

Abcourt Mines (TSX.V: ABI)

New feasibility study demonstrates strong investor returns from building and operating zinc-silver mine with 10 + years of production.

We are initiating coverage on Abcourt Mines with a Speculative Buy recommendation and a price target of \$1.50 per share. Our price target is grounded equally by the relative valuation of reserves as well as discounted cash flow analysis of the mining project that ABI intends to launch. Thus, we believe ABI is undervalued at the current price of \$0.68 per share.

Initiating Coverage – Speculative Buy Recommendation

Investment Highlights

- Exposure to zinc and silver markets,
- Experienced management with years mining and-exploring ABI's property in the past,
- Over \$ 20 million mining infrastructure in-place at Barvue, over \$20 million of infrastructure in-place at Elder property,
- Benefits from being located in Val-D'Or region,
- First 10 year mine life expected to produce \$ 290 million EBIT from zinc and silver.
- Shallow depth of mineral resources at Barvue-Abcourt allows low cost mine structure,
- Additional upside expected by extending the mine to 13 years based on additional measured and indicated resources,
- Additional upside available from other exploration properties.
- \$10 million in tax loss carry forwards will shelter mine income taxes,
- Risk is reduced as ABI is expected to start producing cash flow within 18 months.
- ABI is a potential acquisition target.

12 month target price:	\$1.50
Recent share price:	\$0.68
IRR:	120%

Shares outstanding ¹:	42,067,025
Shares outstanding (FD) ¹:	47,089,468
Cash position ¹:	\$ 2,940,000
Shares out post PP (FD) ²:	77,089,468
Cash position (with PP) ²:	\$ 70,000,000
Book value ¹:	\$4,011,898
Total long term debt ¹:	\$0.00
Expected EPS 2008 ²:	\$0.00
Expected EPS 2009 ²:	\$0.26

¹ As of Sept 30, 2006

² Analyst's estimates assume 30 million shares issued at \$1.00 (less issue expenses) to fund mine development with 60/40 debt/equity ratio



Source: TSX.V

Introduction

Abcourt Mines ('TSX-V: ABI') owns and has optioned resource properties just north of the Cadillac Belt of Quebec. This region is a past producing mining area with good exploration and development potential.

February 2007 feasibility study recommends development of a mine-mill complex with underground and open pit operations on its Barvue-Abcourt property.

In February 2007, ABI completed a feasibility study on the development of a mine in the Abitibi (north of Cadillac Belt) Region of, Quebec, Canada. ABI plans to develop a mine-mill complex with underground and open pit operations on its Barvue-Abcourt property. This property was previously in production with an open pit and an underground mine during two different historical periods. (\$145 million of ore was produced at current commodity prices). The project

will consist of a series of three open pits and the development of an underground mine to produce silver-gold ingots and a zinc-silver concentrate.

An in-situ mineral resource for Barvue-Abcourt was calculated in May 2006 according to guides set fourth in NI 43-101 and has since been reclassified as ore reserves. The diluted mineral reserves are as follows:

Barvue Abcourt East and West

Mineral Reserves Statement (including dilution)

Mining Method	Classification	Tonnage	Grade		
			Ag, g/t	Zn,%	ZnEQ
Open Pit	Proven Mineral Reserves	6,508,393	55.6	3.1	4.26
Underground	Probable Mineral Reserves	315,139	101.6	3.23	5.35
	Total	6,823,532	57.7	3.11	4.31
Open Pit	Proven Marginal Ore	1,151,502	17.6	1.58	1.95

Note: Abcourt pits cutoff: 2.4% Zn Eq, Barvue pit's cut-off: 2.55% Zn Eq, Underground stopes' cut-off: 3.2% Zn Eq.

Source: February 2007 Feasibility Study

From these ore reserves, 6.2 - 6.4 Mt are expected be mined and milled during the first 10-year production period at a milling rate of 1,800 tonnes per day. The remaining underground proven and probable reserves, the stockpiled marginal ore and

additional underground resources with the potential to become mineral reserves stands at about 2 Mt. This represents more than 3 additional years of production, which could be extended further with inferred resources after additional exploration and

development. Ingots will be delivered to a precious metals refinery in Canada while Zn-Ag concentrate will be trucked, railed and shipped by boat to a custom smelter.

Expected Capital Costs

Capital Cost Estimate Summary	
Item	(\$000's)
Mine Equipment & Preproduction	19,812
Process Plant	44,275
Infrastructure	1,862
Owners Cost (warehouse inventory)	1,930
Preproduction Total	67,879
Working capital requirements	3,376

Management has also factored in on-going investment of \$24.4 million for additional equipment purchases, overburden stripping, marginal ore mining and stockpiling, dam raising of tailing pond and progressive rehabilitation anticipated over the first 10-year life of the project. The in-place fixed assets at Barvue-Abcourt remaining from the previous projects will enhance the \$67.8 million initial preproduction cost. We estimate that ABI

will save approximately \$10-\$12 million of initial preproduction cost due to the already owned fixed assets.

The relatively low depth of mineral resources at Barvue-Abcourt would allow cost savings, especially at the initial phase of construction because the measured resources are mainly located in a 160 m depth layer. Consequently,

80% of the measured resources will be mined by open pits, which is many times cheaper than underground mining. Given that, we estimate Barvue-Abcourt will become cash flow positive soon after mine completion.

ABI Mineral Property Portfolio

ABI has additional properties within the vicinity which are in exploration phases. The Elder Property, Aldamac property, Vendome-Barvalee and the Tagami property have the potential to add feed-stock to the mine beyond its current 13 year estimated lifespan.

Aldamac Property:

Historical drilling indicated reserves of 600,000 short tons of resources with a grade of 1.6% copper. An additional ore body with 1.15 million short tons grading

1.5% copper, 4.13% zinc, 0.91 ounces per ton silver and 0.014 ounces per ton gold was also discovered on the property in 1987.

Vendome-Barvalee Property:

Consists of 1,260 hectares plus 300 hectares of royalty claims.

Tagami Property:

Is a 100 % owned property consisting of 329 hectares at the northern limit of the Elder property. Historical drilling indicated

high-grade mineralization with an average grade of 0.532 oz gold per tonne over a width of 1.62 meters. Two of the drill holes assayed greater than 1 oz gold per tonne over widths of 2.3 meters and 1.7 meters. Intersections were at shallow depths between 46 and 107 meters. Additional drilling is expected.

Elder Property

Elder Property NI 43-101 Resource Estimate, \$mn		
0.10 oz/st Au cut-off 1	Au, oz	Au, value at \$600/oz
Measured resources	80,668	\$48.4
Indicated resources	71,670	\$43.0
Inferred resources	46,406	\$27.8
Sub total	198,744	\$ 119.2

¹Source: Elder NI 43-101 of August 2006

Industry Outlook

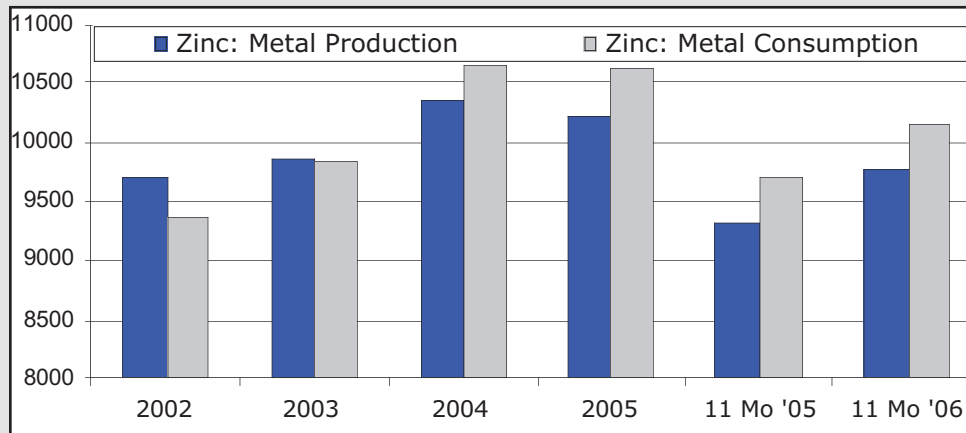
Zinc

In recent months, global zinc inventories reached their lowest levels since April 1991. Fears over security of supply are likely to prevent significant downward price moves in the near term in our view.

Forecasts for the average 2007 zinc price range from \$1.7/lb (Barclays) to \$2.06/ lb (Scotiabank).

Notably, all the forecasts remain above the current market level of \$1.44/lb.

World zinc consumption is forecast at 11.35 million tons in 2007, up 2.6%, with China accounting for 30% , up 6.9% in volume terms.



Source: The International Lead and Zinc Study Group

Gold

The price of gold has been supported by its characteristic as an inflation hedge. Gold is considered a safe haven to investors concerned about the record U.S. current-account deficit and budget deficit. The fundamentals are expected to provide a level of support for bullion above \$600/oz, in the intermediate term.

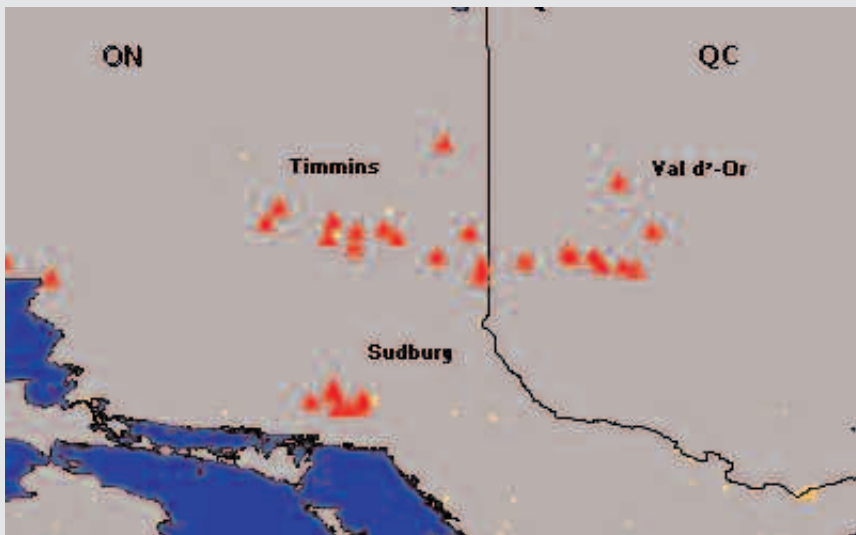
Local Environment

ABI benefits from favourable geography. The Val-D'Or region has not experienced the cost inflation witnessed by the Western Canadian Provinces. Going forward, the cost inflation in the Western Provinces is expected to persist, driven by demand

from infrastructure and oil sand projects. The same cost escalation hit the mining projects in developing countries after 2000, evidenced by soaring real estate prices and labour costs. ABI's projects will benefit from abundant metal smelting

facilities in the region, thus generating savings and reducing the cash conversion cycle. The smelting capacity increases significantly as we move to the neighbour regions of (Timmins, Sudbury).

Concentration of mining producers in Rouyn-Noranda, Timmins and Sudbury.



Source: www.infomine.com

¹ World Bureau of Metal Statistics

Valuation

Relative Valuation

Our relative valuation of mining reserves revealed that ABI's reserves are undervalued. Analysis of ABI's comparable companies highlighted that the average multiple of (Market Cap)/(Value of reserves) was close to 0.06 in 2006 while ABI's multiple stands at only 0.02.

Relative Valuation of Mining Reserves

	Richmont Mines Inc	Queenston Mining	Sullien Exploration	Yukon Zinc	Barkr Minerals	Eagle Plains	Abcourt Mines
	RIC:TSX	QMI:TSX	SUE:TSX	YZC:TSX	BML:TSX	EPL:TSX	ABI:TSX
Reserves Gold or Gold Equivalent*, oz Zinc, Tones	1,176,907	2,000,000	2,100,000	234,000 542,700	16,000	700,000 2,400	642,60 341,565
Market Value OF Reserves, C\$m zinc price at \$1.5/lb, gold price \$600/oz, exchange rate assumed at C\$1.15/US	\$812	\$1,380	\$1,449	\$2,225	\$61	\$492	\$1,742
Market Cap, C\$ mm	\$70	\$60	\$40	\$67	\$10	\$38	\$30
Price Per \$ of Reserves	0.09	0.04	0.03	0.03	0.16	0.08	0.02

Peer Median

0.06

Warranted Market Cap

\$84.1

Discount Due to the Floods
At Elder Mine

-25%

Warranted Price Of ABI
47 Million Shares of ABI
assumed

\$1.79

ABI's warranted price for
\$1 of reserves

\$0.05

Discounted Cash Flow Analysis, \$000s*

Discounted cash flow for 10 years of mining	103,686
+ Discounted terminal value of remaining reserves at Abcourt-Barvue properties	2,397
+ Value of minerals at other ABI properties at a multiples of 0.05 for \$1 of reserves	26,250
Total Enterprise Value	132,333
- Debt	40,000
Net Equity	92,333

Target Price Calculation

Discounted Net Equity	92,333
Fully diluted shares out., mn	47.1
New shares to be issued, mn	30.0
Total Shares	77.1
Equity Value Per Share	\$1.20
Price Based on Relative Valuation	\$1.79
TARGET PRICE	\$1.49

*Note: See the appendix for details on discounted cash flow streams and assumptions

Source: Analyst estimates, sedar.com.

Discounted Cash Flow Analysis

This valuation model is focused on the Barvue-Abcourt mining project. An average zinc price of \$US 1.4/lb, gold price of \$US 600/oz, silver price of \$US 10/oz and an exchange rate of C\$1.15/US\$1 were assumed for the 10-year life of the project. Discount rate used was 8.1% (WACC). with 10.7% equity IRR.

About The Author

Michael R. Cooper, CFA writes investment analysis on behalf of undervalued companies. Michael started his career at Dominion Securities ('DS' later RBCDS) and has been involved in private placement and IPO financings for the past 15 years. Michael is a member of the Toronto CFA Institute. All information in this report

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