,270</u>	<u>23,104,770</u>
Current Liabilities		788,390	108,494	794,699	900,000	1,000,000
Future Income Tax		0	80,982	0	0	0
Debt Obligations		0	0	0	0	0
Shareholders' Equity		<u>21,250,433</u>	<u>5,851,096</u>	<u>20,549,770</u>	<u>22,142,270</u>	<u>22,104,770</u>
Total Liabilities & Equity		<u>22,038,823</u>	<u>6,040,572</u>	<u>21,344,469</u>	<u>23,042,270</u>	<u>23,104,770</u>
Book Value (S.E.) Per Share		\$0.15	\$0.09	\$0.15	\$0.16	\$0.16

Source: Company and eResearch

## VALUATION

Junior mineral exploration companies create value through the skill and competence of management in evaluating, acquiring, exploring and developing properties. In addition to an assessment of these activities and management itself, eResearch is valuing MacDonald Mines using a Peer Comparison analysis. Given that MacDonald Mines was actively involved in an exciting staking rush in Autumn 2007 and is undertaking its third exploration drilling program since the Noront discovery, it is too early to conduct a valuation based on an estimated mineral resource.

### Peer Comparison Analysis – Webequie/McFauld’s Lake Explorers

For the Peer Comparison analysis, we have selected several junior mineral resource companies with properties in the “Ring of Fire” around Noront’s discovery.

#### Stock Market Premiums

Company	Symbol	Cash*	Cash/share	Stock Price	Cash Price/ Stock Price	Shares Outstanding	Market Capitalization	Book Value	Premium to Book Value
		(\$ millions)	\$	\$	(times)	(millions)	(\$ millions)	(\$ millions)	(times)
Northern Shield	NRN	1.0	0.02	0.24	0.07	56.6	13.6	3.0	4.53
Fancamp Exploration	FNC	0.4	0.01	0.33	0.04	27.5	9.1	2.5	3.62
Probe Mines	PRB	5.2	0.17	0.64	0.26	30.7	19.6	8.7	2.26
Noront Resources	NOT	43.3	0.33	1.19	0.28	129.8	154.5	79.0	1.96
Freewest Resources Canada	FWR	9.3	0.05	0.21	0.24	186.1	39.1	29.8	1.31
Mill City Gold Corp	MC	2.3	0.04	0.05	0.90	51.2	2.6	3.6	0.71
Canadian Orebodies	CO	1.8	0.04	0.06	0.62	48.6	2.9	4.4	0.66
Spider Resources	SPQ	3.6	0.01	0.04	0.29	310.3	12.4	19.0	0.65
East West Resources	EWR	0.2	0.00	0.04	0.04	130.0	5.2	8.7	0.60
<b>MacDonald Mines*</b>	<b>BMK</b>	<b>10.4</b>	<b>0.07</b>	<b>0.09</b>	<b>0.83</b>	<b>139.8</b>	<b>12.6</b>	<b>21.3</b>	<b>0.59</b>
UC Resources	UC	3.9	0.04	0.07	0.52	106.2	7.4	14.6	0.51
Temex Resources	TME	6.0	0.08	0.12	0.70	71.0	8.5	23.3	0.37
KWG Resources	KWG	3.9	0.01	0.02	0.73	267.7	5.4	16.6	0.32
Metalex Ventures	MTX	1.5	0.02	0.08	0.20	93.4	7.5	40.2	0.19
Diamondex Resources	DSP	1.4	0.01	0.04	0.20	177.5	7.1	76.3	0.09

\* Based on most recently reported results

#### Cash Position Comparison

In the midst of the current market downturn and credit crisis, eResearch believes that greater value should be attributable to those firms with cash or short-term liquid investments in the treasury. As such, MacDonald Mines compares favourably with the Ring of Fire peer group. The Company has one of the strongest cash positions, at \$10.4 million (June 30, 2008), of the group of explorers outlined above. The cash balance has since declined to approximately \$7.9 million, but for consistency of comparison with the sector it remains valid, as other companies will have also consumed cash.

**COMMENT:** *On a per share basis, MacDonald Mines has cash of \$0.07 (\$0.06 on current cash) which, in our opinion, should form an underpinning for the stock. The shares appear to offer an undervalued investment opportunity below this price.*

#### Premium to Book Value Comparison

MacDonald Mines book value is in the second quartile of the “Ring of Fire” group of companies outlined above, but its premium to book value is in the third quartile and well below the peer group average premium of 1.2 times. In fact the premium to book value has diminished relative to the peer group since our initial report on the Company in February 2008.

eResearch believes this lower premium is unjustified given a number of considerations: (1) MacDonald Mines has a strong land position (over 86,000 hectares) in the area surrounding the original Noront discovery, with favourable geology and geophysical signatures. Its first mover advantage during the staking rush and its large inventory of drill targets provides MacDonald Mines with a competitive advantage over others exploring the region; (2) the Company is currently well-funded to undertake the next stage of diamond drilling and property acquisitions; (3) the existence of nickel-copper-zinc-lead-silver on the McNugget property, as per the 2007 drilling program; and (4) the Company's long established and supportive relationship with the local First Nations people of Webequie, where the Company has had its base camp.

### Investment Conclusions:

**COMMENT:** *As mentioned above, due to the extreme market downturn and the disconnect between share prices and true intrinsic values, eResearch is temporarily suspending share price targets for the junior mining sector.*

- MacDonald Mines has benefited from its well-established presence in the Webequie area, and its advantageous position in the September 2007 staking rush has positioned the Company well from a property perspective, both with its joint-venture partners and its wholly-owned properties.
- With five or six other juniors drilling in the "Ring of Fire", should any of these companies "hit", the news should raise the shares prices of all companies.
- While many other junior explorers are currently cash-strapped, MacDonald Mines has a cash position of approximately \$7.9 million, which should enable it to continue its exploration program while it takes action to conserve cash.
- Management has been very proactive in reducing costs by renegotiating contracts with the Company's suppliers.
- The cash position equates to \$0.06 per share, which should provide an underpinning for the stock.
- From an intrinsic value perspective, this suggests that investors can currently acquire the properties and exploration upside for free.
- The current risk aversion in the market has been painful for existing shareholders (across the industry), but appears to have created a buying opportunity for risk-tolerant investors seeking exposure to an exciting exploration region.
- In the event that mineralization of only limited economic value is discovered on the Company's properties, eResearch anticipates the share price would remain depressed.
- However, the potential upside from this point is enormous if MacDonald Mines hits something attractive.
- eResearch continues to recommend the shares of MacDonald Mines Exploration Ltd. as a Speculative Buy, suitable only for risk-tolerant investors.

### Risk Factors

- **Capital Raising:** Significant ongoing capital will be required to conduct exploration, maintain ownership interest in the mineral claims, develop the properties, establish mining operations, and operate a mine.
- **Stock Price Volatility:** The stock price will be heavily influenced by the results of exploration at MacDonald Mines' own properties, and those of its neighbouring explorers.
- **Commodity Price Risk:** Volatility of the price of the underlying commodities will impact the value of assets in the ground being pursued by the Company.

- **Revenues:** The Company has no source of operating revenue, and significant additional expenditures will be required before any meaningful operating revenues would be generated, if any.
- **Future Production:** If mineral resources are developed, there is no guarantee that production will be profitable.
- **Regulatory Risk:** Government regulations could change, particularly environmental requirements.
- **Competition:** The resource industry is highly competitive, and the Company competes with many companies with greater financial resources, management resources and technical facilities than itself.
- **Uninsurable Risks:** The Company may become subject to liability for accidents, pollution and other hazards, against which it cannot insure, or it may choose not to insure due to high insurance premiums.

**COMMENT:** *These risks are common to most junior explorers, but to varying degrees. Given that MacDonald Mines is involved in an early-stage exploration, its stock volatility is significant, and will be influenced by the results of other companies operating in the surrounding area..*

## APPENDIX 1: MANAGEMENT AND DIRECTORS

### **Kirk McKinnon, CEO, President (Director)**

Kirk McKinnon serves as President and Chief Executive Officer of MacDonald Mines Exploration Ltd. Mr. McKinnon previously held senior management positions in several high-profile Canadian corporations, including Nestle Canada. He has been a Director of MacDonald Mines Exploration since 2003, Yukon Resources Corp. since 2006 and of VenCan Gold Corp. since 2004. Mr. McKinnon has been the President and Chief Executive Officer of Yukon Resources Corp. since 2006. He has also been President and Chief Executive Officer of VenCan Gold Corporation since 2004.

### **Richard Schler, CFO (Director)**

Richard Schler serves as Chief Financial Officer and Vice President of Finance of MacDonald Mines Exploration Ltd. Mr. Schler previously held senior management positions, including Vice President and Chief Operating Officer at Bolton Steel Tube and General Manager at Columbia/MBF. He has over 25 years' experience in the manufacturing sector. Mr. Schler has been a Director of MacDonald Mines Exploration Ltd. since 2003, Yukon Resources Corp. since 2006, and VenCan Gold Corp. since 2004. He has been Chief Financial Officer and Vice President of Yukon Resources Corp. since 2006, and Chief Financial Officer and Vice President of Finance of VenCan Gold Corp. since 2004. Mr. Schler is a Management Consultant. He has an MBA as well as a background in Mechanical Engineering.

### **Hadyn Butler, Chief Geologist (Director)**

Hadyn Butler, B.Sc. Hon. P. Geo. serves as a Chief Geologist of MacDonald Mines Exploration Ltd. He has served as a Consultant of Vencan Gold Corporation since 2004. Mr. Butler has over 40 years of geological experience. He has been Director of MacDonald Mines Exploration Ltd. since 2003, and a Director of Yukon Resources Corp. since 2006. Mr. Butler serves as a professional geoscientist and is a practicing member of the Association of Professional Geoscientists of Ontario. He graduated with a degree in geology in 1974 from the University of New England, Armidale, New South Wales, Australia. Mr. Butler is also a professional geologist.



**Directors****John Sanderson, Chairman of the Board**

John Sanderson, Q.C., has been a Director of MacDonald Mines Exploration Ltd., since 2001 and serves as its Chairman. Mr. Sanderson is a Mediator, Arbitrator and Counsel.

**Julie Lassonde-Gray**

Julie Lassonde-Gray has been Vice President, Corporate Development of Southampton Ventures Inc. since 2007. Ms. Lassonde-Gray joined Southampton with 10 years' experience in a variety of fields, including four years as a Credit Analyst of Macquarie Bank Ltd. in Sydney, Australia. She also served at Macquarie Real Estate Structured Finance, Seattle, Washington as a Senior Portfolio Manager. Ms. Lassonde-Gray has been Director of MacDonald Mines Exploration Ltd. since 2007. She holds a degree in civil engineering from Queen's University.

**Robin Chisholm**

Robin Chisholm was recently appointed to the Board of Directors of MacDonald Mines. He is President of the geological consulting firm Taiga Consultants Ltd.

**Elgin Wolfe**

Elgin Wolfe was recently appointed to the Board of Directors of MacDonald Mines. He is President of King River Development Limited and Tri-Main Development LLC, both real estate development companies. Mr. Wolfe has been a Director of MacDonald Mines' sister company VenCan Gold Corporation, (TSX-V: VCG) since 1989. He is also a Director of sister company Uranium Star (TSX-V: NUK).

## ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

**Bob Weir, B. Comm, B.Sc., CFA.** - Bob Weir has 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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<b>Strong Buy:</b>	Expected total return within the next 12 months is at least 40%.
<b>Buy:</b>	Expected total return within the next 12 months is between 10% and 40%.
<b>Speculative Buy:</b>	Expected total return within the next 12 months is substantial, but Risk is High (see below).
<b>Hold:</b>	Expected total return within the next 12 months is between 0% and 10%.
<b>Sell:</b>	Expected total return within the next 12 months is negative.

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## **eResearch Risk Rating System**

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

<b>High Risk:</b>	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends.  <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
<b>Medium Risk:</b>	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend.  <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
<b>Low Risk:</b>	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock.  <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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