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Registration Effective August 27th and Now Operational

DULUTH METALS (DM.TO C\$3.55, rated Overweight) NOTES FROM
MANAGEMENT BREAKFAST MEETING WE HOSTED OCTOBER 19TH

Earnings per share	2007E \$(0.26)	2008E \$(0.18)	2009E \$(0.12)	2010E \$(0.10)	\$2011 \$(0.11)
Earnings per share	2012E \$(0.14)	2013E \$0.29	2014E \$0.46	2015E \$0.46	2016E \$0.49
Earnings per share	2017E \$0.53	2018E \$1.00	2019E \$1.05		

Duluth Metals expects to pressure leach about 5% of the ore, with the grinding and flotation initial phases of the mill concentrating the salable minerals within 5% of the ore material. This is a very big savings, suggesting that heat and pressure and reagents costing maybe \$10 per tonne inside the autoclave only need to be applied to one-twentieth of the tonnes to cost maybe \$0.50 across every tonne of ore.

Probably each company in the 25 mile or so “trend” should enjoy similar metallurgical results, including Teck Cominco, Polymet and Franconia Minerals.

We prefer to be conservative owing to possible future cost inflations. We will continue to model a \$15 per tonne “mining and backfill” cost and \$15 per tonne “mill and autoclave” cost for 2013-17 at 20,000 tonnes per day as we had initially, and \$14 per tonne 2018-19 “mill and autoclave” at 30,000 tonnes per day. However, there is potential for the costs to be up to one-third lower. Duluth Metals published its first recovery rate estimates on October 4th, and works to complete a “scoping” or “prefeasibility” study.

It is not an urgent priority to drill each of the 2,612 acres held as Duluth Metals appears to have a more than 0.5 billion metric tonne resource. However, every drill hole to date has intercepted mineralization, and it is conceivable the deposit is two to three times larger than currently documented. Information available constrains the resource as “there are no barren holes.”

It is impossible to obtain all environmental permits before the end of 2010, and our estimate of 2013 full year output is optimistic.

MINNESOTA ENVIRONMENTAL PROCEDURE

Minnesota procedure requires a “scoping study” and “mine plan,” or much of a prefeasibility study, prior to applying for permission for beginning “base line” studies. Many miners refer to “base line” studies as “counting bunnies” as they require the documentation of all plant and animal life observed commonly over a 12 month period.

In Minnesota environmental “base line studies” involve two years rather than one, and have several phases or aspects. First, plant and animal life must be inventoried and documented. The “lynx” is a particular animal whose protection is sensitive. Second, samples of drill core from diverse portions of the proposed deposit must “sit in the rain” for two years to assess their acid generating properties. This is termed “waste rock characterization studies.” It is important to measure the PH of rain water runoff as the host ores are “sulphides,” and to measure the amount of sulphuric acid that waste rock could generate.

We admire the State of Minnesota procedure, and offer no criticism. It is scientifically precise to measure the amount of acid that rain runoff generates. It will be possible to observe whether extreme changes in outdoor temperature or climatic changes like freeze and thaw influence acid generation. The objective results of the two year empirical test will determine the appropriate environmental safeguards to require to protect ground water, the Boundary Waters Wilderness and Lake Superior. The data will literally prescribe the remedy. This is much better than a legislator or administrator “working blind” without such a data base.

Duluth Metals will be able to prepare a “draft environmental impact statement” to send to the regulators after the base line studies and its feasibility studies are completed. The state will offer comments or changes, and then the EIS will be released for public comment. A final EIS incorporating responses to public comment and final regulatory approval may be challenged in the courts, and such legal process can create delays that are difficult to quantify.

Duluth Metals appears “second most advanced” after Polymet, which owns a 100,000 ton per day mill from a prior iron ore mine closed in 2001, in terms of permit documentation.

Franconia Minerals management team includes Bill Bryce, a former director of the Land and Minerals division of the Minnesota Dept. of Natural Resources. However, Franconia Minerals may involve three separate underground deposits spaced four miles apart, with the northmost Spruce Road almost adjoining the Boundary Waters Wilderness that involves unique complex issues.

We believe Teck Cominco is least advanced as it fired key staff and “went dormant” for about three years after Polymet outpositioned it in 2003 to obtain the 100,000 ton per day iron ore mill.

ATTITUDE TOWARD OUTSIDE JOINT VENTURE PARTNER

Under no circumstances will Duluth Metals seek a joint venture partner. It believes the size of its mineral discoveries will attract sufficient capital. It is pleased with Joe Ferrone, a doctorate in metallurgy, that will lead its process team. It will use the PlatSol process in which chlorides are added to an autoclave to cause the precious metals to precipitate out and separate. Duluth Metals believes it can locate specific underground mining specialists, and that the extreme firm or “competent” host rock lends itself well to underground mining.

VALUATION METRICS IF DULUTH METALS WERE TO SELL OUT

Duluth Metals will not use a net present value model to sell its company. Such a model provides little value to a 60 year reserve such as Duluth Metals may document at a 20,000 or 30,000 metric tonne per day scale.

Duluth Metals prefers the \$1.00 per lb recoverable ni and \$0.10 per lb of recoverable cu and \$1.75 per lb ni and \$0.175 per lb of cu examples we used in our October 7th reports on the Duluth Complex companies (three separate district wide, Duluth Metals and Polymet reports). This metric requires that the buyer assign value to minerals slated for the fourth, fifth, sixth or later decades in the future.

Such a procedure suggests that Duluth Metals should drill out the remaining two-thirds of its 2,612 acre property at 200 meter centers to develop an inferred resource on the remainder of its minerals. It should know whether it has 0.5 or 2.0 billion metric tonnes before thinking of selling out.

Our methodology deducting 25% assumed to be “not mineable” and recovery losses caused us to value only about half of each company’s in situ mineral. Further, we ignored the cobalt, platinum, palladium and gold, which could be up to 20% of revenue. One reason to “postpone” the valuation of precious metals involves dissimilar analytical procedures among several companies’ data bases. The Spruce Road deposit of Franconia and the various zones of TeckCominco have no precious metals data, which we believe reflects assay practices common to the 1960s rather than any scientific fact. It is possible that redrilling or modern assay techniques could define over 10 mm oz of pt, pd and gold in the Mesaba and Spruce Road ores.

ATTITUDE TOWARD “DULUTH COMPLEX” OWNERSHIP CONSOLIDATION

Clearly safety, environmental “footprints”, elimination of certain duplications and faster development would result a “major” mining company consolidated the four publicly traded and ten “pods” or smaller deposits outside the public company ownership.

For example, Franconia Minerals contemplates 18,000 metric tonnes per day and Duluth Minerals 20,000 metric tonne per day scale. One of the world’s five largest mining companies might envision a “farm” or “family” of mine shafts able to produce 50,000 to 100,000 tonnes per day of underground output, enjoy economies of scale in mill, autoclave, administration and marketing and bring forward the net present value.

Duluth Metals is aware of these considerations, and wants any such buyer to permit Duluth Metals to benefit to some degree from such upsides.

MSHA LIKELY TO DICTATE DEGREES OF COOPERATION WITH NEIGHBOR

Mine safety regulators will dictate certain “linkages” between the proposed Maturi underground mine of Franconia Minerals and the Nakomis West deposit of Duluth Metals.

Interconnection of tunnels and ventilation shafts will improve egress and breathing. In emergency each company’s personnel should have access to the man cages of the other’s shaft to hoist personnel to surface.

REGULATORY BODIES COULD SUGGEST COOPERATION TO SHRINK FOOTPRINT TO TWO “PAIRS OF COMPANIES”

It is likely that Minnesota state environmental regulators will not want four separate mill, autoclave, tailings and related metallurgical facilities. There will be less environmental disturbance if consolidation of the companies “reduces the footprint.” Further, the two northerly deposits have similar chalcopyrite sulphides and two southerly companies pyrrhotite sulphides.

The lay of the geology along a 25 mile trend suggests to us, based on current known data, two “concentrations.” Please note our caveat, “based on current known data.” Three unknowns exist. First, ten “pods” are outside the ownership of the four publicly traded companies and have not been evaluated scientifically or comprehensively since 1980 to the best of our knowledge. Second, no one has gone down a shaft in the past 25 years, virtually no drilling has been done beneath 3,500 feet (Sudbury is very productive between 3,000 and 6,000 feet) and most drilling has been within one mile of the “contact” with the westward taconite range. It is possible that much of the stretch between one and five miles “east of the contact” proves productive. Thus, it is possible the district is two to five times larger than current information quantifies.

The Duluth Metals “Nakomis” and Franconia Minerals “Maturi” deposits adjoin, overlap and are one deposit. It makes some sense to process them as one. Further, Franconia contemplates possibly sinking “one central shaft” at Maturi, and serving the “Birch Lake” deposit four miles to the south partly beneath a lake and the “Spruce Road” underground zone to the north adjoining the Boundary Waters Wilderness both from the same single one central hoist and shaft. Such a tact for Franconia would reduce surface disturbance and avoid bodies of water.

The Mesaba open pit deposit of TeckCominco and Polymet’s Northmet openpit deposit could be treated as one facility or two. Both have large tonnages of ore to be similarly milled. In addition, TeckCominco possesses the “Lucky Boy” high grade zone near 2%-2.5% combined ni-cu and up to 400 mmt of underground resources Amax Inc. defined nearly three decades ago. Thus, these two southerly systems may be mined as one.

RHODIUM AND RUTHENIUM PRESENT

Rhodium and ruthenium also are present in Duluth Metals' mineralization. The American Metal Market estimates the prices of these at \$6,325 per oz for rhodium and \$580 per oz for ruthenium as of October 17th.

It is possible these metals for which little attention has been paid as of yet account for more than 1% of ultimate revenues. The mineralization contains just over two oz of palladium for each oz of platinum. A one-to-ten ratio of rhodium would add about 4% to total revenues with the same recovery since the rhodium price is four to five times the platinum price.

Traces of ruthenium may be less financially significant as its price is more than palladium though much less than rhodium or platinum.

RECOVERABLE GYPSUM

Duluth Metals envisions a "zero discharge" system in which process water will be recycled, and limestone will be added to sulphuric acid (H₂SO₄) to make gypsum to prevent acid discharge.

Polymet believes that 280,000 metric tonnes of gypsum wallboard could be produced as a recovered byproduct from the lime applied to treat waste products from its processing. Polymet's opinion suggests a 1 mmt potential district wide output. We presume Polymet's metallurgical consultants have done tests to support its claim.

Duluth Metals does not believe that household interior gypsum necessarily will be produced. Instead, it suggests a less valuable gypsum grade called "agricultural gypsum" could be sold to dilute clay soils to improve their use in farming. It is unlikely that agricultural gypsum would add 1% to the total revenues of the mine, but any upgrade to wallboard quality gypsum would be materially beneficial.

Because each company has slightly different sulphide minerals, it is possible that "both are right" about their own ores and that no generalization should be made and observers should wait for individual results and testing.

SUMMARY OF PRIOR OCTOBER 7TH REPORT

We have initiated research coverage of Duluth Metals (DM.TO C\$3.04) with an Overweight investment rating and \$10 price target based on the promising nickel-copper-cobalt-platinum-palladium-gold "Nakomis" underground deposit it controls in northeastern Minnesota. We do not expect revenues from commercial production until the 2013 time frame assuming permits are obtained by the end of 2010, and have written because of the promising large 600 million metric tonne size of its deposit.

Duluth Metals appears to control about 20% of the 3.1 billion tonne-plus “Duluth Complex” series of deposits in a richer than most other underground zone holding about 1.4 billion pounds of payable nickel, 5.9 billion pounds of copper and over six million payable ounces of combined platinum, palladium and gold. About one-half to two-thirds of the “in situ” minerals are recoverable and payable.

The invention of autoclave pressure leaching, economic recoverability of platinum group metals and higher relative platinum group metals contribute to economic viability in this century after historic exploration in the 1960s and 1970s failed. Of course, higher prices help.

We estimate commercial production begins around 2013, and that a 50% “second phase” expansion occurs in the 2017-18 time frame. At a 30,000 metric tonne per day 2018 ore throughput rate the current known mineralization may be enough for 60 years of production. Cash operating breakeven points may be near \$5 nickel, \$1.00-\$1.50 copper and \$1,000 platinum, \$300 palladium and \$600 gold. We estimate revenues are 44% nickel, 42% copper, 1% cobalt and 13% combined precious metals.

(Our tables are numbered 4, 5, 6, 7 and 8 from the prior October 7th Duluth Metals report. There are no tables 1, 2 and 3.)

Table 4: CONTAINED NI BEFORE RECOVERY LOSS

	ni bil pounds reserve and resource	
Duluth Complex, MN	9.454	TCK, PLM, DM, FRV
Kabanga 100%, Tanzania	2.738	ABX-Xstrata
Goro, New Caledonia	3.915	CVRD
Koniambo, New Caledonia	14.191	Xstrata
Ravensthorpe, W. Australia	2.105	BHP
Vermelho, Brazil	4.375	CVRD
Onca Puma, Brazil	1.857	CVRD

Source:: Company reports

TWO SHAFTS SUNK TWO GENERATIONS AGO AND “CAPPED” OVER 25 YEARS AGO

Inco, Amax Inc., U.S. Steel and Cleveland-Cliffs conducted much exploration in the region between one-quarter and one-half century ago. Amax Inc. defined the largest TeckCominco Mesaba property. U.S. Steel defined the Polymet Northmet deposit. Inco defined the Maturi deposit of Franconia Minerals that follows onto Duluth Metals property. The entire district has seen just over 2,000 holes drilled/

Amax Inc. sunk a 1,700 foot shaft on the TeckCominco Mesaba deposit, which flooded and was capped around 1980. Inco sunk a 1,000 foot shaft on the Maturi deposit now owned by Franconia Minerals, and filled the shaft in and capped it also around 1980.

The state of Minnesota requires that one-fourth of all drill cores be deposited in the state core shed (maybe world's largest) in Hibbing, MN. This provides a data repository.

Today, platinum and palladium have become valuable and technology to identify, measure and recover them improved. Second, hydroleach autoclave technology can recover these deposits very cheaply. Third, major advances in open pit mining enable the low grade ores to be extracted more cheaply. Finally, high metals prices encourage development although Polymet expects fine returns at \$1.25 copper and \$5.60 nickel.

LACK OF UNDERGROUND EXPLORATION SO PRODUCTIVE IN RECENT YEARS IN SUDBURY, ONTARIO

No underground exploration has been done in over 25 years in this district. In Sudbury, Ontario much of the greatest success has been underground exploration. Much occurs "by accident" as shafts and tunnels and infrastructure needed for production of already known zones inadvertently encounters new zones never anticipated.

Once underground, geologists may "see" geology. High grade "stringers" may be encountered. Drill platforms several thousand feet underground are more cost effective in locating deposits unable to be tested from surface.

We do not believe that 1960s and 1970s work updated with recent surface exploration has found even one-half of the ultimate size of the Duluth Complex nickel-copper ores.

Table 5: Estimated Duluth Metals Income Statement

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nickel Revenues	44%							148.2	197.6	197.6	197.6	197.6	296.4	296.4
Copper	42%							142.0	189.4	189.4	189.4	189.4	284.1	284.1
Cobalt	1%							3.4	4.5	4.5	4.5	4.5	6.8	6.8
Platinum	7%							22.2	29.5	29.5	29.5	29.5	44.3	44.3
Palladium	5%							15.8	21.0	21.0	21.0	21.0	31.6	31.6
Gold	2%							6.3	8.4	8.4	8.4	8.4	12.6	12.6
Total Sales	100%	0	0	0	0	0	0	337.9	450.5	450.5	450.5	450.5	675.7	675.7
Underground mining								82.1	109.5	109.5	109.5	109.5	164.3	164.3
Milling and autoclave								82.1	109.5	109.5	109.5	109.5	153.3	153.3
Outside refinery 25% take (alternative expression as no revenue and no cost)								49.0	65.3	65.3	65.3	65.3	97.9	97.9
Administration		4.0	4.0	4.0	4.0	7.0	10.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Exploration, research, feasibility		10.0	10.0	7.0	7.0	5.0	5.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0
Depreciaton		0.0	0.0	0.0	0.0	0.0	0.0	30.0	30.0	30.0	30.0	30.0	40.0	40.0
Other expense, net		1.0	1.0	1.0	1.0	1.0	1.0	-1.7	-0.2	-0.8	-0.4	-0.1	-0.2	-0.8
Interest Expense		-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	42.0	40.0	36.0	30.0	24.0	30.0	22.0
Pretax Income		-14.6	-14.6	-11.6	-11.6	-12.6	-15.6	34.3	76.4	76.0	81.6	87.3	165.5	174.0
Income Taxes		0.0	0.0	0.0	0.0	0.0	0.0	1.0	22.9	22.8	24.5	26.2	49.6	52.2
Net Income		-14.6	-14.6	-11.6	-11.6	-12.6	-15.6	33.3	53.5	53.2	57.1	61.1	115.8	121.8
Primary Shares		57.0	80.0	100.0	115.6									
Fully Diluted Shares		95.6	105.6	115.6	115.6	115.6	115.6	115.6	115.6	115.6	115.6	115.6	115.6	115.6
EPS		-\$0.26	-\$0.18	-\$0.12	-\$0.10	-\$0.11	-\$0.14	\$0.29	\$0.46	\$0.46	\$0.49	\$0.53	\$1.00	\$1.05
Tonnes Ore at Reserve Grades (000)								5,475	7,300	7,300	7,300	7,300	10,950	10,950
Ni recovery 71.8%	71.8%							0.19	0.19	0.19	0.19	0.19	0.19	0.19
Cu recovery 94.9%	94.9%							0.62	0.62	0.62	0.62	0.62	0.62	0.62
Co recovery 40%	40.0%							0.01	0.01	0.01	0.01	0.01	0.01	0.01
Pt recovery 83.9%	83.9%							0.15	0.15	0.15	0.15	0.15	0.15	0.15
Pd recovery 85.4%	85.4%							0.35	0.35	0.35	0.35	0.35	0.35	0.35
Au recovery 61.3%	61.3%							0.09	0.09	0.09	0.09	0.09	0.09	0.09
Ni mm lbs								16.47	21.96	21.96	21.96	21.96	32.93	32.93
Cu mm lbs								71.02	94.69	94.69	94.69	94.69	142.04	142.04
Co mm lbs								0.48	0.64	0.64	0.64	0.64	0.97	0.97
Pt oz								22,155	29,540	29,540	29,540	29,540	44,311	44,311
Pd oz								52,620	70,160	70,160	70,160	70,160	105,240	105,240
Au oz								9,712	12,950	12,950	12,950	12,950	19,425	19,425
Mining/backfill cost per tonne								15	15	15	15	15	15	15
Milling and autoclave cost per t								15	15	15	15	15	14	14
Ni price								9	9	9	9	9	9	9
Cu price								2	2	2	2	2	2	2
Co price								7	7	7	7	7	7	7
Pt price								1000	1000	1000	1000	1000	1000	1000
Pd price								300	300	300	300	300	300	300
Au price								650	650	650	650	650	650	650

Source:: John Tumazos Very Independent Research, LLC Estimates

Table 6: Estimated Sources of Funds

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net Income		-14.6	-14.6	-11.6	-11.6	-12.6	-15.6	33.3	53.5	53.2	57.1	61.1	115.8	121.8
Depreciation		0.0	0.0	0.0	0.0	0.0	0.0	30.0	30.0	30.0	30.0	30.0	40.0	40.0
Deferred Taxes		0	0	0	0	0	0	0.3	5.7	5.7	6.1	6.5	12.4	13.1
Other Noncash Charges		0.4												
Debt					175	175	175					100		
Equity		18.3	100											
Asset Sales														
Other Items, Net														
Total Sources of Funds		4.1	85.4	-11.6	163.4	162.4	159.4	63.6	89.2	88.9	93.2	197.7	168.2	174.9
Uses of Funds														
Capital Spending		5	25	50	125	175	150	50	25	25	25	170	75	25
Dividends													28.9	28.9
Debt Repayment								25	50	75	75	25	50	125
Noncash Working Capital								25						
Change in Cash		-0.9	60.4	-61.6	38.4	-12.6	9.4	-36.4	14.2	-11.1	-6.8	2.7	14.3	-4.0
Total Uses of Funds		4.1	85.4	-11.6	163.4	162.4	159.4	63.6	89.2	88.9	93.2	197.7	168.2	174.9

Table 7:

Balance Sheet	12-2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cash	8.9	8.0	68.4	6.8	45.2	32.6	42.0	5.6	19.9	8.8	2.0	4.6	19.0	14.9
Accounts Receivable	0.0	0.1	0.1	0.1	0.1	0.1	0.1	33.8	45.0	45.0	45.0	45.0	67.6	67.6
Inventory								27.0	36.0	36.0	36.0	36.0	54.1	54.1
Prepaid asses	0.7	0.5	0.5	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Current Assets	9.7	8.6	69.0	7.4	45.8	33.2	42.6	67.4	101.9	90.8	84.1	86.7	141.6	137.6
PPE Fixed Assets	0.1	5.0	30.0	80.0	204.9	379.9	529.9	549.9	544.9	539.9	534.9	674.9	709.9	694.9
Total Assets	9.7	13.6	99.0	87.4	250.8	413.1	572.5	617.3	646.8	630.7	618.9	761.6	851.5	832.4
Current Liabilities	0.4	0.6	1.0	1.0	1.0	2.0	3.0	35.8	55.1	54.6	54.1	53.6	93.6	93.1
Debt					175.0	350.0	525.0	500.0	450.0	375.0	300.0	375.0	325.0	200.0
Reclamation								1.0	2.0	2.5	3.0	3.5	4.0	4.5
Deferred Taxes					0.0	0.0	0.0	0.3	6.0	11.7	17.8	24.4	36.8	49.8
Shareholders Equity	9.4	13.0	98.4	86.8	75.2	62.5	46.9	80.2	133.7	186.9	244.0	305.2	392.1	485.0
Total Liabilities	9.7	13.6	99.4	87.8	251.2	414.5	574.9	617.3	646.8	630.7	618.9	761.6	851.5	832.4

Source: Duluth Metals; John Tumazos Very Independent Research, LLC estimates

Table 8: Net Present Value

Balance Sheet	12-2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Cash in		27.6	0.0	0.0	0.0	0.0	0.0	63.6	89.2	88.9	93.2	97.7	168.2	174.9
Cash out		19.6	39.6	61.6	136.6	187.6	165.6	75.0	25.0	25.0	25.0	170.0	75.0	25.0
Discount factor at 9%		1	1.09	1.1881	1.295	1.4116	1.53862	1.6771	1.828039	1.99256	2.171893	2.36736	2.580426	2.812665
Net cash flow in current \$		8.0	-36.3	-51.8	-105.5	-132.9	-107.6	-6.8	35.1	32.1	31.4	-30.6	36.1	53.3
Cumulative NPV of cash by year		8.0	-28.3	-80.2	-185.7	-318.6	-426.2	-433.0	-397.9	-365.8	-334.4	-364.9	-328.8	-275.5
Alternate 7% discount factor		1	1.07	1.1449	1.225	1.3108	1.40255	1.50073	1.605781	1.71819	1.838459	1.96715	2.104852	2.252192
Net cash flow in current \$		8.0	-37.0	-53.8	-111.5	-143.1	-118.1	-7.6	40.0	37.2	37.1	-36.8	44.3	66.5
Cumulative NPV of cash by year		8.0	-29.0	-82.8	-194.3	-337.4	-455.5	-463.1	-423.1	-385.9	-348.8	-385.6	-341.3	-274.8

INTERPRETIVE COMMENT: THE PROJECT ENJOYS A "CASH PAYBACK BREAKEVEN YEAR" AT THE END OF 2023 AT A 7% AND THE MIDDLE OF 2025 AT A 9% DISCOUNT FACTOR. This stems from the outlay of upwards of \$600 mm prior to 2013 revenue and another \$250 mm in 2017-18 for presumed expansion to 30,000 from 20,000 metric tonnes per day after which the cash generation is particularly fine.

Duluth Metals will enjoy about 1.25 billion pounds of "payable nickel," 5 billion pounds of payable copper and over 5 mm oz of combined pt, pd and gold "in the ground" at the beginning of 2020 to which we assign a value near \$2 billion, whose terminal value drives mine construction.

The 20,000 metric tonne per day "cash breakeven" is near \$5 nickel, \$1.50 copper and the generous \$1,000 pt, \$300 pd and \$650 gold scenario. While many permutations of metals price scenarios can be defined in the six product price array, we estimate the 2019 30,000 metric tonne per cash breakeven is near \$5 nickel, \$1.15 copper, \$7 cobalt, \$1,000 pt, \$300 pd and \$650 gold. We did not inflate either selling prices or costs.

Source: John Tumazos Very Independent Research, LLC estimates

FIVE VALUATION ALTERNATIVE APPROACHES

Enterprise value per pound of reserves, P/E on pro forma earnings, net present value, qualitative geologic inference and probability of permitting/environmental risk discount are five alternative approaches to valuing a "deposit" company like Duluth Metals. It has a deposit, but may prove five years away from earnings.

It has established a measured and indicated resource, and on October 4th published its first estimate of metallurgical recovery rates. It has completed two vital building blocks of a feasibility study, but detailed engineering, capital cost estimates, economic analysis, sequencing,

base line environmental studies, draft EIS, comments and final environmental approval remain. Once in hand, final construction contracts, equipment orders, shaft sinking and project construction may begin. Much work remains.

The stock appears worth five to ten times its recent price based on enterprise value per pound analysis, using either \$1.00 ni/\$0.10 cu as a “base case” and \$1.75 ni / \$0.175 per pound cu resource valuation metrics. A buyer with a very long time horizon like Aluminum Company of China, Anglo-American, Rio Tinto or others might use this approach, NPV, geologic inference and environmental risk discounts in moving ahead.

NPV is virtuous, but choice of a commodity price scenario, cost growth metric or discount rate may complicate it. NPV analyses pay little value for resources to be mined over 20 years into the future, and Duluth Metals has a good chance of a 60 year life as a 30,000 tonne per day underground mine and mill. One company we visited recently “inflated” its commodity price revenue each year, high graded by 60% in its first decade and chose a very low cost metric for a “downhill truck haul” in its first decade. Such schemes can distort a P/E approach as well.

Qualitative factors should be considered. Infill drilling may increase the “West Zone” of the Maturi or Nakomis resource. The newer “East Zone” appears significant, and we estimated it was one-third of the size of the current known West Zone. Duluth Metals’ land position is finish and appears limited to its one key deposit, but 600+ mmt with over \$100 per tonne of contained revenue is plenty adequate.

ENTERPRISE VALUE PER POUND, NPV AND P/E APPROACHES CONVERGE INTO ON ANOTHER IN OUR OPINION

In our tables 2 and 3 we compare the publicly traded Duluth Complex companies in an enterprise value per pound framework. We assign a “base case” conservative \$1.00 per pound of nickel, \$0.10 per pound of copper and assign no explicit value to the four coproducts offering 14% of future revenue in our estimates.

In table 8 we calculate a formal NPV for Duluth Metals, which hinges on the “subjective” estimate of terminal value in 2020. The “terminal value” will be estimated either from “cents per pound” of mineral in the ground or else a “P/E” to the going concern on the 30,000 metric tonne per day scenario with one incremental 50% expansion in 2017-18 after startup in 2013 at 20,000 metric tonnes per day.

We believe a 15 P/E in 2019 will be appropriate owing to the 60 year resource life at a 30,000 metric tonne per day production rate, its low costs and the relative scarcity of most of the minerals Duluth Metals will produce.

ENVIRONMENTAL RISK FACTORS

We believe there is a large chance of environmental delay, and a small chance of complete rejection. This is a key reason we factored 5 ¼ years to startup. Minnesotan regulators are meticulous, and will ask for various alternative studies and hear public comments.

We believe this project is lower risk, even though it lies near the northern end of the mineral belt and lies within ten miles of the Boundary Waters Wilderness Area. First and foremost, it will be an underground mine with one-tenth of the environmental disturbance of an open pit. Duluth is the only one of the four public companies on the Duluth Complex mineral belt that its SOLELY

underground. Second, it will practice a “room-and-pillar” mining method in which roughly “half” of its tailings will be replaced into the underground mine as “cemented backfill” for support, stability and waste disposal. Third, its chalcopyrite, cubanite and talmanite host rocks are not acid generating sulphides like the pyrrhotite common to Polymet or TeckCominco’s surface deposits. Fourth, the RECOVERABLE, PAYABLE metal resources of the four public companies are near \$170 billion at current prices, and to date the environmental movement has never stopped an entire mineral district or class of deposits nor any economic value of such massive size.

Instead, past environmental objections have focused on specific projects with specific real or imagined defects or risk factors. The Macdonald gold deposit near Lincoln, Montana, for example, had no fatal defect in our opinion. The economic “opportunity cost” involved in its rejection might be characterized as 75% recovery of 10-13 mm oz “in situ” or \$6-\$7 billion in today’s dollars. The Duluth Complex, based on current knowledge that might not be even 50% of the ultimate resource base, appears to be 25 to 50 times larger than any project previously rejected in the U.S.

QUALITATIVE GEOLOGIC INFERENCE OF POTENTIAL RESERVE EXPANSION

Since the mine offers a 60 year life at 100% of its resource at a 30,000 metric tonne per day rate, it is not critical for this company to find more mineral. Some could “pooh pooh” the exploration potential because the land package is a specific, finite portion of the mineral belt.

However, we foresee at least three opportunities. First, most of the current drill spacing has been done on 200 meter spacings in the “west zone” of the Nakomis deposit near the historic Maturi shaft of Inco. It is possible that securities law and personal liability considerations encourage a conservative interpretation of information, and that the contained tonnes or mineral grades will improve 5% to 10% or more when the drill spacings are tightened from 650 to 100-300 feet.

Second, the “west zone” is “open” to the east and south.

Third, Duluth Metals has placed just over ten holes into the “east zone” with similar grades enjoyed for nickel and copper and slightly higher total precious metals grades as the “west zone.” Duluth Metals does not have enough information to attempt to calculate a mineral resource on the “east zone,” but we assigned it one-third of the value of the “west zone” or 150 mmt at the same grades. The thickest “east zone” hole was 570 feet and most range in the 40 to 200 foot thickness.

Fourth, future underground shafts and tunnels may inadvertently or accidentally discover unsuspected or “above plan richness” zones such as sometimes Sudbury, Ontario miners enjoy. For example, we walked through the 87 foot long “bronze tunnel” of FNX Mining’s Podolsky 2000 zone on September 6 that contains about 26.5% copper, 1.5% nickel and 0.6 ounce (emphasis ounces not grams and note there are 31.1 grams per oz in a metric tonne and 34.3 rams per oz in a English ton; further, one gram per metric tonne = one part per million) total pt, pd and au.

Fifth, certain exploration techniques are “more effective” from within a mine rather than remotely from surface over 2,500 feet from the deposit. Downhole geophysics, drill accuracy and visual mapping are much more effective as well as perhaps one-tenth as costly. It is likely that Duluth Metals’ geologists will postpone some evaluations until they can be done more easily, cheaply and reliably from depth. After all, Duluth Metals has plenty of ore.

EXCEPTIONAL DRILL CORE RECOVERY OR “COMPETENCE” BODES WELL FOR UNDERGROUND MINE CONDITIONS

We were greatly impressed at the visible sulphides (bronze spots or blotches in nearly black host rock) in the drill cores of Duluth Metals, Franconia Minerals or Polymet.

We were most impressed at the “solid pipe” nature of the drill cores recovered by Duluth Metals or the neighbor Franconia Minerals. A typical “box” of drill cores appeared to have maybe one natural break. Sometimes drill crews “break the stick” for their own ease of handling, and not all breaks in the boxes of cores represent natural weaknesses in the host rock.

“Competent” host rock facilitates easier mining. The adverse circumstance miners seek to avoid are conditions like the recent Newmont Mining Leeville underground mine in Nevada for which large amounts of steel and cement support were necessary to make tunnels safe, and the cost per ton was nearly double initial estimates and the pace of mining much slower owing to the need to fortify the naturally “incompetent” rock. Further, the faults, cracks and fissures that make rocks weak can be conduits for ground water, and large amounts of water can be another problem. Barrick Gold’s Meikle underground mine in Nevada at one point pumped up to 68,000 gallons per minute of 140 degree Fahrenheit water, which complicates mine operation, environmental permitting and community relations with neighbors in agriculture or recreation. “Fewer cracks are better” from all vantage points.

ROOM AND PILLAR RECOVERIES TREATED AT 75% THOUGH 85% EXTRACTION TARGET ARTICULATED

Both Duluth Metals and neighbor Franconia Minerals plan to use the “room-and-pillar mining method, which the unusually competent host rock structure encourages. They plan to take about 65% of the separately-owned deposits in the “first pass,” use cemented-waste-backfill to dispose of half of the ground ore tailings and hope to extract another 20% of the original deposit to leave just 15% of the ore behind as “permanent pillars.”

In our economic analysis we gave credit to just 75% each deposit. There may be some appendages or portions that do not fall into the economic mine plan, and it may prove possible to remove more or less of the pillars than planned.

In the early twentieth century the Treadwell gold mine, operated by the Alaska Juneau mining company just west of Juneau from Admiralty Island, removed “a few pillars too many.” The Gastineau Channel began to enter the mine as the ocean floor, which was the ceiling of the deposit, caved. Sufficient warning permitted miners to exit, but dozens or hundreds of work mules drowned.

USE OF NEIGHBOR’S CAPITAL COST ESTIMATE IN ABSENCE OF DULUTH METALS COMPLETION OF ITS OWN CALCULATION

Neighbor Franconia Minerals estimates a \$616 mm capital cost to build a 18,000 tonne per day mill. Its capital cost should be higher than Duluth Metals because Franconia needs to sink shafts into two separate underground deposits, Birch Lake and Maturi, which weighs in favor of Duluth Metals having lower capital costs. However, Duluth Metals is deeper and we have factored in a slightly larger 20,000 tonne per day mill.

We have used the capital cost estimate of Franconia Minerals in view of Duluth Metals not having published one nor a prefeasibility study. We sense such efforts are “in earnest,” and we respect Duluth Metals silence as it undertakes its evaluation.

There is a chance the capital costs turn out to be 10% less for Duluth. However, the 600+ mmt potential resource is so large that Duluth Metals may ultimately have two or three production shafts and a much larger operation than the 30,000 metric tonne per day scale we envision.

POTENTIAL BENEFITS OF A MERGER WITH NEIGHBOR IGNORED, THOUGH PLAUSIBLE AND LOGICAL

Operation of “one mine” combining the Franconia Minerals Maturi, whose 1,000 foot shaft was “filled” about 25 years ago by Inco, with the Duluth Metals “Nakomis” west and east deposits would be safer. Joining the tunnel systems, ventilation and shafts would provide multiple means of egress in the event of an accident and better ventilation.

Second, combining facilities would reduce the environmental footprint. We do not believe there will be fewer underground mine shafts because the sheer size of the deposits encourages multiple shafts to permit large scale production. However, there may be one rather than two mills, one pressure oxidation/autoclave building slightly smaller than two and one tailings disposal rather than two. Warehouses, service shops, administrative offices and other infrastructure would not need to be duplicated. We estimate that about ten fewer acres would be disturbed if the projects joined.

Third, capital and operating costs should be less accordingly. The capital savings might range from \$50 to \$150 million, and operating cost savings might be near 5%-10% or \$15 to \$35 million for each firm.

State of Minnesota environmental agencies might suggest such a plan, but they have no power other than “foot dragging” to force such an outcome.

TIMING

We have provided a 6 to 12 month “contingency” in our schedule for 75% of “capacity” output in 2013. Many unknowns exist.

First, “baseline” environmental data must be collected to “inventory” plant and animal life prior to submitting a draft environmental impact study (EIS). “Baseline” acid rock generation studies also must be collected for two years. Various building blocks of feasibility study must be complete. Duluth Metals has published a form 43-101 “measured and indicated” resource and recovery rates, obviously, but not a firm capital spending number. We do not know when prefeasibility or final feasibility study will be completed, but under one year is plausible.

We have estimated 20,000 metric tonnes per day is a reasonable initial scale, and this can be expanded 50% after four years of output. Too much “up front” capital expending may be dilutive or require too much initial debt or lenders may suggest hedging, which suggests a “phased approach” is ideal. We have estimated a draft EIS is submitted in 2H2008 and approved 2H2010.

We estimate shaft sinking begins after final permits are in hand and legal challenges over. Yes both the permitting and shaft sinking could be completed in under 2 years, but we do not want to get “carried away. The surface mill and autoclaves presumably will be built concurrently, and may require less time than underground shaft and tunnel development.

FINANCING

We have estimated Duluth Metals issues 20 mm shares at US \$5.00 each in mid-2008 to raise \$100 mm in equity, and borrows the remainder of the funds needed at 8%. We estimate it uses internal cash flow and \$100 million of debt in 2017 to expand 50%. We estimate year-end 2019 balance sheet will contain \$200 mm in debt and \$485 mm in equity.

TARGET PRICE AND INVESTMENT VIEWPOINT

We initiated coverage with an Overweight investment recommendation and a US \$10 per share price target based on (1) the potential for more mineral to be defined and better economics than we have modeled to be established, (2) a likely high P/E owing to potential 50+ year reserve life, (3) relatively low \$5 nickel and \$1.00-\$1.50 copper direct cash cost breakeven points, (4) takeover appeal and (5) \$1.00 per share of earnings estimated at a 30,000 metric tonne per day operating scale after a 50% second phase expansion.

Clearly the 2013 time frame for revenue and ever present environmental challenges exist, though the underground nature lessens environmental impacts, the depressed iron ore range employment picture and a \$25 billion future revenue profile at \$9 nickel, \$2 copper and one-half to two-thirds payability suggest the Minnesotans will need and support this project.

We estimate this stock will be worth \$15 to \$20 per share after it demonstrates a 24 month production history around 2014 or 2015 to verify all operating parameters.

RISKS

Timing of environmental approval, lengthy litigation, final environmental approval, capital cost overruns, operating cost overruns, metals prices, exchange rates and the global economic cycle each represent major risks.

The presence of six separate minerals or three “groups” of products, nickel, copper and precious metals, provides a sort of diversification. However, historically a large covariance exists among the various metals.

Duluth Metals and the other neighboring projects each should be able to produce a salable refined copper finished product. However, the other five minerals will be collected within a “nickel concentrate” that might be resold to CVRD, Xstrata, Japanese refineries, Norilsk, Outokumpu or some others. Until the Duluth Complex regional companies join force to build such a refinery, the outside processing will involve transport costs, fees and about a 25% “take away” or ownership of the metals by the custom nickel refinery.

CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar

owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

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Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Except for 32,400 shares of Polymet Mining that John Tumazos bought between April 18 and 23, 2007 (outside counsel advised ownership more than 30 days prior to publishing or contemplating was the definition of a long-term holding and not “front-running”), neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d'Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thyphin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or "due diligenced" for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

ANALYST UNIVERSE COVERAGE:

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International. Alcan, which Rio Tinto soon will acquire, also will be discontinued from coverage.

Subsequently, since September 2007 JTVIR, LLC has initiated coverage of new companies not previously covered in the former universe. These new companies include General Moly, Inc., Duluth Metals, Polymet Mining, Franconia Minerals and Century Aluminum.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of "Overweight," "Neutral Weight," and "Underweight" most closely correspond with the more traditional ratings of "Buy," "Hold," and "Sell," respectively; however, please note that

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There is no intention to "balance" the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a "bottoms up" manner based on the assets of each individual company.

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The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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