Constellation Copper: To the Stars!

An Update on American Stellar Energy

If you haven't already read my report on American Stellar Energy, I strongly encourage you to do so (see A Stellar Opportunity). The share price has corrected nicely off of the highs it made last week, and consequently, this looks like an excellent buying opportunity.

Constellation Copper is a wonderful example of a company that possesses excellent potential with relatively low investment risk. This is due primarily to Constellation's recent commencement of production at its Lisbon Valley Copper Project. This project is expected to reach full production in the 2Q of 2006, with an expected annual production of 54 million pounds of copper.*

*A thorough valuation of the company follows towards the end of this report.

The Salient Statistics:
(As of September 30, 2005)

- Unrestricted cash: $17 million
- Working Capital: $9.2 million
- Total Assets: $101.7 million
- Debt: $25 million

(As of December 31, 2005)

- Outstanding Shares: 133 million
- Fully Diluted: 169 million

(As of January 28, 2005)

- Price: $1.74 US
- Market Cap: 294 million

The Lisbon Valley Copper Project (LVC Project)

Location:

- Lisbon Valley, Utah

Overview:

Using the very cost effective solvent extraction / electrotwinning technology, Costellation Copper (CCU.TO or CCUDF.PK) is now producing large amounts of copper at its Lisbon Valley Copper Project in Utah. Construction on the property commenced in November of 2004, and was +95%

complete by December of 2005.

The Lisbon Valley Property contains measured and indicated resources of 377 million pounds copper, and the cost to extract the ore is just $4.26/ton or $.47/lb* Cu based upon the feasibility study conducted in 2003 (includes cost of mining, processing, general and administrative costs, property taxes, and severance taxes). Thus, the Lisbon Valley Copper Project was easily deemed as an economically viable operation at a copper price of $.90/lb.

*Due to inflation and the corresponding increase in the cost of energy, let's assume a total cost of $.60/lb today.

The copper being produced by CCU.TO sells at a premium of $.09-$.010 above the LME price due to the current arbitrage of COMEX over LME prices and the cathode premium.

Recovery of the copper at the LVC Project is estimated at about 90%.

Mine Life:

- 7+ Years

Metals Prices (1/28/2006)

- Cu price: $2.25/lb.
- Zn price: $1.00/lb.

The Terrezas Copper-Zinc Project (TCZ Project)

Location:

- Chihuahua Mexico

Overview:

A definitive feasibility study is now underway, and is planned on being completed within months. Constellation Corporation then hopes to develop the TCZ Project between 2006-2007.

Target production (annually):

- 40 million lbs. Cu
- 150 million lbs. Zn

Contained Mineralization:

- Measured + indicated oxide resource of 2.34 billion pounds of zinc and 608 million pounds of copper
- An additional Inferred resources of 394 million pounds of zinc and 40 million pounds of copper

Total Costs and Recovery:

- \$.53/lb Cu---avg. recovery 83.3%
- \$.34/lb Zn---avg. recovery 77.0%

Again, I'll round up these costs to \$.60/lb and \$.40/lb respectively, due to inflation and the consequential increase in energy prices.

Mine Life:

- 15+ years

San Javier del Cobre Project (SJC Project)

Location:

- Sonora, Mexico

Overview:

Previous drilling by Phelps Dodge encountered significant intercepts of copper oxide near the surface.

Contained Mineralization:

Estimated total inferred resource of 797 million pounds of copper (not compliant with N143-101 standards due to a currently limited amount of data).*

Target Production:

- 60 million pounds of copper per year

*Constellation management is planning an extensive drill program for 2006 in order to more accurately define the resource base at San Javier del Cobre.

Mine Life:

- 13+ Years

In total, these three properties are anticipated to produce over 150 million pounds of copper and 150 million pounds of zinc annually.

The Valuation

Scenario 1: Using only the LVC Project (2006-2007)

- 54 million pounds annually x .90 (percent recovery) = 48.6 million pounds
- 48.6 million pounds x (\$2.25 market price - \$.60 cost + \$.09 premium) = \$84.6 million in profit/year x P/E of 10 = \$846 million market capitalization
- \$846 million/169 million shares = \$5.00/share

This represents a price per share 288% greater than the closing on January 23, 2006.

Scenario 2: Using the both the LVC Project and the TCZ Project, possibly being brought into full scale production within 2 years (2008-2009)

- 40 million pounds copper production x .833 recovery = 33.32M lbs. Cu per year
    - 33.32 M lbs. Cu x ($2.25 market price - $.60 total costs + $.09 premium) = $58.0 million profit per year
- 150 million pounds zinc annually x .70 recovery = 105M lbs. Zn per year
    - 105 M lbs. Zn x ($1.00 market price - $.40 total costs) = $63.0 million profit/year
- $84.6 million (LVC Project) + $58.0 million + $63.0 million = $205.6 million annual profit x P/E of 10 = $2.0 billion market capitalization
- $2.06B/169 million shares = $12.20/share

This represents a price per share 721% greater than the closing on January 23, 2006.

Scenario 3: Using the LVC Project, the TCZ Project, and the SJC Project, assuming all three are producing at full capacity in 2009 (2009-2012+)

- 60 million pounds copper annually x .80 recovery (estimated) = 48 million pounds
    - 48 M lbs. Cu x ($2.25 - $.65 cost (estimated) + $.09 premium) = $81.1 profit/year
- So, $81.1M + $84.6M (LVC Project) + $121M (TCZ Project) = $286.7 million/year x P/E of 10 = $2.87 billion
- $2.7 billion/169 million shares = $16.98/share

This represents a price per share increase of 1005% over the closing price on January 27, 2006, making Constellation Copper a comparatively safe investment still possessing the much coveted 10 bagger potential within a 3-4 year time frame.

One of the only things that disappoints me with Constellation Copper is that they have chosen to forward sell about 1/3 of their expected copper production for the last 3 quarters of 2006 (April-December). This means that they are obligated to sell their copper for a price of $1.861/lb. + the cathode/COMEX premium of about $.09/lb. Though those prices may have seemed incredible at the time, the price of copper is already trading 21% higher than when they made the deal. If copper prices continue to rise in 2006, as I believe they will, then hopefully management will learn their lesson and make the decision not to forward sell any of their production in the future. If you hold shares and feel the same way, I encourage you to contact Constellation's management team and let them know.

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*I own shares in Constellation Copper, but Constellation Copper has neither paid me nor compensated me in any other way to write this report. I am not an investment advisor. I urge you to conduct your own due diligence before investing in any stock or commodity.

Interested in attending a FREE Silver Seminar this summer?

I plan to host several seminars this summer in the Chicago, IL area (probably in Gurnee) detailing the bullish fundamentals behind silver, gold, zinc, copper, etc.,while also explaining the issues of monetary creation/expansion and the growing credit bubble worldwide. Please contact me by e-mail if you are interested, and I will keep you posted on the details when the time comes.

Update on ERHC Energy

Although I myself have liquidated the majority of my holdings in ERHC Energy in order to create a portfolio nearly 100% focused on the mining sector*, it looks as if the PSC's (production sharing contracts) may finally be signed in mid to late February. If this happens, I would expect the share price to increase several times over, as predicted in my report back in December. But delays may continue as usual.

Got Zinc?

Constellation Copper provides excellent copper exposure, but if you like zinc stay tuned, because very soon I plan to release a much updated report on Metalline Mining Company (MMGG.OB). They have 200% more contained zinc metal than Constellation Copper, making it highly leveraged to zinc prices by a factor of about 82. And here's the real kicker, their current market capitalization is only about 12% of Constellation Copper's.

They still need to complete their feasibility study (likely by year-end 2006) and finance the construction of $450 million mine (estimated), making it a somewhat riskier investment, but don't forget that attached to the risk is the correspondingly greater reward. As if a 10 bagger in 4 years wasn't good enough, try a 20, 30, 40, or even a 50+ bagger! Stay tuned.

In the meantime you are advised to read Jason Hommel's most recent coverage of Metalline Mining: www.silverstockreport.com (look under his most recent e-mail campaigns, though it may not be listed yet) as well as my previous coverage of the company late last year.

I have considerably more invested in Metalline Mining than Constellation Copper because I love huge risk/reward potential. But for those seeking an excellent value opportunity with minimal risk, combined with a producing mine and strong copper exposure, I do believe Constellation Copper is a superb choice.

Disclaimer