CORMARK SECURITIES INC.

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METALS & MINING

Base Metals Quarterly

Q1/14 Results Preview – Short-Term Views Mask Fundamentals

◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Unless otherwise denoted, all figures in US$
We are utilizing a $0.90 US$/C$ exchange rate

Financial Markets Uncertainty Pushes Prices Lower: Fundamentals in Q1/14 unfolded pretty much in line with expectations; however, increased risk aversion due to global events and a stronger US dollar resulted in lower metal prices. Demand indicators continue to imply we are entering a period of global synchronous growth which, historically, has been supportive to commodities. While markets are well supplied in the near term, we continue to see supply underperformance and a lack of new investment as positioning the market for the next leg up in the commodity cycle, likely in 2015, as inventories are consumed.

Price Deck Adjustments: Metals prices in Q1/14 performed generally in line with our expectations until March when significant weakness occurred due to geopolitical developments, Chinese credit fears and the possible unwinding of financing deals. This resulted in lower than expected prices and a downward revision to our near-term outlook given current price levels. Nickel prices were the one outlier rising on supply fears due to possible sanctions on Russia, which we expect will be unfounded. Prices averaged $3.19/lb, $6.64/lb, and $0.92/lb for copper, nickel and zinc, respectively. We expect prices to recover somewhat in the near term and then trade sideways until excess inventory is consumed. Zinc remains fundamentally the strongest metal with copper expected to be in deficit by 2016. Coking coal remains well supplied and cuts are needed for prices to recover. Going forward, we have made modest adjustments to reflect current prices and we continue to see more risk to supply than demand given the lack of capital being invested.

Equities Continue To Trade On Spot Moves: Stock continues to trade on near-term events such as the Fed QE tapering, with little apparent longer term investment decisions being made due to lingering uncertainty. This is unlikely to change in the near term keeping the markets volatile. Large and liquid names remain in focus but are trading at a premium to mid-caps and many have significant development risk in 2014. Our favoured large-caps are Teck, ◆HudBay and Capstone; in the mid-caps, Nevsun, Copper Mountain and Sierra Metals and for developers NGEx, NovaCopper and Augusta.

Disclosure statements located at the back and inside back cover

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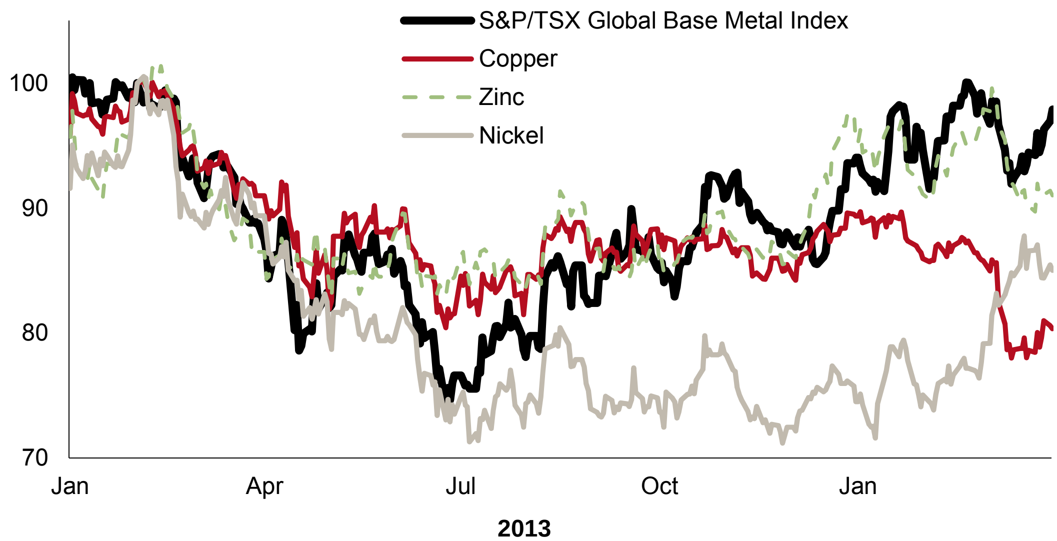
Q1/14 Quarterly Review

Quarterly Summary

Q1/14 started off on a relatively positive tone with prices showing a degree of stabilization and economic indicators looking supportive. That said, concerns about Chinese credit issues and a strengthening in the US dollar resulted in further price weakness beginning in March. Metal producing equities have generally held up well but continue to trade on spot price moves as opposed to any real conviction on future prices or global demand expectations. While the near term is unlikely to see any real change given the weak investor sentiment, we continue to believe we have passed the lows on a fundamental basis. Demand levels continue to improve and China remains a key driver as we enter the beginning of what we believe is a period of synchronous global growth. While China's economic indicators slipped in Q1/14, the government remains committed to a 7.5% GDP growth rate which will continue to push the industry to deliver more physical metal.

As shown in Figure 1, in Q1/14 base metal equities outperformed copper and continued to strengthen modestly from their recent lows witnessed last summer. That said, since early 2013, nearly all equities in our coverage universe, and their related commodity prices, remain down.

Figure 1 **Commodity And Equity Performance**



Sources: Cormark Securities, Bloomberg

Toward the end of the quarter we saw a fairly rapid decline in many commodity prices, most notably iron ore and copper, which we do not believe is supported by any fundamental change in the medium-term fundamentals. Instead we believe the selloff reflects the current investor focus on short-term trading strategies and the more general view that most markets are likely range bound for 2014-15 given sufficient supply. Nickel, on the other hand, rallied on perceived supply constraints which we do not view as justified at this time. That said, we continue to believe the longer-term fundamentals remain highly supportive as the withdrawal of capital from the sector has, in our view, already created the conditions for another leg up in the commodity price cycle as supply becomes an issue in 2016 for many metals and the industry will be unable to rapidly meet the demand needs due to the inelasticity of supply.

Below, we outline the key drivers of the recent price weakness:

- **Geopolitical Issues**: With the Russian annexation of Crimea in Ukraine, global political tensions have increased and could result in supply disruptions. As such, investors have once again moved away from risk-sensitive assets after becoming slightly more supportive early in the year. At this time, we cannot predict the outcome of the Russian situation but given this region's limited impact on metal demand, we do not believe it will impact the fundamentals to a material degree in the medium term.
- **Chinese Growth Rates**: Once again market concerns over the level of growth coming out of China and the implication for demand have been raised with a focus on the downside. This is a result of the credit concerns and reduced trade balance. Investment and PMI data deteriorated in Q1/14 but we note that Q1/14 numbers are not necessarily reflective of actual demand given the timing of the Lunar New Year's holiday season in China. That said, as we have noted before, we continue to expect growth rates in percentage terms to decline as China matures and, given its dominance in the market, growth slows. Instead, we continue to focus on the physical volumes needed to meet even reduced growth rates. This has not changed.
- **Copper Financing Deals:** Due to the rising concerns over the state of the Chinese credit markets, fears have grown that the copper tied up in financing deals may be placed back into the market and thus increase the supply available. While this may occur to some degree, it does not change the overall medium-term fundamentals as most were already calling for modest oversupply in 2014 and 2015. However, this is likely to increase volatility. We also note this material was known to the market and has been partly behind the decline in LME inventories despite the view that the market is in a modest surplus. While demand from financings has created some artificial tightness that may have supported higher prices, the impact is limited in our view. Looking forward, prices will be supported by the deficits expected to come in 2016 and could see prices quickly spike much higher given the lack of projects in the development pipeline.
- **Recent Defaults And Credit Markets In China**: During Q1/14, we have witnessed what are being referred to as the first defaults in the Chinese real estate sector. This has increased concerns over the credit risk in other sectors as well. A decrease in lending to the sector is fuelling the view of slower domestic growth despite the government reaffirming its 7.5% GDP growth target for 2014. Further, this is happening at a time of increased currency depreciation and tightening lending rules. While once again credit market uncertainty may impact near-term demand, we do not see it as curtailing the underlying urbanization trends in the BRIC countries which is the longer term driver of commodity demand.
- **The Fed And Recent US Dollar Strength:** In mid-March, the US Fed confirmed market expectations of a further withdrawal of $10 BB a month from its asset purchase program and indicated a view that rates are likely to start rising in 2015. This was prompted by views that the economy is continuing to recover and unemployment is declining leaving room to remove the stimulus measures. While this should support increased demand for material in the US, this in turn appears to have further increased the value of the US dollar relative to other currencies (most notably the Canadian dollar and Australian dollar). With the US dollar strength, comes weaker US dollar denominated commodity prices, at least in the near term. That said, we look for US demand to strengthen and support demand from China which will keep the commodities' market tight.

- **Nickel Rallies On Potential Supply Disruptions**: Nickel prices rallied on the view that the Indonesian ban on exports, coupled with possible sanctions on Russian exports, will lead to a supply shortage. We view this as highly unlikely given the LME inventory levels are at all-time highs with new supply sources ramping up, namely Ambatovy and Koniambo. As such, we see the rally as unjustified without production cuts, as inventory levels are sufficient to support over five years of normal demand growth.

Summary Outlook For Each Metal

In the following sections, we have highlighted our current short- and medium-term outlook for each commodity.

Copper remains the bellwether that investors look to for direction of the overall LME base metals complex. That said, the recent weakness suggests a more sluggish global economy than we believe is the case. While we continue to expect the copper market to be in a modest surplus for the next two years, albeit at a level where one major mine shutdown or slightly stronger demand pushes the market back into deficit, recent short-term issues have negatively impacted price. If the recent concerns over Chinese financing deals (this material was always known to market players), Chinese credit issues and a stronger US dollar weaken copper prices to the point that further supply is curtailed, this will only bring the next deficit forward, which we currently expect to occur in 2016. As such, we do not expect prices to move much lower from current levels. With capital continuing to be restricted, given the long timelines to production, the market will be unable to reverse this trend quickly as deficits remerge. Further, demand levels, overall, remain solid with the US recovering and China continuing to show strong demand. At this time, we continue to see more upside risk to our medium-term price forecasts than downside if capital remains restricted and development remains weak. As such, we would use the current weakness as a buying opportunity.

We note the LME inventory drawdown for copper seen in H2/13 and into 2014 can be largely accounted for from material moving into Chinese bonded warehouses than from demand outperformance. If demand had been this strong, we would have expected much higher prices. While these warehouses or financing deals have tightened near-term markets by limiting spot material, the overall market balance has not been affected. As such, we see the recent weakness as a reflection of short-term trading strategies within a wider band that can be expected for the next 18 months or so until the timing of the next deficit-driven price cycle emerges - we expect this to occur in mid-2015 assuming demand levels stay the course.

While at current prices copper producers should generate relatively attractive margins and robust cash flows, only the best development projects are expected to continue to have access to capital and this is likely to force some M&A in the smaller cap space. Issues that have yet to play out have been the changes in political leadership in Chile and the impact on lower copper prices on the state treasury, which we believe could slow new copper project development as other areas of the economy take on more of a focus. Given the risk to supply already seen in Chile from lower grades, this could materially impact the market in the 2016-20 period.

For zinc, the market appears to be generally unfolding as expected and we continue to believe it has the best fundamentals of base metals in supporting higher medium-term prices. Inventory levels have started to come down and should be drawn down further over the next two years resulting in material market deficits, barring new supply which seems unlikely given the dearth of new development projects in the pipeline. We expect this to be especially the case as some large-scale operations close or where recently closed (Century (mid-2015), Lisheen (2015), Brunswick (2013), Perseverance (2013)) and lead to zinc prices continuing to trend higher. As a result, zinc equities, of which there are few pure-plays or diversified producers with significant zinc exposure, can be expected to perform well. We note zinc exposure, outside a few juniors, tends to be in polymetallic plays such as Teck, ◆HudBay, Lundin, Nevsun (post-2016) and Sierra Metals. Furthermore, many investors have heard this zinc supply story before and appear to be taking a wait-and-see approach until the deficits become more apparent and time horizons close.

In contrast to zinc and copper, and despite the recent run up in prices, in our view the nickel market remains in material oversupply. The recent price run up is being attributed to fears of supply disruptions due to the full implementation of the Indonesian ore ban and risk that exports from Russia may be hit by sanctions due to the ongoing political issues. Short-term issues aside, inventory levels remain at all-time highs and are more than enough to support normal levels of demand growth for at least five years. We note this is before accounting for the new supply that is coming on in 2014 from Ambatovy, Koniambo and Onca Puma (furnace rebuild). As such, we do not view the recent price recovery to be supported by fundamentals. That said, given the size of the market, a little buying goes a long way. We note that the Indonesian ban may reduce supply but given the other possible sources, the construction of blast furnace and the more-than-enough inventory, we fail to see support for the price move. We remain sceptical that these restrictions will be fully implemented but are watching the situation closely.

Our stance on bulk commodities, namely iron ore and coking coal, remains somewhat neutral based upon steady steel production levels in China. Iron ore prices have come under pressure of late due to concerns over the unwinding of financing deals that could increase near-term supply. That said, longer term we continue to see the need to develop new supply as the current "wave" of supply is consumed by the market and we expect iron ore prices to likely stabilize. For coking coal, a lack of response from producers to cut production has led to further deterioration in prices and without some sort of action, weak prices will persist. As such, we have recently decreased our outlook for coking coal prices and until the cuts are announced, a recovery is likely delayed despite the still strong levels of demand. That said, prices are already well into the cost curve and some supply-side response should start, especially from US exporters. This would suggest a modest increase in coking coal prices, so as to limit further capacity curtailments.

Given our updated outlook, we expect share prices as a group to be driven mainly by copper and zinc and to trend higher as the market adjusts for an ongoing recovery in global growth rates and expectations of stable margins from producers. That said, we expect volatility to remain a key factor and look for more liquid names to remain in favor. For those with a longer-term time horizon, several high quality development stories are trading at extremely depressed levels and could see a material rerating if investor sentiment improves.

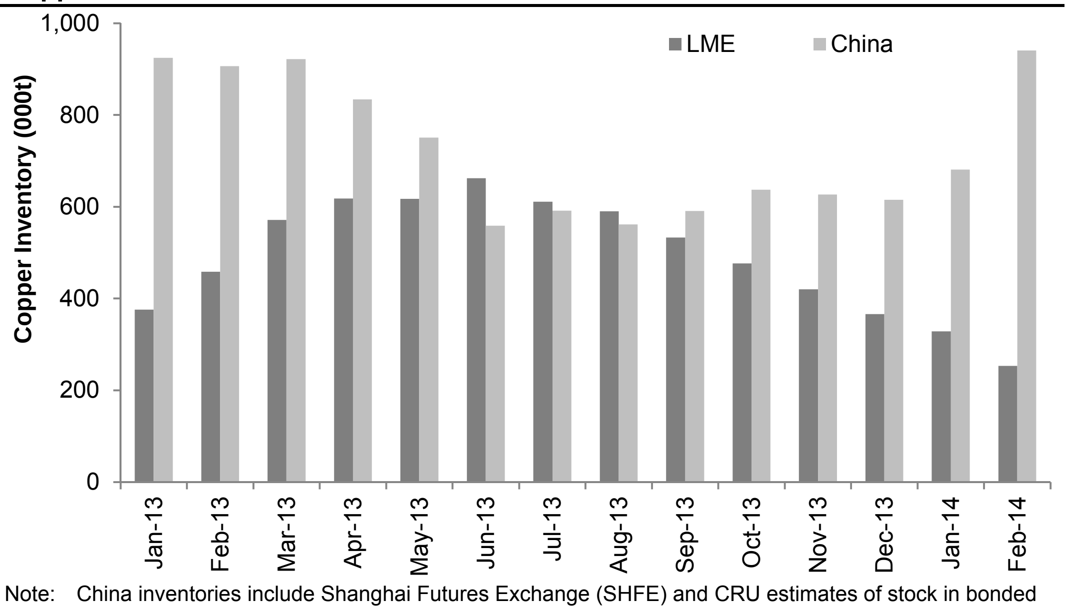
◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for Hudbay Minerals Inc.

Fears Rise On China's Credit Situation And Metal Financing Deals

One of the key drivers for the significant retrenchment in prices late in Q1/14 has been concerns over the health of the Chinese credit markets. This fear has risen from what are being referred to as the first defaults in the onshore bond market and collapse of real estate developers. As such, concerns have increased about the credit risk in the sector and China in general. The unprecedented bond default was of Chaori Solar Energy Science and Technology which manufactured solar panels and was not bailed out by the Central Authorities as had been done in the past. Without government intervention, this appears to have removed the implicit government guarantee and increased the risk to investors. That said, while this appears to have spooked the market, the bond in question was small in size at only $160 MM. This was followed by the collapse of the real estate developer Zhejiang Xingrun Real Estate Co. which has raised the risk of contagion for more defaults due to the high debt rates in many Chinese companies. This has put pressure on other companies leading to significant share price weakness. At the same time, we are seeing a tightening of lending practices and rising rates. A decrease in lending is fuelling the view of slower domestic growth despite the government reaffirming its 7.5% GDP growth target for 2014. While once again this may impact near-term demand, we do not see it as curtailing the underlying urbanization trends in China and the BRIC countries which is the longer term driver of commodity demand.

Due to the rising concerns over the state of the Chinese credit markets, fears have grown that the copper and iron ore tied up in financing deals may be placed back into the market and thus make near-term supply more available. This has helped fuel near-term price weakness. While this may occur to a degree, it does not change the overall medium-term fundamentals as most have been calling for some oversupply in the market for 2014 and 2015 already. Further, this material was known to the market participants and has been part of the reason LME inventories have declined over the past six months despite the view that the market was in surplus. The financing deals have, however, created some artificial tightness that may have supported prices but not by much in our view.

Figure 2 **Copper Inventories On LME And In China**



Note: China inventories include Shanghai Futures Exchange (SHFE) and CRU estimates of stock in bonded warehouses.
Source: Bloomberg, CRU

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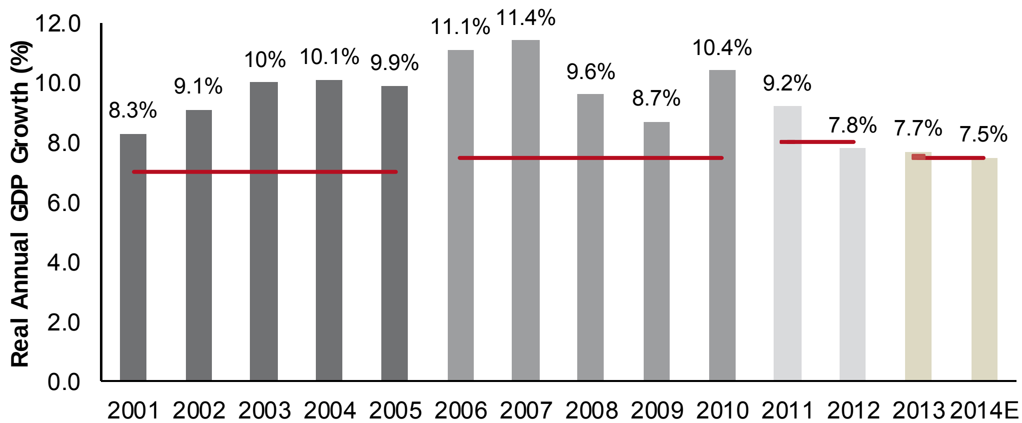
Chinese Economic Data Weakens But Impacted By New Year's Holiday

While Chinese economic data in Q1/14 was distorted by the timing of the Chinese New Year, the overall performance was modestly weaker than expected given the more positive indicators released in H2/13. Trade data, retail sales and fixed asset investment were all below expectations with combined growth in January-February at its lowest rate in several years. That said, China's official GDP target was recently reaffirmed at 7.5% for 2014 in line with 2013 target and suggests the government does not expect to implement any drastic reforms that would weigh on growth. If anything, the recent figures are likely to spur on renewed development activities to hit or exceed this target. In Figure 3, we highlight China's track record of exceeding its growth targets despite current consensus that 2014 will be below guidance.

Figure 3 **Chinese Growth Targets And Actual Performance**



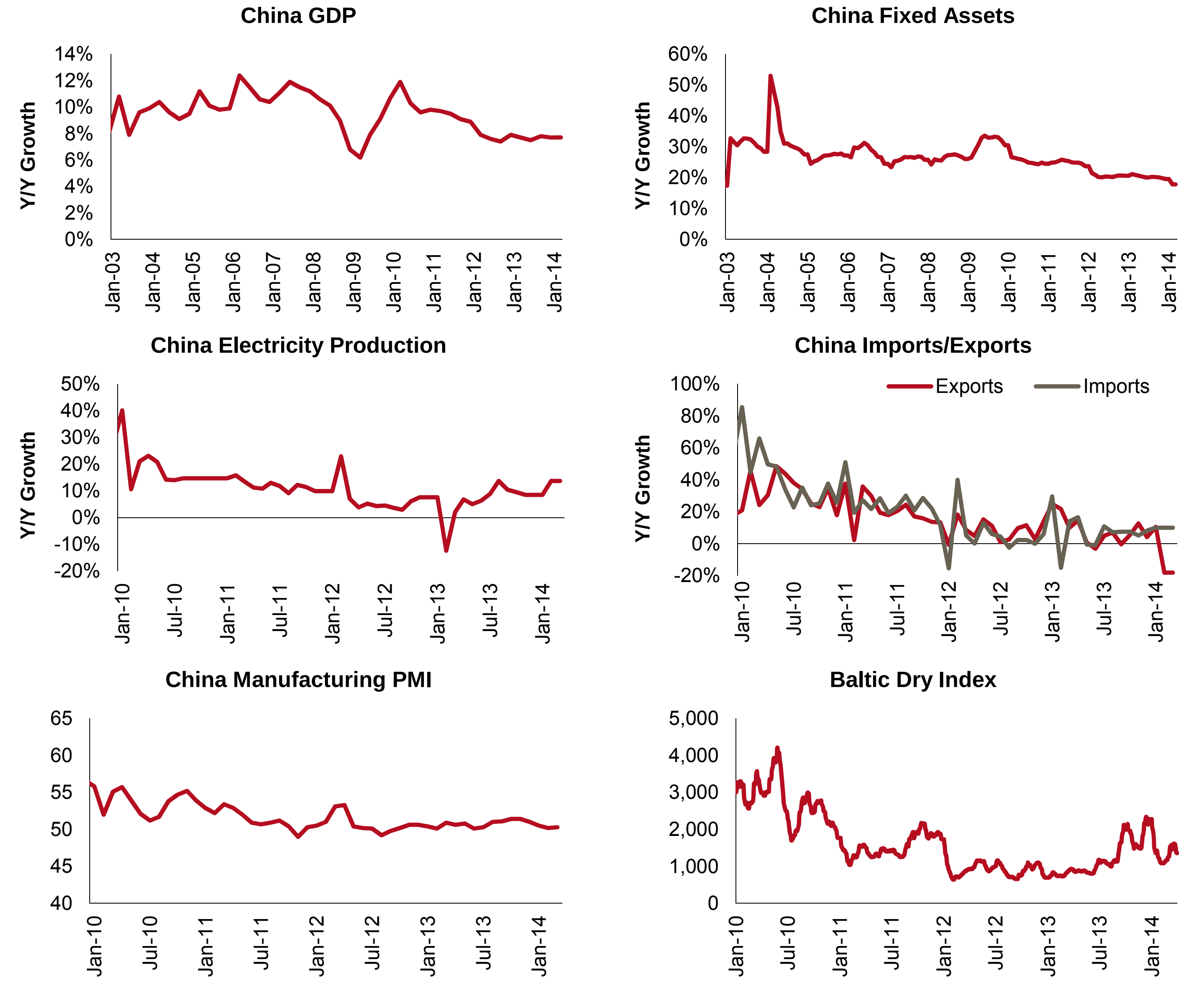
Source: Bloomberg

China's Long-Term Outlook Unchanged

Despite a more negative tone and rising concerns over China's credit situation, we believe the country's long-term economic outlook remains intact with the theme of increased urbanization unchanged. In March, China announced a 2014-20 urbanization plan with a major expansion of its rail infrastructure and a push to increase the number of people living in cities to 60% by 2020 (53.7% currently). As has been highlighted before, this will involve significant infrastructure investment and support demand for metal products. Another strong example of this ongoing trend was the confirmation of China's State Grid, the largest consumer of copper, announcing investment plans of $63 BB in 2014 up 13% from 2013's actual investment and 20% above 2013's initial target. The bulk of this investment will be in new power stations and significant investment in the electrical distribution network which is a major copper consumer. In our view, if Chinese demand meets its target levels for 2014, market fears of a material slowdown in demand will prove to be overblown and the pullback in supply development will become a material issue going forward. This could act as a catalyst to bring investors back into the space.

In Figure 4, we highlight China's economic performance that supports this view. Despite a modest decline in Y/Y growth, in percentage terms, on an absolute basis, China continues to grow at well above long-term trends and as such we continue to see growing demand for base metals. We note fixed asset investment in China remains high at around 20% which, when looked at on an absolute basis relative to the current asset base in China, equates to $1.3 T in new investments per annum and rising. As such, assuming China continues on a similar urbanization and industrialization path seen elsewhere around the world, suggests metal production needs to double in the next 15 years or so to support global average annual growth of 3.5%. Further, given the export-intensive nature of the Chinese economy, we see Europe and the US as likely to be supportive of China's economic performance going forward.

Figure 4 **China's Economic Performance**



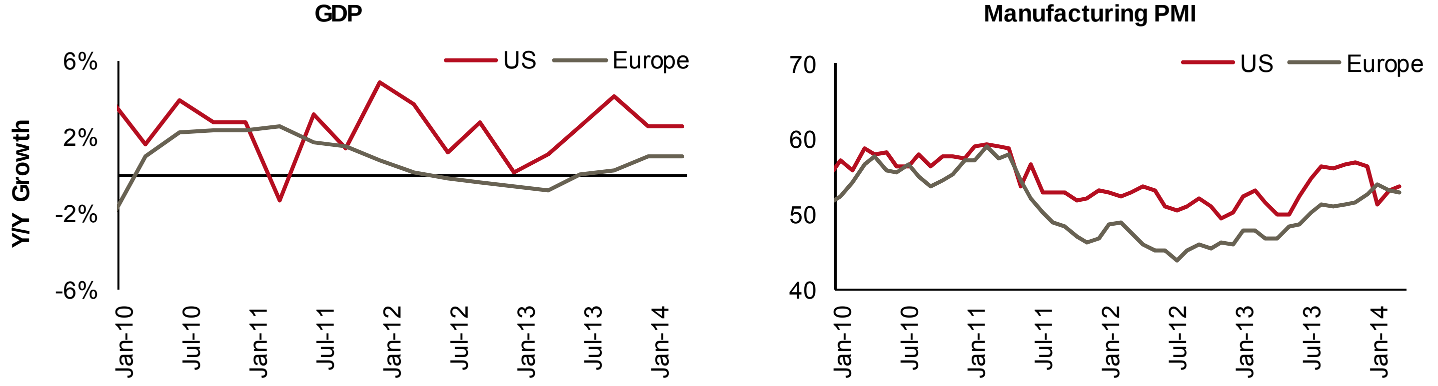
Sources: Cormark Securities, Bloomberg

Europe And US Outlook Improving

Throughout 2013, we witnessed a recovery, albeit sluggish, commencing in the US and Europe. Despite an unusually cold winter which is believed to have weighed on US growth indicators, we continue to believe the recovery remains intact.

While recovery levels in the developed economies are still tepid at best, they are moving higher which should translate into strong global demand and push markets back toward deficits in the case of copper and zinc and help bring the coking coal and nickel markets into balance.

Figure 5 **US and Europe Economic Performance**



Sources: Cormark Securities, Bloomberg

Inventories Falling But Where Is The Metal Going?

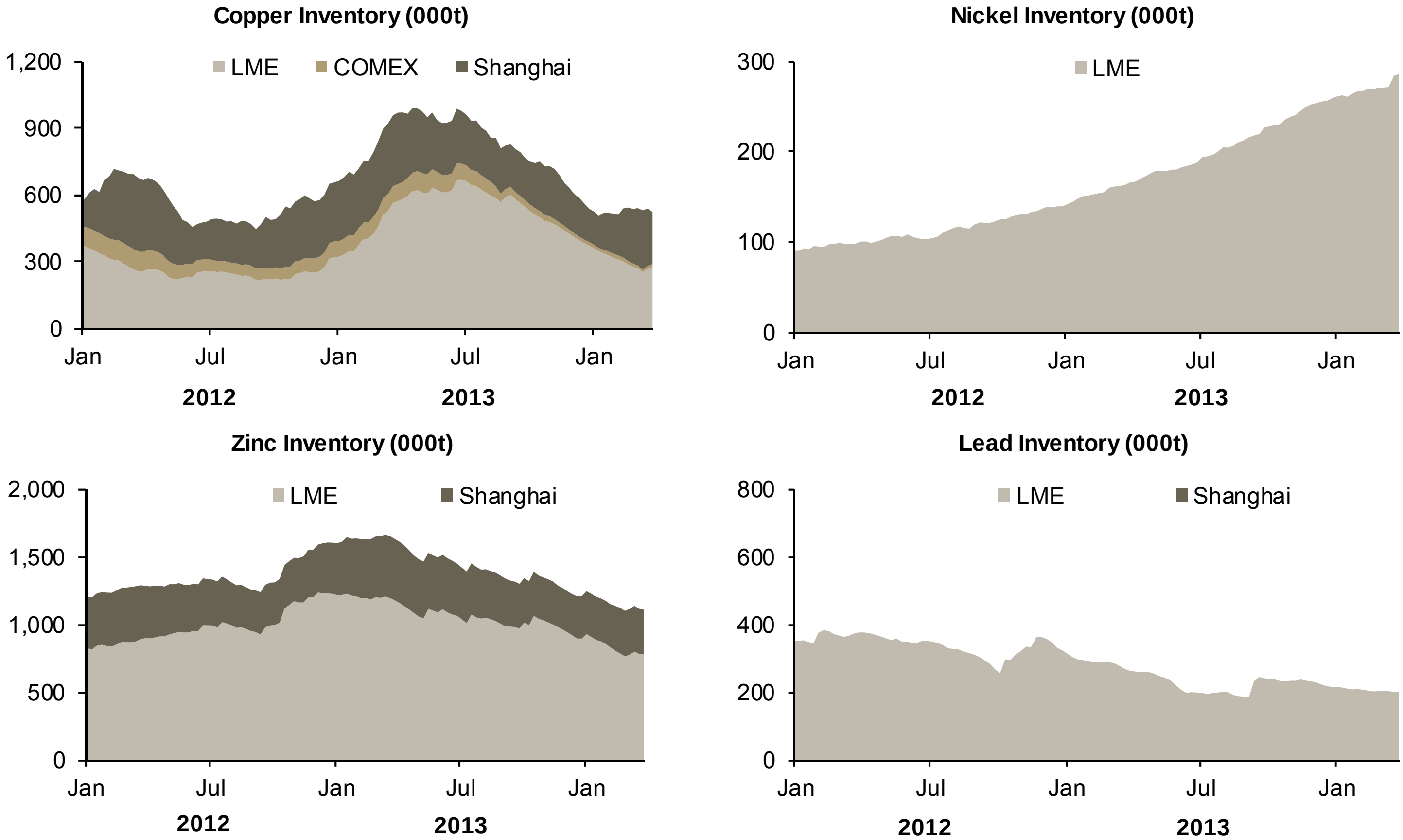
During Q1/14, LME inventory levels for copper and zinc continued to fall while nickel remained at historic highs. On the surface, this would seem to support the view of stabilizing demand and should support our view that the physical metal markets are tighter than implied by equity valuations. That said, the drawdown in LME copper inventories goes against our view of a modest market surplus in 2014 and 2015. The drawdown, notably for copper, is being attributed to a significant amount of material flowing into China reportedly for financing deals and as China takes advantage of low price to build long-term inventory. This has tightened the near-term physical availability of metal and increased fears that the credit issues in China could see this material flow back out into the market. We do not expect this to be the case and note it does not change the underlying physical market fundamentals.

Zinc has also begun to show signs of steady downtrend which should support prices in late 2014 and into 2015. This is in line with our view that the sector has a limited pipeline of new supply ready to meet the growing demand and once inventories are drawn down, prices should respond. That said, given the dearth of new projects, prices could stay high for an extended period pending the development of projects that are currently sitting idle.

On the other hand, despite the recent surge in prices, nickel continues to see inventories rise due to a lack of industry action to curb supply. While there is a possibility of supply disruptions from an Indonesia export ban of unprocessed ore or from sanctions on Russia, we do not expect this to be a blanket ban and believe inventories are sufficient to cover time it takes while smelters are built in Indonesia.

In Figure 6, we have shown the inventories in terms of absolute reported supply on the LME. As expected and as shown, a steady increase in global inventories in H1/13 supported a weak price environment; however, since mid-year, the trend has been decidedly downward for copper and zinc with nickel continuing to remain oversupplied. As note previously, the drawdown in copper has been attributed to continue restocking by China where imports remain strong.

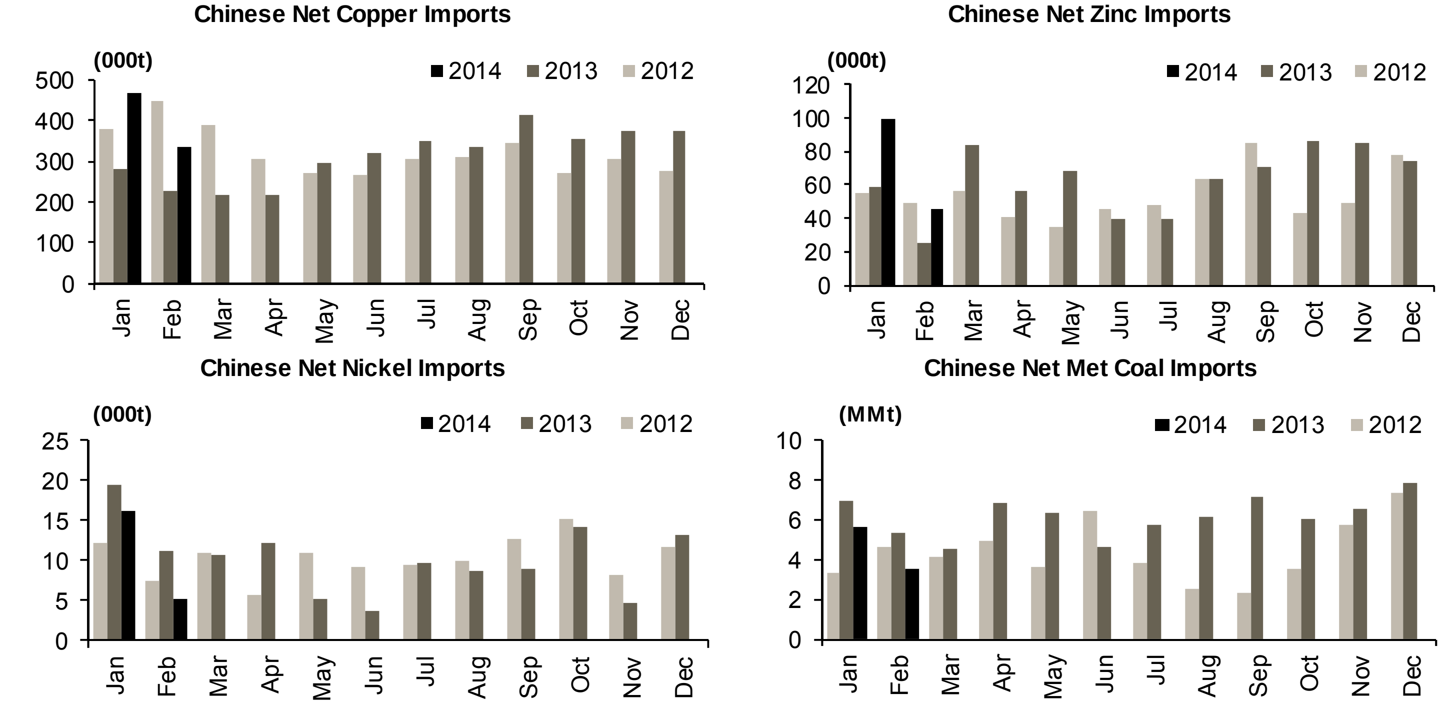
Figure 6 **Reported Inventories**



Sources: CRU, Bloomberg, Cormark Securities Inc

While inventories tell one part of the story, we also view the ongoing robust metal import levels into China as supportive and suggest that once again China has been opportunistic in restocking during a weak price environment; albeit with a portion of copper imports related to financing demand. Rising coking coal imports have been supported by the recent increase in steel production seen in China but end-use steel demand has not improved as much as expected and this could slow steel production in the near term as steel inventories are worked off.

Figure 7 **Chinese Net Imports**



Source: Bloomberg

Fed Moves Cloud Fundamentals

As was the case for most of 2013, the market remains focused on the timing of when the US Federal Reserve will adjust the rate at which it tapers the amount of asset purchases or QE in the market. The most recent move announced in mid-March was to reduce it by $10 BB per month (now at $60 BB per month) and comments suggest the possibility of a rate increase in 2015. This move was in response to firming economic conditions in the US and lower unemployment and in turn has resulted in a further strengthening of the US dollar. As a result, we have seen a short-term trade out of commodities. We continue to expect the effects of QE to keep the market volatile in 2014. This short-term flow of fund focus will likely limit the impact of fundamentals until they are very compelling given the short-term trading focus on investors currently in the metals space.

Long-Term Thesis Remains Unchanged

Despite the short-term tactical allocation methodology that has been dominating the market, we continue to see the long-term trends as favorable for select commodities in terms of demand growth and constrained supply. As such, the so-called super cycle remains unchanged. It is now a question of how the supply-side is actually positioned to fulfill this growth. The same themes continue to drive demand growth, including rapid urbanization and industrialization growth in China and other emerging markets, coupled with the ongoing base metal requirements from the developed world. While we are unlikely to witness the broad-based demand strength in 2009-11, in terms of percentage growth, we do see opportunities, particularly in copper and in the medium-term zinc, where supply looks limited, especially if additional supply disruptions occur. That said, price upside is likely more constrained than in the past given we are already at highly profitable levels.

With the longer-term thesis still intact, once demand shows some strength, we believe the market reaction to the current soft patch is likely to be a driver for the beginning of the next cycle. We see the lack of new capital investment and the curtailing of new projects to limit medium-term supply. If demand strengthens, given the time required to reboot projects, this could lead to an amplified response in prices; however, the timing of this is difficult to predict.

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Commodity Price Forecast

In Figure 8, we present our updated base metals and bulk commodity price forecasts for 2014–19 and long term. While our overall outlook is unchanged, we have adjusted our near-term outlook for copper and nickel. In light of the recent uncertainty with the copper used as collateral in financings, we have tempered our near-term numbers somewhat to be more conservative. That said, with higher volatility and lower prices near term, we see a greater risk of supply deficits in the medium term.

We continue to see 2014 as in a modest surplus for copper and nickel based on our current growth projections while zinc is in deficit, albeit with high inventories. That said, we do not expect a material decline in prices as we see the potential for material deficits post-2015 or in the case of a material supply shock. As supply growth continues to be restricted due to lack of capital, we expect a period of higher prices will be needed to incentivize new longer-term development to fill this gap. While sentiment remains negative, we see the macro backdrop as firm and for investors with slightly longer time horizons, current equity prices appear highly attractive.

For nickel, the market remains in oversupply and despite the recent run up in prices unless there are material supply curtailments, we do not expect inventories will be drawn down quickly and expect the medium term outlook to be weak.

Figure 8 **Commodity Price Forecast**

Commodity		2014E										
($/lb)	2013E	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E	2019E	LT
Copper												
Current	$3.33	$3.19	$3.15	$3.25	$3.40	$3.25	$3.40	$3.50	$3.25	$3.00	$3.00	$2.75
Prior	$3.35	$3.50	$3.50	$3.50	$3.50	$3.50	$3.50	$3.30	$3.10	$3.00	$2.75	$2.75
% change	*-1%*	*-9%*	*-10%*	*-7%*	*-3%*	*-7%*	*-3%*	*6%*	*5%*	*0%*	*9%*	*0%*
Nickel												
Current	$6.82	$6.64	$7.25	$7.00	$7.00	$6.97	$7.00	$7.50	$7.50	$7.50	$7.50	$7.50
Prior	$6.80	$6.25	$6.50	$6.50	$6.75	$6.50	$7.00	$7.50	$7.50	$7.50	$7.50	$7.50
% change	*0%*	*6%*	*12%*	*8%*	*4%*	*7%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Zinc												
Current	$0.87	$0.92	$0.95	$1.00	$1.05	$0.98	$1.15	$1.25	$1.20	$1.10	$1.00	$1.00
Prior	$0.88	$0.95	$0.95	$1.00	$1.05	$0.99	$1.15	$1.25	$1.20	$1.10	$1.00	$1.00
% change	*-1%*	*-3%*	*0%*	*0%*	*0%*	*-1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Lead												
Current	$0.98	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95
Prior	$0.96	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95	$0.95
% change	*2%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Coking Coal ($/t)												
Current	$158	$143	$120	$140	$145	$137	$153	$165	$170	$170	$170	$170
Prior	$158	$143	$135	$140	$145	$141	$153	$165	$170	$170	$170	$170
% change	*0%*	*0%*	*-11%*	*0%*	*0%*	*-3%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Iron Ore ($/t) - 62% Fines												
Current	$120	$120	$115	$115	$115	$116	$115	$99	$85	$85	$85	$85
Prior	$120	$115	$115	$115	$115	$115	$115	$99	$85	$85	$85	$85
% change	*0%*	*4%*	*0%*	*0%*	*0%*	*1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*

Sources: Cormark Securities, LME

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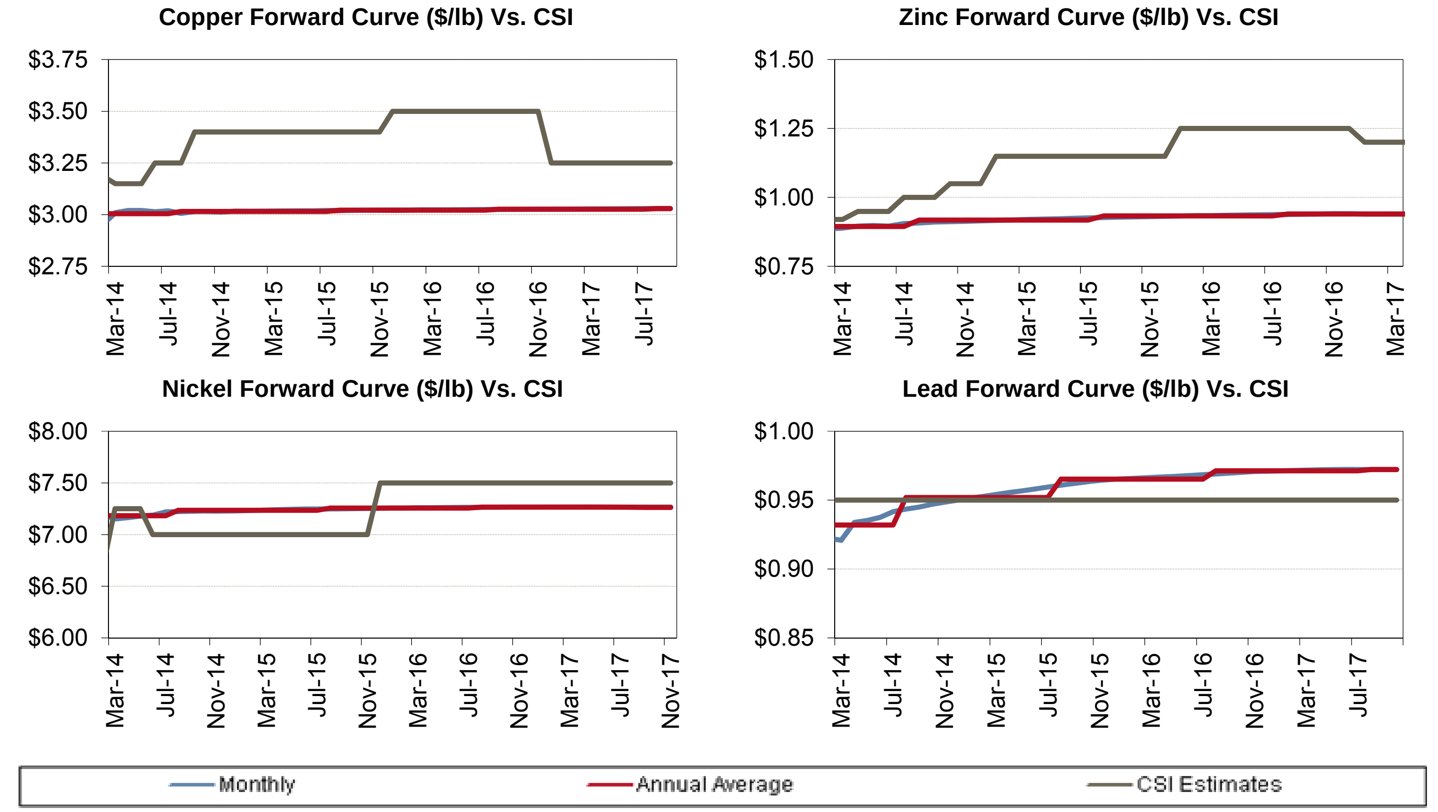
Forward Curve Pricing Points Higher

In Figure 9, we present the current annual and monthly forward curves relative to our price deck for copper, nickel, zinc and lead from 2014 to 2018. While these curves represent only a snapshot in terms of the market price outlook, note that all prices are currently in contango suggesting modestly higher prices in the future. This supports our view that prices are set to stay firm for a protracted period supporting strong cash generation for producers. For copper, the recent run up in spot prices, given the tightness in the market, has led to modest backwardation. That said, the forward is for the most part weaker than our near-term price outlook. Prices available for future delivery are for the most part modestly below our price deck further highlighting the disconnect between fundamental supply/demand and investor perception in our view. As such, if the forward curves prove true, our forecasts and valuations are likely to be aggressive.

Figure 9 **Commodity Price Forecast**



Sources: Cormark Securities, Bloomberg

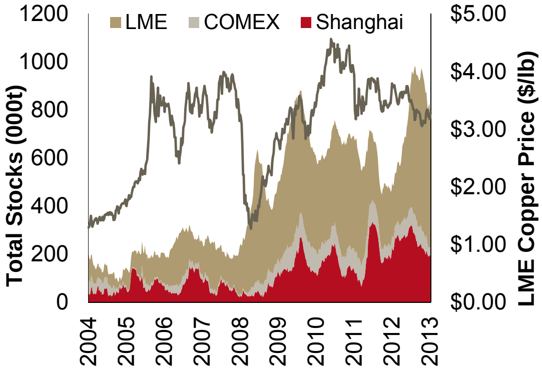
Commodity Snapshots

Copper Market Update

Copper prices ended the quarter at $3.03/lb. In Q1/14, copper averaged $3.19/lb, down from the Q4/13 average of $3.25/lb. Despite prices falling toward the end of the quarter, LME inventories continued their fall to 267,000 t from 366,000 t, down ~30% in the quarter. With inventories continuing to fall, the current inventory represents less than three weeks of consumption which remains below the historical price trigger level.

Figure 10 **Copper Price, Inventory And Supply/Demand Forecast**

Global Supply-Demand Balance	2012A	2013E	2014E	2015E	2016E
000s tonnes					
Base	18,333	19,031	19,793	20,648	21,078
Add: Highly Probable New Projects - 75%	-	-	18	29	137
Add: Probable New Projects - 50%	-	-	51	152	208
Add: Possible New Projects - 10%	-	-	55	136	232
Total Cu Mine Production	**18,333**	**19,031**	**19,917**	**20,965**	**21,655**
Total Refined Production	**19,807**	**20,453**	**21,195**	**22,198**	**22,959**
Y/Y Chg	4.4%	3.3%	3.6%	4.7%	3.4%
Total Refined Consumption	**19,616**	**20,226**	**21,109**	**22,052**	**22,973**
Y/Y Chg	1.6%	3.1%	4.4%	4.5%	4.2%
Global Market Balance (S-D)	**191**	**227**	**86**	**147**	**(14)**



Sources: Cormark Securities, Bloomberg, CRU

Since late June 2013, reported inventories on the LME have continued to fall and are now less than half their June highs. That said, the drawdown in LME inventories is reported to be offset by the build-up in Chinese stocks tied up in financing transactions. CRU estimates Chinese stocks now total ~941,000 t up from 559,000 t at the end of June.

As we previously stated, adjusting for demand from Chinese financings, the copper market was modestly oversupplied in 2013. We continue to expect a surplus until 2015 assuming no major project delays or shutdowns something that cannot be assured. Even so the surplus remains small relative to the size of the market (under 250,000 t) and within our typical margin of error. Further, in the event of just one material operational issue or forced cutback due to political issues (e.g. uncertainty of Indonesia’s new export ban), the market could quickly slip back into deficits. In the medium term, we continue to expect supply to underperform given limited capital investment and ramp up results to date. If there are further development delays, which appears likely, the market could quickly move back into deficit, especially if demand is slightly higher than we currently forecast. So far, we have seen modest disruptions at Grasberg, a delay in construction of Oyu Tolgoi’s Phase 2 underground project, and delays at Las Bambas and Cobre Panama, which represent a few large copper projects in production or expected to be in production in the near term.

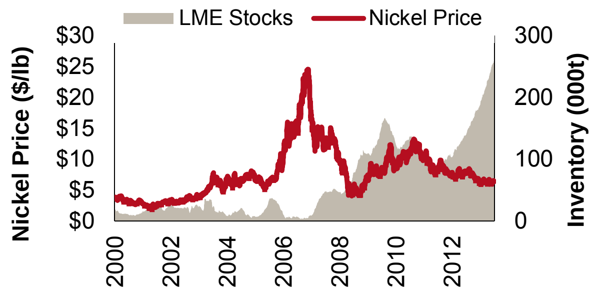
Furthermore, given the current low copper price, high capital costs and slowing rate of investment, this continues to improve copper’s outlook beyond 2016. While our forecasts would imply room for near-term copper price weakness, we believe the downside will be limited by the medium-term supply risks which are likely to keep prices above marginal costs for some time and suggest more risk to the upside for prices.

Nickel Market Update

The average price of nickel in Q1/14 was $6.64/lb and ended the quarter at its almost 12 month high. While nickel prices have improved significantly, excess supply continues to push the nickel inventories to new all-time highs. LME inventory levels rose another 8% Q/Q to 284,000 t.

Figure 11 **Nickel Price, Inventory and Supply/Demand Forecast**

Global supply/demand balance	2012A	2013E	2014E	2015E
000t				
Western World Produciton	1,300	1,384	1,496	1,681
ROW Production	465	472	473	474
Assumed Probable Project/Other	-	-	-	-
World refined primary production	**1,617**	**1,701**	**1,805**	**1,975**
% change year-over-year	9.5%	5.2%	6.1%	9.4%
World refined primary demand	**1,665**	**1,712**	**1,773**	**1,801**
% change year-over-year	8.3%	2.8%	3.6%	1.6%
Implied supply/demand balance	**(48)**	**(11)**	**31**	**174**



Sources: Cormark Securities, Bloomberg, CRU

Despite near-record high inventories on the LME, nickel prices have improved significantly in the last quarter. The recent metal price performance comes in part from the President of Indonesia's decision in early January to implement a ban on the export of unprocessed ore. The ban, which was first passed in 2009, is an attempt to force miners to add downstream processing capacity and increase the economic impact of mining in country. The lack of action by producers has forced the government to enforce the ban. This has slowed the export of nickel laterite ore used in China's nickel pig iron production. Since 2006, China's nickel pig iron production has grown from ~30,000 t of nickel to a current estimate of around ~450,000 t or ~25% of 2013 global nickel production. The bulk of China's unprocessed laterite ores (~55%) comes from Indonesia which exported 33 MMt of low grade (1-2% Ni) laterite ore in 2013. How this ban plays out could significantly reduce the oversupply in the market in the medium term but does not impact near-term supply.

While nickel pig iron production represents a significant source of nickel, we continue to expect the immediate impact from the ban to be muted as Wood Mackenzie and others have reported Chinese pig iron producers have as much as a year of laterite ore stockpiled (~20 MMt of ore reported by the Indonesian government). Further, there is uncertainty as to how long the ban will last in its current form with the Indonesian presidential election in July 2014. That said, a recent poll suggests the ban has support from all major parties. Further, several smaller nickel pig iron producers were reported to be unprepared for the ban. In addition to the Indonesian ore ban, the recent issues with Russia and Ukraine have added uncertainty about global supply. Russia is the world's second largest nickel producer after China, and the possibility of sanctions and more supply disruptions have helped push nickel prices from a low of just above $6.00/lb in February to near $7.50/lb.

While the metal price has improved lately, we continue to highlight excess supply and lack of market response to cut high cost production. In light of the new supply expected in the coming years from a suite of large laterite projects ramping up (e.g. Ambatovy, Koniambo, Onca Puma), we expect curtailments will be necessary for higher prices to be sustained. In addition, there remains a robust pipeline of projects if prices recover such as First Quantum's Enterprise mine. Compounding the high level of supply is the subdued end-use demand for nickel in most regions as stainless steel consumers appear reluctant to take on inventory and seem to be operating on a low inventory base. A drawdown in inventory is unlikely without restocking by consumers in past cycles.

Zinc Market Update

After rising to above $0.98/lb near in late February, prices have come back down to $0.89/lb at the end of Q1/14. For the quarter, zinc price averaged of $0.92/lb with LME stocks continuing to fall to 0.78 MMt. Inventories are now well below their all-time high seen in late 2012 at over 1.2 MMt and support our view of a deficit market emerging.

Figure 12 **Zinc Price, Inventory And Supply/Demand Forecast**

Global Supply-Demand Balance	2012A	2013E	2014E	2015E	2016E
000s tonnes					
Base	18,333	19,031	19,793	20,648	21,078
Add: Highly Probable New Projects - 75%	-	-	18	29	137
Add: Probable New Projects - 50%	-	-	51	152	208
Add: Possible New Projects - 10%	-	-	55	136	232
Total Cu Mine Production	**18,333**	**19,031**	**19,917**	**20,965**	**21,655**
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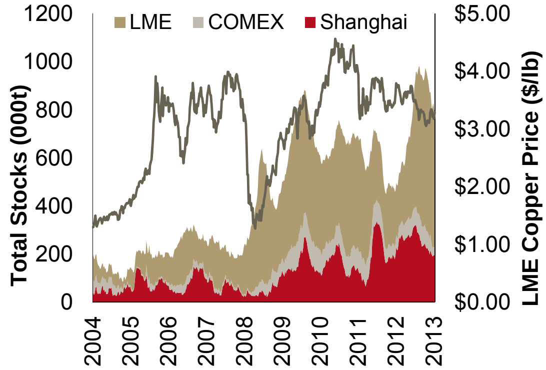


Sources: Cormark Securities, Bloomberg, CRU

While zinc prices were range bound for most of 2013, likely due to the high inventory levels from the end of 2012, prices rose around year-end in response to strong Chinese imports and declining inventories. While current prices appear sufficient to sustain existing production, we continue to see prices set to rise as the market looks to fill the supply deficit expected over the next couple of years. We note the pipeline of zinc projects remains weak and given the time to bring on new supply, we expect that as inventory levels continue to decline in 2014 and several large mines come closer to shutting down, prices should rise.

In Q1/14, prices rose to just under $1.00/lb and we expect the physical markets to transition to deficits in late 2014; however, given the size of the inventory overhang, it will still take some time to draw down these inventories. We expect investors sentiment gradually improve but remain tepid given the history of finding more hidden stockpiles just as deficits are expected to arrive.

In the past years, Western mine production has seen limited growth given the lack of economic incentive to invest in exploration or new mine development. At the same time, several large zinc operations are now at the end of their operational lives (Century and Perseverance) with the Brunswick mine having recently closed. Chinese production growth appears limited with many suggesting that it may have reached a peak at current prices. As inventory is consumed, we expect the market to start looking to develop a stronger pipeline of new projects.

Over the long term, the pipeline of development-ready, large-scale projects remains very thin and we expect market conditions to support above-average prices over the next several years until sufficient new supply has been committed. Meanwhile, Chinese production could rise to fill the gap but much higher prices are needed to sustain these operations. This is favorable to our diversified coverage names with large zinc exposure, including HudBay, Lundin, Sierra Metals and Teck.

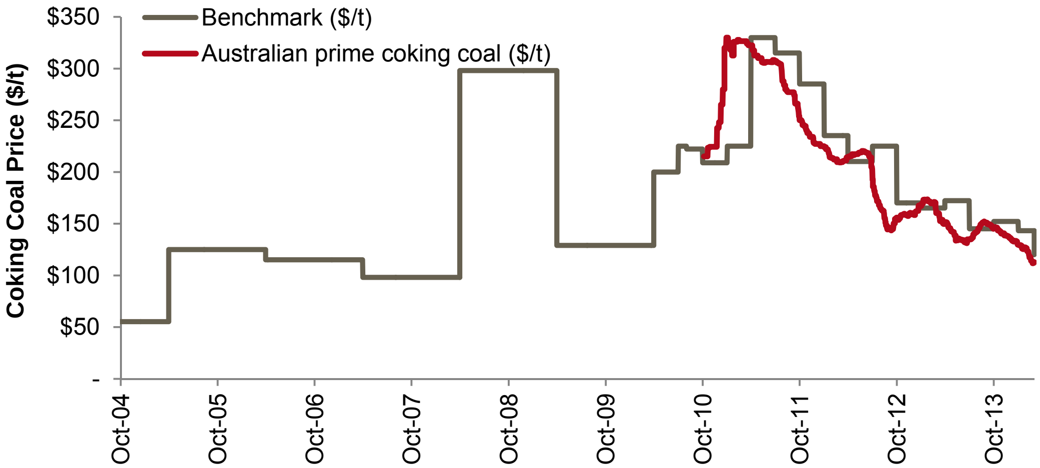
Metallurgical Coal Market Update

Met coal prices continue to soften with the spot coal price reaching $114/t toward the end of Q1/14. BHP recently settled the Q2/14 benchmark at $120/t down from $143/t in Q1/14. Coking coal prices continue to remain weak given the limited supply cuts, increased production to lower unit costs and the ramp up of recently completed mines in Australia adding significant supply while demand remains modest at best.

Despite early signs of a rebound in H2/13, on the back of stabilizing economic data out of China, prices have slowly come back down. We note for Australian and Canadian producers the impact of the lower coal prices has been partially offset by the strengthening US dollar. That said, we continue to see current prices as below the marginal cost of production and expect further supply curtailments from primarily US producers as new contracts are settled at significantly lower prices. That said, producers appear to be doing everything to delay shutdowns in hope of other producing failing first. We see increased production to lower unit cost and significant costs that we view as unsustainable in the market (less maintenance and capital such as stripping).

In 2014, we expect further segmentation in lower rank coals, with high volume met and PCI qualities receiving a greater discount to benchmark. This is expected to help steel mills control margins while they work through inventory. We would note the use of benchmark prices reported seems to be decreasing given the high availability and lower costs in the spot market. Overall, we expect prices to slowly stabilize at modestly higher prices as high-cost production is curtailed, although until a supply-side response is seen, we expect prices to remain weak. This could keep prices lower for longer than we expect.

Figure 13 **Metallurgical Coal Prices**



Source: McCloskey Coal Report

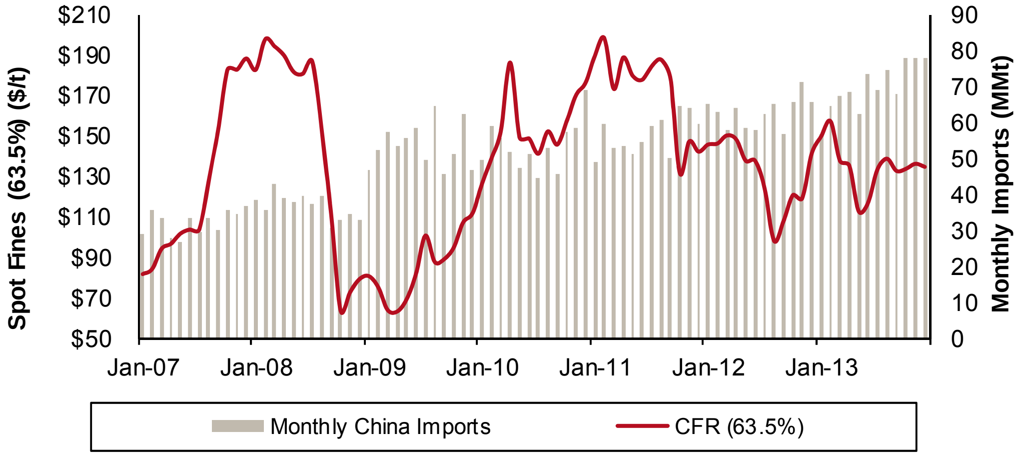
Over the longer term, we expect prices to settle at a higher level so as to incentivize new production. However, coal prices in the $300/t range are likely over, barring a short-term supply shock like the Australian floods in 2010. We note new projects are being slowed and in some cases stopped altogether. We have already seen major cutbacks in medium-term planned development in Mozambique which was believed to be the next major source of supply. As demand recovers, we expect prices to slowly recover in the next few years toward a reasonable profit level for the industry.

Iron Ore Market Update

In Q1/14, iron ore prices weakened significantly toward quarter-end, closing at $119/t for iron ore 63.5% Fe, CFR China. Following supply disruptions around year-end in both Australia and Brazil keeping prices elevated in the $130-140/t range, an end to the Chinese restocking cycle and seasonal slowdown in steel demand have put downward pressure on prices. We note the recent price weakness also comes given concerns over the use of iron ore in Chinese financing deals which could be released if credit conditions worsen.

With only a limited impact from the recent supply disruptions in early 2014, we expect prices to remain range bound as more supply is brought onstream. The ramp up rate of new supply will likely dictate if prices decline further in the near term. While this suggests in the short term the market is well supplied, the long-term expectations of a doubling of the global steel industry by 2025 support the view that more new supply needs to be brought online but at perhaps a more measured pace. With the slowdown in investment, we again see supply risk ahead when looking out 2-3 years.

Figure 14 **Spot Iron Ore Pricing and Chinese Imports**



Source: Bloomberg

Demand is expected to moderate somewhat in 2014 as Chinese steel production slows to bring supply in line with demand. With a more modest steel growth expected and increased volumes, prices are likely to remain under pressure in the near term. In the medium term, we expect iron ore prices to be range bound at $100-120/t as additional supply capacity from low-cost producers in Brazil and Australia enters the market and forces high-cost Chinese producers to curtail production.

We believe the market has taken the view that no new iron ore project should be built for the foreseeable future and as such significant capital has been withdrawn from the space. We view this as somewhat short-sighted given the expected size of the market and the infrastructure and time needed to bring on many of the new iron ore projects being discussed today. That said, longer term, we continue to use more conservative prices of $85/t for China FOB given the underlying operating cost will likely drive the lower end of the price range given the low-cost nature of most of the new supply.

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Quarterly Estimates

Q1/14 Results Forecast

In Figure 15, we have presented our updated Q1/14 earnings outlook for base metal producers relative to previous results and current consensus. We note these remain subject to revision. While quarterly results are expected to see few operational surprises, we expect a degree of volatility as several mines will report their first or second quarter of commercial production (e.g. Ambatovy (S), Pinto Valley (CS), Bisha (NSU)) and most will be impacted by downward provisional price adjustments due to falling metal prices. Investors will likely be looking at companies to continue to implement cost-saving programs given the weak metals price environment. We will update our forecasts as operational updates are provided.

Figure 15 **Quarterly Earnings Preview**

		Earnings Per Share					
Company	**Sym.**	**Q1/13A**	**Q2/13A**	**Q3/13A**	**Q4/13A**	**Cormark Q1/14E**	**Cons. Q1/14E**
Copper							
Capstone	CS	$0.02	$0.02	$(0.01)	$(0.05)	**$0.11**	$0.10
Copper Mountain	CUM	C$0.06	C$0.02	C$0.06	C$0.04	**C$0.03**	C$0.07
First Quantum	FM	$0.32	$0.18	$0.24	$0.26	**$0.26**	$0.27
Diversified & Other							
♦ HudBay Min.	HBM	C$0.01	C$0.01	C$0.01	C$0.01	**C$0.01**	C$0.02
Lundin Mining	LUN	$0.07	$0.03	$0.05	$0.09	**$0.07**	$0.06
♦ Mawson West	MWE	$0.06	$0.01	$0.01	$(0.00)	**$(0.09)**	$(0.03)
Nevsun	NSU	$0.17	$0.17	$0.17	$0.17	**$0.17**	$0.14
Sherritt	S	C$0.03	C$0.02	C$0.00	C$(0.10)	**C$0.04**	C$(0.09)
Sierra Metals	SMT	$0.08	$0.05	$0.05	$0.01	**$0.12**	$0.13
Teck Resources	TCK	C$0.56	C$0.34	C$0.44	C$0.40	**C$0.27**	C$0.31

		Cash Flow Per Share					
Company		**Q1/13A**	**Q2/13A**	**Q3/13A**	**Q4/13A**	**Cormark Q1/14E**	**Cons. Q1/14E**
Copper							
Capstone	CS	$0.05	$0.07	$0.03	$0.06	**$0.16**	$0.16
Copper Mountain	CUM	C$0.13	C$0.06	C$0.24	C$0.13	**C$0.11**	C$0.13
First Quantum	FM	$0.63	$0.34	$0.62	$0.61	**$0.51**	$0.54
Diversified & Other							
♦ HudBay Min.	HBM	C$0.07	C$(0.06)	C$0.07	C$(0.03)	**C$0.05**	C$0.09
Lundin Mining	LUN	$0.17	$0.09	$0.14	$0.16	**$0.14**	$0.11
♦ Mawson West	MWE	$0.06	$0.17	$0.18	$0.10	**$(0.00)**	$0.03
Nevsun	NSU	$0.20	$0.11	$0.07	$(0.01)	**$0.25**	$0.20
Sherritt	S	C$0.20	C$0.18	C$0.19	C$(0.06)	**C$0.04**	C$0.03
Sierra Metals	SMT	$0.08	$0.04	$0.03	$0.04	**$0.09**	$0.09
Teck Resources	TCK	C$1.33	C$1.01	C$1.12	C$1.10	**C$1.03**	C$0.96

♦ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities, Bloomberg

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Changes To Estimates

Updated Estimates

Incorporating Q1/14 actual prices and updated commodity prices forecasts, we have updated our estimates below. As we have moderated our price deck estimates, some of our valuations have changed; however, with no change to our long-term price deck, our NAVs have seen only modest changes. Overall, we expect modestly weaker 2014-15 cash flow for copper producers. We have also made some adjustments on a case-by-case basis, namely:

- ***Nevsun*****:** We have incorporated an updated mine plan at Bisha which includes updated capital spending and operating costs. This has lowered our NAV.
- ***Sherritt:*** After our recent site visit to Ambatovy, we have adjusted our mine plan modestly. We note at our slightly higher revised near-term nickel price, this will support the company's balance sheet as the mine ramps up.
- ***Capstone:*** We have updated our Pinto Valley mine plan after recently visiting the site. Our sustaining capital spending assumptions will be higher upfront (2015) and lower in later years.

Figure 16 **Revised Estimates**

	FY EPS						FY CFPS							
	2013A		2014E		2015E		2013A		2014E		2015E		NAVPS (C$)	
Company	**Prev.**	**Rev.**	**Prev.**	**Rev.**	**Prev.**	**Rev.**	**Prev.**	**Rev.**	**Prev.**	**Rev.**	**Prev.**	**Rev.**	**Prev.**	**Rev.**
Developer														
Augusta Res.	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$7.59	$7.81
Canadian Zinc	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$1.40	$1.39
Ivanhoe Mines	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$4.81	$4.81
Nevada Copper	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$5.14	$5.14
NGEx	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$7.50	$7.50
NovaCopper	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$10.63	$10.72
PolyMet Mining	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$3.96	$3.97
Western C & G	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$7.35	$7.30
Producer														
Capstone Min.	$(0.02)	$0.01	$0.27	$0.39	$0.24	$0.36	$0.22	$0.22	$0.47	$0.60	$0.54	$0.59	$5.04	$5.10
Copper Mntn.	$0.18	$0.18	$0.37	$0.28	$0.64	$0.55	$0.40	$0.40	$0.56	$0.47	$0.87	$0.78	$3.60	$3.60
First Quantum	$1.00	$1.00	$1.09	$1.14	$1.82	$1.79	$2.19	$2.19	$2.35	$2.22	$3.51	$3.36	$20.75	$21.26
♦ HudBay Min.	$(0.06)	$(0.06)	$0.36	$0.31	$1.32	$1.26	$0.06	$0.06	$0.68	$0.58	$2.64	$2.54	$14.34	$14.73
Lundin Mining	$0.23	$0.23	$0.39	$0.34	$0.80	$0.78	$0.56	$0.56	$0.73	$0.67	$1.24	$1.20	$6.19	$6.22
♦ Mawson West	$0.07	$0.07	$(0.06)	$(0.07)	$0.33	$0.30	$0.51	$0.51	$0.09	$0.05	$0.54	$0.47	$1.85	$1.90
Mercator Min.	$(0.10)	$(0.10)	$(0.07)	$(0.07)	$0.06	$0.05	$(0.03)	$(0.03)	$(0.00)	$0.00	$0.13	$0.12	$0.31	$0.32
Nevsun	$0.06	$0.06	$0.83	$0.79	$0.61	$0.70	$0.38	$0.38	$1.12	$1.11	$0.92	$1.04	$6.32	$5.54
Sierra Metals	$0.19	$0.19	$0.52	$0.50	$0.47	$0.47	$0.14	$0.14	$0.36	$0.35	$0.33	$0.32	$2.68	$2.70
Sherritt	$(0.20)	$(0.20)	$0.08	$0.15	$0.53	$0.53	$(0.12)	$(0.12)	$0.47	$0.58	$1.18	$1.19	$5.26	$5.28
Teck Res.	$1.74	$1.74	$1.68	$1.34	$2.51	$2.42	$4.56	$4.56	$5.04	$4.63	$6.00	$5.90	$41.66	$41.66
Stream/Royalty														
Sandstorm	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$1.81	$1.81
Iron Ore														
Alderon	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$6.17	$6.06
Black Iron	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	$3.62	$3.62

♦ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities

CORMARK SECURITIES INC.

Updated Targets And Recommendations

In Figure 17, we have reviewed our current recommendations and targets for our coverage universe. While equity prices have remained relatively strong, despite the recent decline in the copper price, we believe much of our coverage universe remains undervalued given historic trading multiples. Currently, our target methodology remains the same. We use a combination of forward cash flow and NAV multiples for producers and NAV multiples for developers. We have also maintained our developer valuations at 0.3-0.6x NAV multiple, depending on the stage of the company's economic/engineering study, permitting and/or funding needs. We note many development stories are now being priced as though they are uneconomic or unfinanceable. Developers with less-intensive upfront capital costs, but with a more diversified commodity mix (e.g. VMS deposits), have the most resilient asset base in our view. That said, we believe copper deposits of significant size will still need to be developed and therefore we could see some resurgence of a select few high quality, large tonnage copper developers. Nonetheless, we continue to believe that on a relative basis, companies with strong balance sheets, self-sustaining growth programs and lower capital intensity will outperform in the near term.

Our valuations now favor companies with primarily copper exposure, as we believe the current high price will support robust cash flows. That said, those with material zinc exposure are expected to benefited from stronger zinc prices and positive market fundamentals. As a result of change in our price deck and a new development timeline for select developers, we have modified our targets slightly.

Figure 17 Current Recommendations and Target Prices

Company	Sym.	Share Price (C$)	Rating Previous	Rating Revised	Target (C$) Previous	Target (C$) Revised	Implied Return
Developer							
Augusta Resource	AZC	$3.42	Buy (S)	Buy (S)	$4.00	$4.00	17%
Canadian Zinc	CZN	$0.41	Buy (S)	Buy (S)	$1.00	$1.00	144%
Ivanhoe Mines	IVN	$1.60	Buy	Buy	$3.00	$3.00	88%
Nevada Copper	NCU	$1.79	Buy (S)	Buy (S)	$4.00	$4.00	123%
NGEx	NGQ	$1.68	Buy (S)	Buy (S)	$4.00	$4.00	138%
NovaCopper	NCQ	$1.42	Buy (S)	Buy (S)	$4.00	$4.00	182%
PolyMet Mining	POM	$1.51	Buy	Buy	$2.40	$2.40	59%
Western C & G	WRN	$1.00	Buy (S)	Buy (S)	$2.50	$2.50	150%
Producer							
Capstone Mining	CS	$2.92	Buy	Buy	$4.00	$4.00	37%
Copper Mountain	CUM	$2.18	Buy	Buy	$3.25	**$3.00**	38%
First Quantum	FM	$19.84	Mkt Pfm	Mkt Pfm	$24.00	**$23.00**	16%
◆ HudBay Minerals	HBM	$8.50	Buy	Buy	$12.25	$12.25	44%
Lundin Mining	LUN	$5.11	Mkt Pfm	Mkt Pfm	$6.00	**$5.85**	14%
◆ Mawson West	MWE	$0.50	Buy	Buy	$1.25	$1.25	150%
Mercator Minerals	ML	$0.10	Mkt Pfm	Mkt Pfm	$0.15	$0.15	50%
Nevsun	NSU	$3.68	Buy	Buy	$5.50	**$5.25**	43%
Sierra Metals	SMT	$1.69	Buy	Buy	$2.50	$2.50	48%
Sherritt	S	$4.02	Mkt Pfm	Mkt Pfm	$4.00	**$4.25**	6%
Teck Resources	TCK	$24.72	Top Pick	Top Pick	$36.75	$36.75	49%
Stream/Royalty							
Sandstorm	SND	$1.10	Mkt Pfm	Mkt Pfm	$1.50	$1.50	36%
Iron Ore							
Alderon	ADV	$1.65	Buy	Buy	$2.50	$2.50	52%
Black Iron	BKI	$0.16	Buy (S)	Buy (S)	$0.90	$0.90	481%

◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities, Bloomberg

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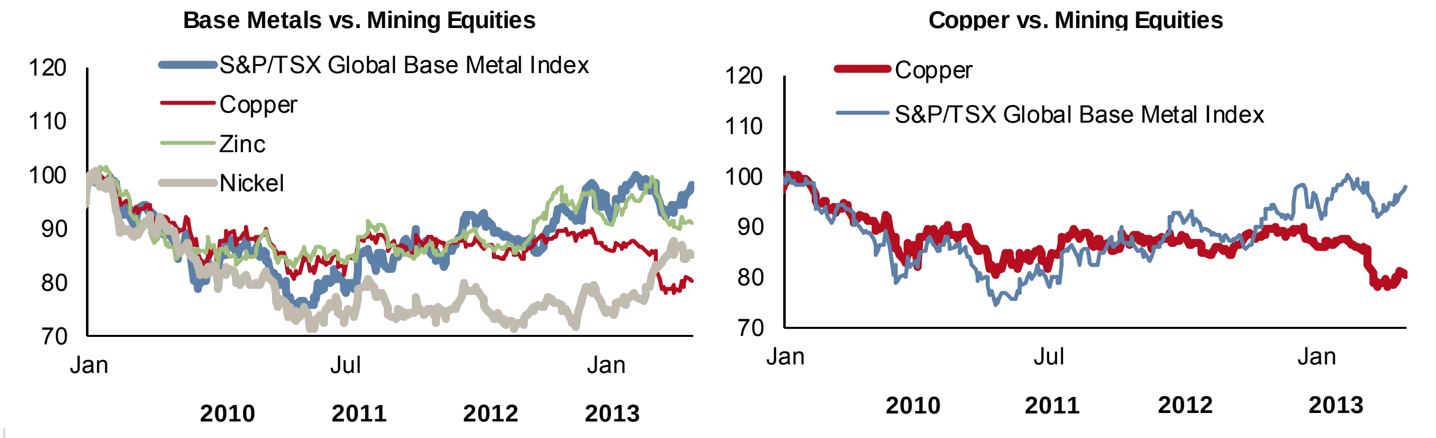
Equity Valuations

Equities Outperform Copper Price

Following a strong rebound in H2/13, equities continue to remain well above their mid-2013 lows. While equity investors were quick to price in the slowdown in Chinese demand in H1/13, investors appear reluctant to return to that level despite the weak copper price. In Figure 18, we have shown the performance between equities and the LME base metals complex. We note the gap between copper price and equities has closed significantly, with equities outperforming the metal over the last 9 months, and it remains to be seen if stock prices will bottom out or fall back to their recent lows.

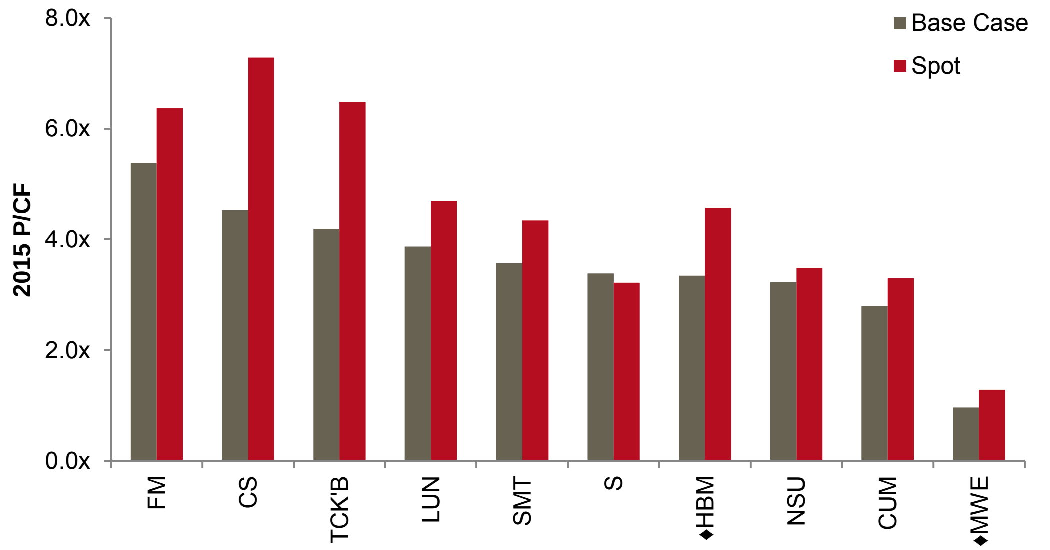
Figure 18 **Base Metals and Mining Equities**



Sources: Cormark Securities, Bloomberg

In Figure 19, we have presented the relative trading cash flow multiples for our base metal producer coverage universe. We note large liquid names continue to trade at premium valuations especially compared to smaller names with development, financing or balance sheet risk. Most of the producers are trading at what we view as attractive valuations based on our forward price outlook. At 3.4x and 4.5x 2015 CF at our price deck and spot and 0.6x NAV, producers are largely trading at the lower end of the historical range, which is 5-8x CF and 0.6-0.8x NAV. Since the recent lows in mid-2013, we have seen valuations expand for all but the most distressed names. That said, the modest rebound in H2/13 still has producers trading at a discount to levels seen in early-2013.

Figure 19 **Comparable Producer Price To 2015 Cash Flow Valuations**

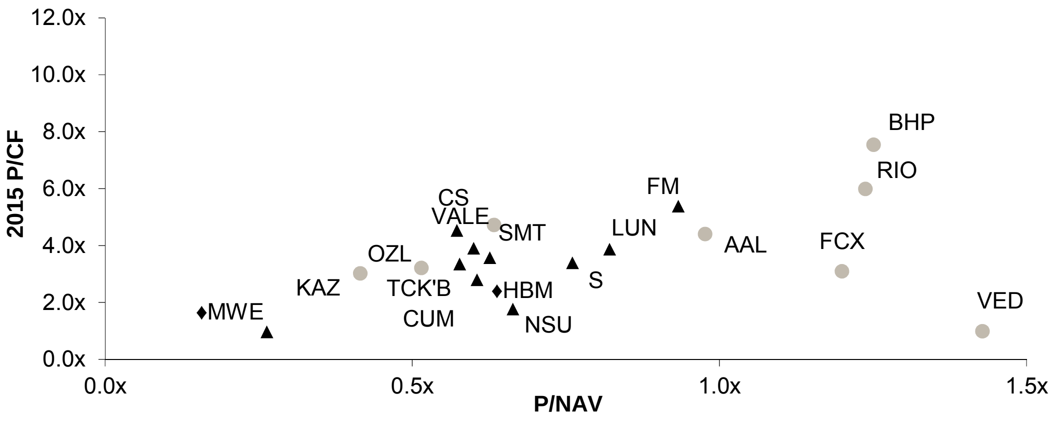


◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities Inc., Bloomberg

In Figure 20, we highlight the valuations received by international diversified producers compared with their Canadian peers. While we expect larger liquid names to continue to receive a premium, we believe the smaller names have higher upside, in particular Capstone, HudBay, Sierra Metals and Nevsun. As several growth projects come online in late 2014 and 2015, assuming no material delays or cost overruns, we could see re-ratings for producers with high production growth including HudBay, Lundin, Sherritt, and First Quantum.

Figure 20 **Producer Valuations – Canada vs. International Listed**



◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities, Bloomberg Estimates for BHP, OZL, KAZ, VED, FCX, VALE, AAL, ANTO

In the developer space, names with the best balance sheets, political risk profile and most advanced stage assets are likely to be favored. We note developers are currently trading at half the valuation of producers on an NAV basis. We expect high quality names such as Ivanhoe, PolyMet, NovaCopper and NGEx to be favorites, while others such as Nevada Copper and Augusta could rerate on the back of binary catalysts, namely the progression of permits and ongoing M&A.

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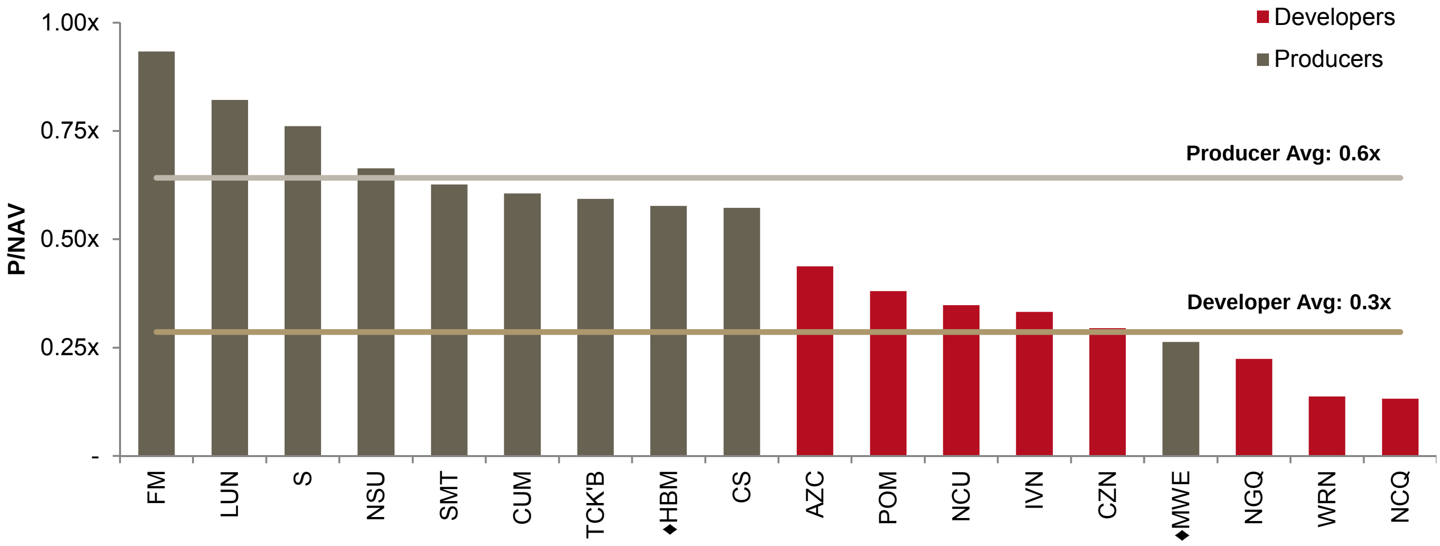
In Figure 21, we have shown the relative P/NAV multiples for our entire coverage universe. As shown, development-stage stories and smaller-cap producers are trading at steep discounts to our valuation and their larger-cap peers.

Figure 21 **Price to Net Asset Value Comparison**



◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities, Bloomberg

In 2014, we expect the focus to remain on the larger more liquid names with a preference for those with more limited capital spending needs such as Capstone and Teck. For the developers, we believe a prolonged recovery will be required to get more generalist investors interested in the sector; however, this could provide a great opportunity for longer-term investors to build meaningful positions in the highest quality development stories. As major milestones are achieved, select names should begin to rerate, especially if the market comes around to our view that deficits are set to once again emerge post 2015 if no new projects are developed.

Company Summaries

Augusta Resource (AZC-T)
C$4.00 Target, Buy (S)

Augusta Resource is a copper developer currently permitting its 80%-owned Rosemont copper project in Arizona. In late Q4/13, the US Forest Service (USFS) completed the final Environmental Impact Statement (EIS) and published the Draft Record of Decision (ROD). A statutory 90-120 day comment and resolution period began on January 1, 2014, after which the USFS is expected to issue the final ROD. Augusta will still require the US Army Corps of Engineers to issue a 404 Permit, expected in Q2/14, before being fully permitted.

As we expected, albeit before all permits were received, Augusta has received a major re-rating following an all-share, hostile offer from HudBay. Given Rosemont's favorable jurisdiction (Arizona), production size (over 100,000 tpa Cu) and low cash cost profile ($1.00/lb Cu), we continue to believe Augusta is an ideal M&A candidates for several other copper or diversified producers. We note HudBay's offer expires on May 5, 2014 and the company is currently running a strategic review process with nine parties reportedly signing confidentiality agreements.

Canadian Zinc (CZN-T)
C$1.00 Target, Buy (S)

Canadian Zinc is a base metals developer focused on advancing its 100%-owned Prairie Creek mine in the Northwest Territories. Prairie Creek hosts a large, high-grade zinc-lead-silver reserve containing 3.8 BBlb of zinc and lead and 32.5 MMoz of silver. Over an initial 11-year mine life (with sufficient resources to possibly double the mine life), Canadian Zinc is expected to produce ~78 MMlb zinc, ~93 MMlb lead, and 2.2 MMoz silver per annum at a cash cost of ($0.30)/lb Zn (net by-product credits).

As of late 2013, the project is now fully permitted and we expect financing to be the focus in 2014. We estimate the total initial capital costs, including working capital, to be around ~$230 MM. Assuming development work begins in mid-2014, initial production could commence as early as late 2015. Given the expected start-up time, we expect the outlook for zinc-related equities to be favorable due to the limited amount of new supply and several large mine shutdowns. As such, we see Canadian Zinc as one of the few ways to play the emerging zinc market fundamentals.

Ivanhoe Mines (IVN-T)
C$3.00 Target, Buy

Ivanhoe Mines is an exploration and development-stage African mining company operating two base metals projects in the Democratic Republic of Congo (DRC) and a large-scale platinum group metals (PGM) project in South Africa. Supported by a proven development team, Ivanhoe offers investors exposure to copper, zinc, and PGMs via ongoing resource and project definition in some of the highest quality undeveloped mining assets in the world. While each project is still in the project definition phase, we expect exploration results and engineering work over the next few years to bring these projects into production either by Ivanhoe or through one of the many possible acquirers.

At current prices, we believe investors are effectively paying for one of Ivanhoe's assets and getting the other two for free. With a PEA recently released at Platreef supporting the project's value potential, in the near-term we expect the government to provide a Mining Right and to continue development work, including construction of an underground shaft. Further, in 2014 we look for results from an aggressive drill campaign (20,000 m) at Kipushi and a potential strategic partner at Kamoa to support value in the shares.

Nevada Copper (NCU-T) C$4.00 Target, Buy (S)	Nevada Copper is a copper developer that owns 100% of the Pumpkin Hollow copper project located in western Nevada. Pumpkin Hollow is a ~$1 BB, feasibility-stage development project proposing a two-stage development of two standalone copper mines (underground and open-pit) with strong upside potential through mine plan optimization. Following the release of a revised feasibility study on the stage 2 open-pit operation, we expect Pumpkin Hollow to have the potential to produce over 200 MMlb copper per year at a cash cost of $1.50-2.00/lb Cu (net by-product credits). While the underground mine is now fully permitted and moving ahead with development, the more substantial open-pit mine will still require a Federal land transfer bill, currently in front of US Congress and expected to be complete in 2014. If the bill is not passed, further delays are likely as a full NEPA review will be needed. In 2014, we look for the passing of the land bill to expedite permitting of the open-pit project and continue to see this as critical to allow maximization of the project's economic scope. With the underground mine development underway, we expect initial production as early as late 2015 with full production from the open-pit operation by late 2017 assuming the land transfer is completed shortly. Funding remains to be completed for both operations and remains an overhang currently.
NGEx Resources (NGQ-T) C$4.00 Target, Buy (S)	NGEx Resources has a portfolio of large-scale, copper-gold, development-stage projects collectively referred to as the Vicuna JV. The district-scale project consists of three porphyry deposits within ~15 km and straddling the border between Argentina and Chile in the high Andes. NGEx's core assets already rank as some of the largest copper porphyry resources in the world, and are on track to continue growing. In total, the company has defined 3.5 BBt at 0.53% CuEq at Los Helados and Josemaria and a maiden resource at the nearby Filo del Sol project is expected in 2014. NGEx retains a 60% interest and is the operator of all three deposits with Pan Pacific Copper Corp – one of the world's largest smelting companies – holding a 40% interest in the Los Helados and Filo del Sol projects and Japan Oil, Gas and Metals National Corporation (JOGMEC) holding 40% of Josemaria. In 2014, the company plans to release a PEA on two standalone mines at Josemaria and Los Helados. The company also plans to release a maiden resource at Filo del Sol. We see NGEx's Vicuna JV project as becoming a new major copper production camp in Chile.
NovaCopper (NCQ-T) C$4.00 Target, Buy (S)	NovaCopper is a base metals exploration company focused on advancing its high-grade copper deposits in the Northwest Arctic Borough in Alaska. The company's flagship assets are the Upper Kobuk Mineral Projects (UKMP) which cover the highly prospective Ambler Mining district known for high-grade VMS copper-zinc-gold-silver mineralization. The company has already delineated a high-grade VMS resource of ~10 BBlb CuEq which is expected to grow as additional drilling is completed. With resources defined at the Bornite and Arctic deposits, the UKMP have significant upside along strike and we believe over time will emerge as a new mining camp in Alaska. In late 2013, the company announced the results of a second PEA on the Arctic deposit outlining an 8,000 tpd open-pit mine, producing 125 MMlb copper and 152 MMlb zinc per year over a 12-year mine life. At the nearby Bornite project, the company released an updated resource which nearly doubled the deposit's tonnage (179 MMt) while maintaining the grade of both the high-grade (2.8% Cu) and near surface, in-pit zones. With the recent PEA at Arctic and growing high-grade resource at Bornite, we believe the UKMP justifies the infrastructure investment in the region. In 2014, pending additional funding, the company plans to continue to drill Bornite and begin a pre-feasibility study at Arctic.

PolyMet Mining
(POM-T)
C$2.40 Target, Buy

PolyMet Mining is a US base metals developer moving its 100%-owned NorthMet copper-nickel-platinum group metals (platinum, palladium and gold or PGMs) project through final permitting. The NorthMet project is located in the Mesabi Iron Ore Range in northeastern Minnesota or as it is often referred to, the Duluth Complex. With significant infrastructure in place from previous iron ore mining operations and the permitting process nearing completion, we believe PolyMet is in line to become the first base metal operation in the district. We expect this to be catalyst for a re-rating in the share price. With strong financial support from its largest shareholder, Glencore, we believe the company is well positioned to arrange the necessary financing to see the project become a reality despite the current weak investor appetite for development-stage stories.

With the recently updated, and much improved, EPA rating on its EIS, we continue to expect the NorthMet project will receive all major permits in 2014. Given the scarcity of large-scale, expandable development projects in ideal jurisdictions (once permits are in place), we expect the NorthMet project to move forward to production.

Western Copper and Gold
(WRN-T)
C$2.50 Target, Buy (S)

Western Copper is a development-stage mining company currently focused on the Casino copper-gold-molybdenum-silver project in the Yukon. In early 2013, the company reported results from a feasibility study outlining a large-scale, open-pit mining operation. With a total resource 9.9 BBlb Cu and 16.5 MM oz Au, the Casino project has several characteristics of an attractive M&A target. The large copper-gold-moly porphyry deposit, located ~300 km northwest of Whitehorse, was scoped as a C$2.5 BB project with a 120,000 tpd mill and 25,000 tpd heap leach facility. As outlined in the feasibility study, the project supports copper production levels of over 170 MMlb per year at a negative cash costs (net gold by-product credits). While a solid project, investors are likely to want further clarity on the liquefied natural gas (LNG) power plant and supplier, which currently has an MOU with the government, to confirm the project’s viability.

With Western Copper fully funded over the next two years to complete permitting and engineering, we could see a rerating as permitting milestones are complete (next is Adequacy decision expected mid-2014). While many copper development projects exist, few will eventually be financed and advanced into production. As such, assuming the company delivers on a viable energy option and overcomes its permitting hurdles, it is likely to become a takeover candidate in the near term.

Capstone Mining
(CS-T)
C$4.00 Target, Buy

Capstone Mining has emerged as a low-cost, mid-tier copper producer with three operating assets in the politically safe jurisdictions of Canada, the US and Mexico along with solid longer-term growth profile in Chile. The company operates the open-pit and underground Minto mine (Yukon), the underground Cozamin mine (Mexico), as well as the recently acquired open-pit Pinto Valley mine (Arizona). With all three operating assets in steady-state production, Capstone has grown its production profile from ~85 MMlb Cu in 2013 from Minto and Cozamin to ~230 MMlb Cu in 2014 with the addition of Pinto Valley. Longer term, Capstone is advancing its 70%-owned, large-scale Santo Domingo IOCG project, which is expected to be in production as early as mid-2017; however, this could be delayed.

In mid-2014, the company expects to release a feasibility study for the Santo Domingo project. Unlike many of its peers, Capstone should be in harvest mode for 2014 with minimal capital expenditures planned and attractive free cash flow. This is likely to keep the shares as relatively lower risk than many of its peers while still offering significant long-term option value for future growth.

Copper Mountain Mining (CUM-T)
C$3.00 Target, Buy

Copper Mountain is a junior copper producer operating its 75%-owned Copper Mountain mine in British Columbia. The open-pit Copper Mountain mine achieved commercial production in mid-2011 and has a name-plate processing capacity of 35,000 tpd (>80 MMlb Cu at $2.00/lb). While operating issues have impacted results as the mine ramps up to design capacity, recent improvements with crushing capacity and a decision to install a ~$40 MM secondary crusher should see operations improve in 2014.

With its relatively high cost of production and financial leverage, Copper Mountain offers investors a high leverage vehicle to copper. In 2014, the company expects to produce approximately 80-90 MMlb Cu with a permanent secondary crusher expected to be installed in summer 2014. With the recent ~C$30 MM equity raise and the company fully funded, we expect Copper Mountain's valuation to recover as the mine shows improvement.

First Quantum Minerals (FM-T)
C$23.00 Target, Market Perform

First Quantum is a globally diversified copper and nickel producer. While the majority of its current production comes from the Kansanshi copper mine in Zambia, the company also operates a diverse portfolio of producing base metal mines in Europe. Further growth will come from the development-stage Cobre Panama project in Panama and the Sentinel and Enterprise projects in Zambia. With five major new projects and expansions on the go, we remain cautious given the ongoing development risk in the near term. While the company has a proven track record to build and operate mines, the recent deferral of the Kansanshi sulphide expansion and Cobre Panama start date has slowed the growth profile somewhat. That said, assuming no further changes to the development plans, First Quantum is set to grow its copper and nickel production by 125% and 133%, respectively, over the next four years.

In 2014, we expect the company to complete the Kansanshi smelter in Zambia and the Sentinel project around year-end. With the recent update for Cobre Panama's capex ($6.4 BB instead of $6.2 BB), we project little free cash flow from the company before 2017. We also note despite the recent operating improvements at Ravensthorpe, the company's current nickel production is free cash flow neutral, in our view, given our outlook for near-term nickel prices. That said, we expect First Quantum to remain a go-to name for global investors looking to maintain exposure to copper in a large, highly liquid vehicle despite its relatively expensive relative valuation.

Lundin Mining
(LUN-T)
C$5.85 Target, Market Perform

Lundin Mining is a diversified mid-tier base metals producer with a core operations in Europe and a ~24% interest in the large-scale Tenke copper project in the Democratic Republic of Congo (DRC). Lundin also recently acquired the development-stage Eagle Ni-Cu mine from Rio Tinto in June 2013 and is in the process of completing construction of the mine (late 2014). With a strong balance sheet, the company is targeting various organic growth initiatives at its mines while ramping up its development activities for additional growth. Lundin's stable operating assets provide a steady base metals production profile with a more diversified metals exposure than its peers. Lundin currently represents a relatively safe-haven name in the space, with most assets in politically safe jurisdictions, a record of solid operating performance and reasonable share liquidity.

In 2014, Lundin's cash dividends (~$150 MM) from the Tenke mine are expected to continue at a stable level. That said, the timing of the next phase of expansion determine by operator Freeport-McMoRan (FCX-N, not rated) remains uncertain and will drive much of the upside to the story. Further, Lundin is expected to spend around $400 MM to complete the Eagle mine by late 2014 with ramp up in 2015 which will limit near-term free cash flow. That said, this should add ~23,000 t of nickel production in the first three years of operation at a cash cost of under $3.00/lb nickel.

Mawson West
(MWE-T)
C$1.25 Target, Buy

Mawson West is an emerging copper producer and developer operating in the highly prolific Central African copper belt of the DRC. Mawson owns 90% of the Dikulushi Mining Convention which contains the Dikulushi mine, Kapulo project, and several near-mine exploration targets. With significant free cash flow produced in 2013 and a strong balance sheet, Mawson is set to complete development of the Kapulo open-pit operation in late-2014.

With the move underground at Dikulushi, we look for a further mine life extension to add at least five years of operations from both underground and nearby open-pit satellite operations. We also expect significant exploration upside to come from an aggressive drill program at Mawson's significant prospective land package.

Nevsun Resources
(NSU-T)
C$5.25 Target, Buy

Nevsun Resources is a junior producer operating its 60%-owned Bisha mine in Eritrea. While the Bisha mine attained commercial production in early 2011, the company has recently completed its transition to a copper producer following two years of primarily gold production. In 2014, Nevsun expects to produce a total of 180-200 MMlb copper (60% attributable) at the lowest quartile cash cost (we estimate under $1.00/lb Cu) before transitioning again to primarily zinc production in 2017. With around half the company's market cap in cash and a growing cash balance expected, Nevsun is targeting to grow its production profile through acquisitions and near-mine exploration.

2014 will be a transformative year for Nevsun as the company reports initial commercial copper sales, operating results and material free cash flow. If Management can achieve its guidance, it would make Nevsun one of the cheapest names in our coverage universe. That said, the large cash balance and M&A overhang are limiting investor interest given the poor deals seen elsewhere in the space and investors tendency to take a "wait and see" approach before getting into the name.

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Sierra Metals (SMT-T) C$2.50 Target, Buy	Sierra Metals is a mid-tier diversified producer operating three silver-copper-zinc-lead mines in Peru and Mexico. In 2011, the company, under its former name Dias Bras Exploration, acquired an 82% interest in its flagship asset, the Yauricocha mine in Peru, for $280 MM. Sierra Metals has since advanced to production the Bolivar and Cusi mines located in Mexico. The company is now focused on completing expansion projects at its existing operations in 2014, which will support its position as a stable, low-cost polymetallic producer. Given its diversified production mix, Sierra Metals is expected to remain highly profitable in 2014 and beyond. We estimate in 2014 an EBITDA margin of around 45% with the average of our base metals and silver producers around 40%. As the mine operations stabilize, further optimization is expected through cost management projects which remain ongoing. In 2014, we expect production of 2.7 MM oz silver and ~25 MMlb copper with significant zinc, lead, and gold credits. Under our price deck assumption, this is the equivalent to ~70 MMlb CuEq or 10 MMoz AgEq. In early 2014, Sierra Metals released an updated resource at its Cusi silver mine which significantly expanded resources (22 MMoz Ag to 32 MMoz Ag and support a longer mine life, underscoring the long-term value proposition. We note much of the company's future growth is tied to silver and expect precious metals to contribute ~40% of revenue in 2014. Currently, 51% of Sierra Metals is owned by private equity firm Arias Resource Capital (ARC) and we believe there is potential for a secondary offering by ARC in 2014.
Sherritt International (S-T) C$4.25 Target, Market Perform	Sherritt is a mid-tier nickel producer with oil and gas, and electricity generating assets primarily in Cuba. The company recently announced the sale of its thermal coal businesses for C$946 MM making Sherritt the most material, pure-play nickel producer on the TSX. The transaction has also improved the company's financial flexibility and we expect Sherritt to repay a large portion of its debt over the next 12 months. While most of the company's Cuban metals and oil and gas assets provide a steady operating base, the focus in 2014 will be on the ramp up of the large-scale Ambatovy nickel laterite operation in Madagascar which recently started commercial production. That said, until operations ramp up and costs decline, Ambatovy is expected to continue to consume cash although less so at current nickel prices.
Teck Resources (TCK'B-T) C$36.75 Target, Top Pick	Teck is Canada's largest diversified mining company with operations in metallurgical coal, copper, zinc and, further down the road, oil sands. Teck continues to offer strong exposure to our favored metals, a compelling valuation and optionality through its development pipeline. With a stable base metals and coal business, over the longer term, the company plans to establish a sizable oil division, which would act in part as an inflation hedge. In 2014, we expect Teck to begin to benefit from the recent improvement at Highland Valley and at its coal operations, along with a favorable impact from the weak Canadian dollar. With few large capital projects underway in 2014 (oil sands just getting started), we expect the company's balance sheet to remain intact despite the currently weak coal price. In our view, Teck will remain the go-to, large-cap name for investors looking to keep a degree of exposure to the sector with lower risk and strong share liquidity.

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Sandstorm Metals & Energy (SND-V)
C$1.50 Target, Market Perform

Sandstorm Metals and Energy is a mining streaming and royalty company focused on the acquisition of base metal, bulk commodity and energy-related commodity streams and royalties. Sandstorm's business model offers several benefits to investors over traditional mining companies including low fixed operating costs, exposure to production and exploration upside without associated capital or operating cost risk and no environmental or closure responsibilities.

While Sandstorm has had challenges with several of its streaming deals and has yet to produce material positive cash flow, the company's mostly long-dated assets provide value to support its current valuation. That said, we do not expect any of Sandstorm's streams to become cash flow positive in 2014 aside from the modest 2.4% NSR on Glencore Xstrata's (GLEN-LN, not rated) Bracemac-McLeod mine currently in production. In 2014, the company has indicated it intends to rebuild its balance sheet and we do not expect any new material investments to occur until some existing streams are turned around.

Alderon Iron Ore (ADV-T)
C$2.50 Target, Buy

Alderon Iron Ore is an emerging iron ore developer in Canada's prolific Labrador Iron Ore Trough. The company's sole and flagship asset is its 75% interest in the Kami iron ore project. The Kami project is strategically located near major infrastructure, including immediate access to roads, power, rail and ports. The company has outlined a large resource of 1.1 BBt grading 30% Fe capable of supporting an 8 MM tpa iron concentrate mining operation with over 30-year mine life. In early 2013, Alderon completed a feasibility study on the Kami project demonstrating robust economics and low $42/t cash costs. With relatively low initial capex of $1.3 BB, we expect Alderon to be the next major Canadian iron ore producer. The project appears well positioned to advance to production through the support of a major Chinese strategic development partner, Hebei Iron and Steel of China.

We estimate Alderon will need to raise at least $200-300 MM in H1/14 and believe it may be able to lower direct equity needs through the addition of a second joint venture partner or an off-take agreement in exchange for an upfront payment. In early 2014, we expect the company to receive its Federal and Provincial environmental assessment after which a final financing plan can be implemented.

Black Iron Inc. (BKI-T)
C$0.90 Target, Buy (S)

Black Iron is an emerging iron ore developer focused on advancing its 51%-owned Shymanivske project in Ukraine. Infrastructure surrounding Shymanivske is excellent including power, rail (within 2 km) and port facilities. The company has established a large historical compliant resource of 814 MMt grading 31% Fe. Black Iron has a strong Management team in place with experience in building and operating iron ore mines in Ukraine. While not well-known to Western investors, Black Iron's Shymanivske deposit is strategically located in the heart of a major iron ore district in Ukraine surrounded by seven other operating mines including ArcelorMittal's integrated iron ore and steel complex. In late November 15, 2012, Black Iron announced the results of its bankable feasibility study, examining the potential to produce 9.2 MM tpa of high-grade 68% iron ore concentrate, over a 16-year initial mine life, at an initial capital cost of $1.1 BB, and an average cash cost of ~$44/t FOB.

In Q3/13, Black Iron entered a development agreement with Ukrainian miner and steel producer, Metinvest. The agreement gives Metinvest a 49% equity stake in the Shymanivske project for $20 MM with both partners required to fund development pro rata. Metinvest, Ukraine's largest employer and established iron ore miner, will support Black Iron in the various permitting and other project details.

Figure 22a **Comparable Company Analysis**

Company	Symbol	Price (C$)	Rating	Target (C$)	Return	Mkt. Cap. ($MM)	Cash ($MM)	Debt ($MM)	EV ($MM)	Net Debt ($MM)	ND/ND+E	NAVPS (C$)	P/NAV
Developer													
Augusta Resource	AZC	$3.42	Buy (S)	$4.00	17%	$450	$21	$107	$535	$85	0.2x	$7.81	0.4x
Canadian Zinc	CZN	$0.41	Buy (S)	$1.00	144%	$65	C$10	C$-	$55	C$(10)	(0.2)x	$1.39	0.3x
Ivanhoe Mines	IVN	$1.60	Buy	$3.00	88%	$851	$290	$23	$585	$(267)	(0.5)x	$4.81	0.3x
Nevada Copper	NCU	$1.79	Buy (S)	$4.00	123%	$131	C$45	C$38	$125	C$(7)	(0.1)x	$5.14	0.3x
NGEx	NGQ	$1.68	Buy (S)	$4.00	138%	$258	$18	$-	$242	$(18)	(0.1)x	$7.50	0.2x
NovaCopper	NCQ	$1.42	Buy (S)	$4.00	182%	$69	$6	$-	$63	$(6)	(0.1)x	$10.72	0.1x
PolyMet Mining	POM	$1.51	Buy	$2.40	59%	$379	$41	$36	$374	$(5)	(0.0)x	$3.97	0.4x
Western Cu & Au	WRN	$1.00	Buy (S)	$2.50	150%	$85	C$23	C$-	$64	C$(23)	(0.4)x	$7.30	0.1x
Average					**115%**						**(0.1)x**		**0.3x**
Producer													
Capstone Mining	CS	$2.92	Buy	$4.00	37%	$1,011	$(176)	$400	$1,587	$576	0.4x	$5.10	0.6x
Copper Mountain	CUM	$2.18	Buy	$3.00	38%	$235	C$42	C$246	$438	C$203	0.5x	$3.60	0.6x
First Quantum	FM	$19.84	Mkt Pfm	$23.00	16%	$10,690	$695	$4,073	$14,068	$3,379	0.2x	$21.26	0.9x
♦ HudBay Minerals	HBM	$8.50	Buy	$12.25	44%	$1,496	$793	$780	$1,484	$(13)	(0.0)x	$14.73	0.6x
Lundin Mining	LUN	$5.11	Mkt Pfm	$5.85	14%	$2,724	$117	$229	$2,836	$112	0.0x	$6.22	0.8x
♦ Mawson West	MWE	$0.50	Buy	$1.25	150%	$77	$48	$8	$37	$(40)	(1.1)x	$1.90	0.3x
Mercator	ML	$0.10	Mkt Pfm	$0.15	50%	$29	$13	$125	$140	$112	0.8x	$0.32	0.3x
Nevsun	NSU	$3.68	Buy	$5.25	43%	$669	$303	$-	$366	$(303)	(0.8)x	$5.54	0.7x
Sherritt	S	$4.02	Mkt Pfm	$4.25	6%	$1,089	C$1,446	C$2,492	$2,042	C$1,046	0.5x	$5.28	0.8x
Sierra Metals	SMT	$1.69	Buy	$2.50	48%	$243	$45	$94	$292	$49	0.2x	$2.70	0.6x
Teck Resources	TCK'B	$24.72	Top Pick	$36.75	49%	$12,991	C$2,772	C$7,723	$17,506	C$4,951	0.3x	$41.66	0.6x
Average					**45%**						**(0.0)x**		**0.6x**
Streams / Royalties													
Sandstorm M & E	SND	$1.10	Mkt Pfm	$1.50	36%	$35	$4	$3	$34	$(1)	(0.0)x	$1.81	0.6x
Average					**36%**						**NA**		**0.6x**
Iron Ore													
Alderon Iron Ore	ADV	$1.65	Buy	$2.50	52%	C$196	C$95	$-	$109	C$(95)	$(1.04)	$6.06	0.3x
Black Iron	BKI	$0.16	Buy (S)	$0.90	481%	$22	$3	$-	$19	$(3)	(0.2)x	$3.62	0.0x
Average					**266%**						**(0.2)x**		**0.2x**

Note: Share price as of April 7, 2014

♦ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities, Company Reports, Bloomberg, Thomson ONE

Figure 22b **Comparable Company Analysis**

	EPS ($)				P/E				CFPS ($)				P/CFPS			
Company	**2012A**	**2013E**	**2014E**	**2015E**	**2012A**	**2013E**	**2014E**	**2015E**	**2012A**	**2013E**	**2014E**	**2015E**	**2012A**	**2013E**	**2014E**	**2015E**
Developer																
Augusta Resource	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Canadian Zinc	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ivanhoe Mines	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nevada Copper	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NGEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NovaCopper	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PolyMet Mining	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Western Cu & Au	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average																
Diversified & Other																
Capstone Mining	$0.23	$0.01	$0.39	$0.36	11.4x	NMF	6.8x	7.3x	$0.35	$0.22	$0.60	$0.59	7.6x	12.1x	4.5x	4.5x
Copper Mountain	C$0.17	C$0.18	C$0.28	C$0.55	12.9x	12.4x	7.9x	3.9x	C$0.48	C$0.40	C$0.47	C$0.78	4.5x	5.4x	4.7x	2.8x
First Quantum	$1.17	$1.00	$1.14	$1.79	15.4x	18.0x	15.8x	10.1x	$1.46	$2.19	$2.22	$3.36	12.4x	8.3x	8.2x	5.4x
♦ HudBay Minerals	C$0.26	C$(0.06)	C$0.31	C$1.26	32.9x	NA	27.8x	6.8x	C$0.69	C$0.06	C$0.58	C$2.54	12.3x	NMF	14.6x	3.3x
Lundin Mining	$0.32	$0.23	$0.34	$0.78	14.4x	20.0x	13.5x	6.0x	$0.32	$0.56	$0.67	$1.20	14.7x	8.3x	7.0x	3.9x
♦ Mawson West	$(0.14)	$0.07	$(0.07)	$0.30	NA	6.3x	NA	1.5x	$(0.10)	$0.46	$0.05	$0.47	NA	1.0x	8.6x	1.0x
Mercator																
Nevsun	$0.72	$0.06	$0.79	$0.70	4.7x	NMF	4.2x	4.8x	$0.99	$0.38	$1.11	$1.04	1.9x	4.8x	1.7x	1.8x
Sherritt	C$0.35	C$(0.20)	C$0.15	C$0.53	11.6x	NA	26.6x	7.6x	C$1.11	C$(0.12)	C$0.58	C$1.19	3.6x	NA	6.9x	3.4x
Sierra Metals	$0.32	$0.19	$0.50	$0.47	4.8x	8.3x	3.1x	NA	$0.33	$0.14	$0.35	$0.43	4.7x	11.3x	4.4x	3.6x
Teck Resources	C$2.60	C$1.74	C$1.34	C$2.42	9.5x	14.2x	18.5x	10.2x	C$5.42	C$4.56	C$4.63	C$5.90	4.6x	5.4x	5.3x	4.2x
Average					**13.1x**	**13.2x**	**13.8x**	**6.5x**					**7.4x**	**7.1x**	**6.6x**	**3.4x**
Coal																
Sandstorm M & E	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average																
Iron Ore																
Alderon Iron Ore	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Black Iron	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Average																

Note: Share price as of April 7, 2014

♦ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities, Company Reports, Bloomberg, Thomson ONE

Figure 22c **Comparable Company Analysis**

Company	EBITDA ($MM)				EV/EBITDA				Production				(MMlb/Tonnes)		EV/	
	2012A	2013E	2014E	2015E	2012A	2013E	2014E	2015E	2012A	2013E	2014E	2015E	Resv.	Resrc.	Resv.	Resrc.
Developer																
Augusta Resource	-	-	-	-	-	-	-	-	-	-	-	-	4,681	6,918	$0.11	$0.077
Canadian Zinc	-	-	-	-	-	-	-	-	-	-	-	-	1,812	3,032	$0.03	$0.018
Ivanhoe Mines	-	-	-	-	-	-	-	-	-	-	-	-	NMF	NMF	NA	NA
Nevada Copper	-	-	-	-	-	-	-	-	-	-	-	-	5,220	7,232	$0.02	$0.017
NGEx	-	-	-	-	-	-	-	-	-	-	-	-	-	22,618	NA	$0.011
NovaCopper	-	-	-	-	-	-	-	-	-	-	-	-	-	9,704	NA	$0.007
PolyMet Mining	-	-	-	-	-	-	-	-	-	-	-	-	NMF	NMF	NA	NA
Western Cu & Au	-	-	-	-	-	-	-	-	-	-	-	-	4,376	9,895	$0.01	$0.006
Average															**$0.046**	**$0.023**
Diversified & Other																
Capstone Mining	$118	$1	$192	$183	13.5x	NMF	8.3x	8.7x	54	50	50	50	-	-	NA	NA
Copper Mountain	C$43	C$42	C$78	C$127	10.1x	10.5x	5.6x	3.4x	42	50	60	68	-	-	NA	NA
First Quantum	$1,148	$1,436	$1,774	$2,829	12.3x	9.8x	7.9x	5.0x	568	779	856	1,307	-	-	NA	NA
♦ HudBay Minerals	C$193	C$94	C$242	C$778	8.4x	17.2x	6.7x	2.1x	87	66	85	244	-	-	$0.45	$0.306
Lundin Mining	$347	$281	$440	$774	8.2x	10.1x	6.4x	3.7x	225	257	253	296	-	-	NA	NA
♦ Mawson West	$(11)	$79	$5	$92	NA	0.5x	8.2x	0.4x	12	42	23	70	-	-	NA	NA
Mercator													-	-	NA	NA
Nevsun	$325	$54	$357	$320	1.1x	6.8x	1.0x	1.1x	91	55	135	117	-	-	NA	NA
Sherritt	C$502	C$192	C$192	C$233	4.5x	11.7x	11.6x	9.6x	43	56	78	91	-	-	$0.36	NA
Sierra Metals	$64	$50	$75	$72	5.0x	6.4x	4.3x	4.5x	16	16	27	23	-	-	NA	NA
Teck Resources	C$4,137	C$3,299	C$3,026	C$3,982	4.6x	5.8x	6.3x	4.8x	816	803	745	748	-	-	NA	NA
Average					**7.5x**	**8.8x**	**6.6x**	**4.3x**							**$0.405**	**$0.306**
Coal																
Sandstorm M & E	NA	NA	NA	$-	NA	NA	NA	0.0x	-	-	-	-	nmf	nmf	NA	NA
Average					**NA**	**NA**	**NA**	**0.0x**							**NA**	**NA**
Iron Ore																
Alderon Iron Ore	-	-	-	-	-	-	-	-	-	-	-	-	148	398	$0.74	$0.273
Black Iron	-	-	-	-	-	-	-	-	-	-	-	-	71	134	$0.27	$0.143
Average															**$0.50**	**$0.21**

Note: Share price as of April 7, 2014

♦ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Sources: Cormark Securities, Company Reports, Bloomberg, Thomson ONE

Risks To Target

The following is a list of the most common risks that apply to the stocks mentioned in this report. Generally, these risks will apply to all companies in varying degrees.

Commodity Price Risk

Our short- and long-term commodity price assumptions are based on detailed research, and viewed to be reasonable based on current information. However, the timing and magnitude of commodity price fluctuations is always a significant risk that in most cases strongly affects the value of mining and mineral exploration/development companies focused on a specific commodity. The primary metal exposure of the companies in this report is to copper, zinc, nickel and coal; however, some may have exposure to other metal products such as gold, silver and other metals, and the prices of these metals may affect their valuation.

Cost Risk

Both capital and operating costs may be affected by changes in input prices (fuel, steel, chemicals, etc.) and also by relative currency changes. Companies may be at risk of unexpected cost escalation as a result of these potential threats.

Financing Risk

Companies with large growth plans or exploration companies with no free cash flow may require external capital to continue with exploration programs and develop new mines. In order to finance these endeavors, equity or project dilution may be taken to fund the equity portion of the capital costs if the project is to be developed. Shareholders may also be subordinated by lenders to finance an exploration project.

Geopolitical Risk

This risk deals with policies such as permitting and tax laws that are managed by governments of a jurisdiction (country, state, province, etc.). These policies usually affect mining companies more than exploration companies. Generally, developing countries are seen as being more risky because of the potential of a quick change in power to drastically change policies. Developed countries have their own geopolitical risk issues, and jurisdictions with powerful environmental lobbies can also make mining or exploration difficult.

Technical Risk

Ore reserve and resource risk is a technical risk that is derived from the subjective nature of geological interpretation. Engineering-based forecasts are by nature imprecise, and unexpected risks include events such as earthquakes and strikes. Such events could materially affect the value of shares.

Regulatory Risk

The mining industry is highly regulated, and as such, changes in the scope of environmental practices can have a significant impact on the cost and viability of mining operations.

Exploration Risk

In some cases, the market may build in expectations for exploration success before the actual exploration work has taken place. In the event that results do not meet with the market expectation, the company’s shares may be negatively affected.

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